

**Entrepreneurship in Regulated Markets:  
Framing Contests and Collective Action to  
Introduce Pay TV in the U.S.**

**Kerem Gurses**

Luiss University  
Viale Romania 32  
00197, Roma, Italy  
e-mail: kgurses@luiss.it  
telephone: (+39) 06 852251

**Pinar Ozcan**

Warwick Business School  
Scarman Road, Coventry CV47AL UK  
e-mail: cpozcan@gmail.com  
telephone: (+44) 79 20 40 79 30

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#### **ABSTRACT**

In their endeavor to establish new products and services, entrepreneurs can face strong resistance from market incumbents whose resources and market position they threaten. This paper looks at the battles between entrepreneurs and market incumbents in a regulated market where various institutional actors (e.g. regulators, courts) have the power to protect the incumbents by hindering the entrepreneurs. Our comparison of one failed and one successful attempt to introduce pay TV in the US reveals how entrepreneurs can first enter a regulated market without facing resistance, and then introduce a new frame to legitimize their product/service despite growing resistance from incumbents. Our framework highlights framing as a strategy and framing contests as a mechanism through which entrepreneurs and incumbents can battle to enable/disable institutional change. As part of this process, we also uncover how entrepreneurs evolve from self-serving actors with no field-level intentions to powerful groups that create a ripple effect in their environment by moving their target of influence from private to institutional actors. Our work constitutes a step towards a more “realistic” tale of institutional change.

## **Entrepreneurship in Regulated Markets:**

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Entrepreneurship has long been viewed as an engine that drives innovation and promotes economic development (Reynolds, 1997; Schumpeter, 1934). However, this engine can slow down significantly due to resistance from various market players and institutions whose resources and position entrepreneurs threaten while establishing their products and services (Aldrich and Baker, 2001; Pache and Santos, 2010; Pacheco et al., 2010; Sine and Lee, 2009). Studies show that a major source of resistance against entrepreneurs comes from market incumbents (Aldrich and Baker, 2001; Lawrence, 1999). Market incumbents are known to attack entrepreneurs directly by introducing new products as well as indirectly by maintaining strong connections to key institutions that can impose restrictions on the entrepreneurs (Aldrich and Baker, 2001). Incumbent resistance can be particularly strong in regulated markets where various institutional actors (e.g. regulators, courts) have the power to protect the incumbents against market entrants through laws and regulations (Edelman and Suchman, 1997; Russo, 2001). But how can incumbents convince these actors to hinder entrepreneurs with innovative products or services? In turn, how can the entrepreneurs establish their products and services despite this resistance? Answering these questions is critical for our knowledge of firm strategy as well as the adoption of innovation in societies.

In this study, we explore this topic through the research question, *how do entrepreneurs and incumbents advance/protect their interests and shape a regulated market in their favor?* Our study addresses earlier calls (e.g. Haveman et al, 2012; Zahra, 2007) to emphasize the dynamics of the research context in process-based studies. Our context is the development processes of two distinct attempts to introduce the pay TV service within the strictly regulated industry of broadcasting between 1949 and 1985 in the United States. Comparing and contrasting these two attempts to introduce pay TV, ‘over the air pay TV’ and ‘pay cable TV’, we observe that despite

a familiar technology<sup>1</sup>, a lower installation cost, and resourceful advocates, ‘over the air pay TV’ was deterred by regulators while ‘pay cable TV’ thrived.

The framework that emerged from our findings explains how entrepreneurs can first enter a regulated market without resistance, and then introduce a new frame around their product/service in order to legitimize it despite growing resistance from powerful incumbents. In the process, they first address various interest groups that can benefit from their product/service and then generalize their frame to one of public interest. Once public support is achieved, they lobby various institutional actors to put pressure on the regulators to rule in their favor. We identify that each objective within this process is supported with a framing strategy and various forms of collective action in order to influence the target. As part of this process, we also uncover how entrepreneurs become more strategic in their actions over time as they gradually turn into institutional entrepreneurs by slowly changing the way the industry is regulated.

Our findings make various contributions to literature. First, we emphasize that framing is an important strategic tool during market entry. As described above, entrepreneurs typically face a strong coalition between incumbents and institutions upon entry into established and especially regulated markets (Aldrich and Baker, 2001; Russo, 2001). We observe that entrepreneurs can avoid resistance from this strong coalition by aligning their product/service with the interests of the incumbents and the dominant frame of the regulators. This strategy is effective because it creates an initial positive opinion with the regulators, which would take the incumbents time and effort to change, thus creating a window of opportunity for entrepreneurs to grow.

Second, our findings illustrate how, in their attempt to legitimize their service, cable operators entered a framing contest with the incumbents; how this framing contest divided the institutional actors, and how cable operators then invited the opposing institutions to switch sides

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<sup>1</sup>The technology for the Over the air pay TV service was a small modification of the broadcasting technology already in use for public television. A broadcast channel would transmit a scrambled signal over the air and a decoder would unscramble it at the subscriber’s home. Cable TV, on the other hand, used wires to distribute over the air signals from community antennas to households in remote locations. See Pages 17 and 23 for further details.

in order to reduce the industry turmoil. Prior studies document the existence of framing contests as a central mechanism leading to the creation and change of institutions (Kaplan, 2008; Ryan, 1991; Schneiberg & Soule, 2005, Guerard et al., 2013). However, they are not informative on how framing contests occur and how the frames of different parties evolve over time. Our findings constitute a potentially important step in documenting the role of not only the entrepreneurs, but also the incumbents and various institutions in the emergence and development of framing contests. In addition, we emphasize that during the regulation of new technologies, public interest is at the core of the framing contests. In this process, incumbents can attempt to influence regulators by framing the new technology against the public interest. This strategy is effective as it engages the *raison d'être* of the regulatory agency, i.e. preserving the public interest (Pigou, 1932), leaving the market entrants with no choice but introducing an alternative frame of public interest around their technology. We posit that in this process, an indirect approach to the regulators, using collective action to create a ripple effect in the public and institutional spheres, may be more effective than petitioning them directly.

Finally, our study follows earlier empirical attempts (e.g. Hargadon and Douglas, 2001; Pacheco et al, 2010; Phillips & Tracey, 2007, Tracey et al, 2011) to establish a link between entrepreneurship and institutional entrepreneurship by documenting the evolution of entrepreneurs from being self-serving and improvising, with no field-level intentions to becoming central actors with strategic actions targeted at changing their institutional environment (Levy and Scully, 2007, Pacheco et al, 2010). In the process, we contribute to establishing a more “realistic” image of institutional entrepreneurship (Aldrich and Fiol 1994; Aldrich, 2011), where institutional change is fuelled by entrepreneurs acting collectively to convince private and institutional actors to cooperate in order to benefit from the change while battling resisters of change, e.g. incumbents, through framing contests. In the rest of the paper, we first lay out the

theoretical background on our research question, then discuss the findings, their generalizability and contributions to literature and, finally provide concluding remarks.

## **THEORETICAL BACKGROUND**

Entrepreneurship is defined as the process of discovering, evaluating, and exploiting opportunities to create future goods and services (Shane and Venkatamaran, 2000). Studies show that environmental conditions can make a significant difference in the availability of opportunities for entrepreneurs and their ability to exploit them (Aldrich, 1999, Baumol, 1996). A growing stream of research examines entrepreneurship in nascent markets where entrepreneurs struggle to gain legitimacy amidst high ambiguity (Aldrich and Fiol, 1994; Rindova and Fombrun, 1999), unclear product definitions, industry structure and dependence relationships (Hargadon and Douglas, 2001; Ozcan and Santos, 2014; Santos and Eisenhardt, 2009), and lack of a dominant logic to guide actions (Kaplan and Tripsas, 2008; Porac et al, 2002). While entrepreneurs in these settings find opportunities for strategic action (Granqvist, Grodal and Woolley, 2013; Ozcan and Eisenhardt, 2009; Santos and Eisenhardt, 2009), they struggle to legitimate the new market given their own limited legitimacy and resources (Hallen, 2008; Lounsbury & Glynn, 2001; Rindova & Kotha, 2001). Established markets, on the other hand, present an entirely different set of challenges for entrepreneurs. While lack of clarity regarding the industry structure or product definitions is typically not an issue, the main challenge in these settings is the resistance coming from various established and powerful players.

Studies show that in established markets, a major source of resistance against entrepreneurs comes from market incumbents whose resources and market position they threaten (Aldrich and Baker, 2001; Lawrence, 1999). Market incumbents are known to attack entrepreneurs directly by introducing new products and services as well as indirectly by maintaining strong connections to key institutions that can impose restrictions on the

entrepreneurs through laws and regulations (Aldrich and Baker, 2001; Edelman and Suchman, 1997). The resistance of the incumbents can be particularly strong in regulated markets<sup>2</sup> where various institutional actors (e.g. regulators, courts) have the power to support and protect the incumbents by hindering the entrepreneurs (Russo, 2001). First, mechanisms such as the "revolving door" (Eckert, 1981), i.e. individuals passing between roles at legislators / regulators and the private organizations affected by the legislation and regulation may contribute to a close relationship between institutions and incumbents over time (Russo, 2001). In addition, incumbents may act more strategically, portraying new entrants as destructive or destabilizing for the market. For instance, incumbent airlines succeeded in getting new airlines rejected when the latter requested interstate routes at the Civil Aeronautics Board (Derthick and Quirk, 1985). In a more recent study, Ingram and Rao (2004) showed how, despite their size disadvantage, independent grocery stores organized a social movement and achieved a temporary ban against supermarket chains entering the retail industry.

Despite their limited number, these empirical accounts of how incumbents strategize to influence regulators and other institutions in their environment suggest that many products and services may never reach consumer adoption due to the resistance formed and diffused by market incumbents. On the other hand, there are many popular products and services that emerged in regulated markets (e.g. diesel and electric cars, mobile phones and internet (VOIP) telephony, stem cell drugs and treatments, vitamins and herbal supplements), proving that entrepreneurs can overcome the counterforces they face in regulated markets and go on to establish their products

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<sup>2</sup> A regulated market or controlled market, is a market where the government controls the forces of supply and demand, such as who is allowed to enter the market or what prices may be charged (Encyclopedia of Management. Pennsylvania State University. Gale, 2009. page xxxi).

and services. In order to understand how, we first review extant work on entrepreneurship in regulated environments and then turn to various other streams of literature to fill in the gaps.

### **Entrepreneurship in Regulated Environments**

Studies show that the institutional environment plays a key role for entrepreneurs in that it catalyzes or hinders venture emergence and survival (Gnyawali and Fogel, 1994; Hwang and Powell, 2005; Khanna and Palepu, 1997; Pacheco et al., 2010). Within different aspects of an institutional environment, laws and regulations are known to be critical drivers of this process as regulatory actors can promote or hinder new products and services through the institutional mechanisms they develop (Edelman and Suchman, 1997; Russo, 2001).

Most studies on entrepreneurship and regulation find that regulation discourages entrepreneurship (Baumol et al, 2009; De Soto, 2000; Gray, 1987; Haveman and Norsworthy, 1989; Joskow and Rose, 1989). Regulatory costs, both at start-up and subsequently, can diminish available resources and thus lead to fewer businesses being started (Djankov et al., 2002). For instance, Dobbin and Dowd (1997) found that in Massachusetts, the availability of resources entrepreneurs needed for founding and running railroads varied significantly across regulatory regimes. In addition, having to report to various institutions and spending substantial time in legal work can discourage entrepreneurs (De Soto, 2000). Scholars suggest that regulation not only influences the volume, but also the nature of entrepreneurial activity and that high-regulation environments have less ‘productive’ kinds of entrepreneurship compared to low-regulation environments (Baumol, 1990).

While regulated environments are known to be challenging for entrepreneurs, regulation-free environments are not problem-free either. One stream of entrepreneurship studies focuses on emerging markets and finds that the lack of institutional arrangements, ‘institutional voids’, may provide a regulation-free environment for entrepreneurs. However, these environments typically lack other institutions (e.g. property rights or legal structures) without

which entrepreneurs cannot easily set-up and protect their business (Bruton et al., 2008; Hoskisson et al, 2000; Khanna and Palepu, 1997; Kiss et al., 2012; Mair and Marti, 2009). While typical in emerging markets, a regulation-free environment, ‘regulatory void’, might also occur in established markets, in particular during periods of technological change that makes industry rules and regulations obsolete (Anderson and Tushman, 1990). Existing literature addresses how new technologies create uncertainty in the environment (Anderson and Tushman, 1990; Bower and Christensen, 1995; Hargadon and Douglas, 2001; Kaplan and Murray, 2010; Tushman and Anderson, 1986) until a defined institutional, including regulatory, space is established to govern the production, distribution and consumption of associated artifacts (Dosi, 1982; Rosenberg, 1982; Van de Ven & Garud, 1994). Previous studies have illustrated how entrepreneurs can take advantage of this uncertainty to shape the market in their favor (Ozcan and Eisenhardt, 2009; Santos and Eisenhardt, 2009), but these studies mostly focus on nascent markets where entrepreneurs typically do not have to deal with powerful incumbents.

As mentioned above, a key challenge for entrepreneurs in regulated markets is the resistance initiated by powerful incumbents (Aldrich and Baker, 2001; Lawrence, 1999). Incumbents typically maintain strong connections to key institutions in their environment in order to try to preserve their status quo (Aldrich and Baker, 2001; Lawrence, 1999). Scholars suggest that these connections can be particularly detrimental in regulated markets where various institutional actors (e.g. regulators, courts) have the power to block the entrepreneurs through laws and regulations (Edelman and Suchman, 1997; Russo, 2001). However, our knowledge is very limited on how incumbents can influence these institutions to act against entrepreneurs and how entrepreneurs can overcome this collective resistance.

One stream of literature that could provide insights into how entrepreneurs and incumbents attempt to shape a regulated environment is corporate political strategy. However, the corporate political strategy literature has largely focused on the interaction between firms and

elected legislators (Hillman & Hitt, 1999; Krehbiel, 1999; Mizruchi, 1992; Schuler et al., 2002) and has ignored the interactions between firms and non-legislative institutions, such as regulatory agencies and courts that frequently determine public policies. The few studies that examine how firms deal with regulators focus on firms' direct interaction with these entities. Schuler (1996), for example, considered the U.S. steel industry's strategy of petitioning U.S. trade agencies when seeking imposition of antidumping duties on foreign imports. De Figueiredo and Tiller (2001) examined why some telecommunications firms lobby the FCC using internal staff, whereas other firms subcontract to external lobbying organizations. Lippmann (2007) showed how large commercial radio broadcasters legitimized their organizational form by lobbying the newly created regulator, the Federal Radio Commission, through political ties. While these studies provide a critical step towards understanding the interaction between firms and their regulatory environment, they focus on the actions of large firms, and assume that these firms receive favorable rulings by directly interacting with, or targeting, the relevant regulatory agency.

Another stream of literature that could inform our research question is institutional entrepreneurship, which deals with how actors shape their broader institutional environment, i.e. change the rules, practices and laws in an industry (Di Maggio, 1988). Scholars suggest that in order to push their objectives, institutional entrepreneurs engage in defining and legitimizing activities, and try to combat or co-opt their rivals (Scott, 1994). In their attempt to change their institutional environment, these actors are known to use framing to manage perceptions of various stakeholders (Hargadon and Douglas, 2001, Rao, 1998) and collective action to motivate cooperation of other actors by providing them with common meanings (Guerard, 2013, Lounsbury et al., 2003). Below, we explain these activities in detail.

***Framing.*** A frame is an 'interpretative schema that simplifies and condenses 'the world out there', thus organizing experience and guiding action by 'rendering events or occurrences meaningful' (Snow and Benford, 1992: 37). Through framing, actors can influence 'the

underlying structures of belief, perception and appreciation through which subsequent interpretation is filtered' (Schön and Rein, 1994: 23). The use of framing, especially stories, has been found effective in challenging dominant logics and legitimating new organizational forms (Hargadon and Douglas, 2001; Kaplan and Tripsas, 2008; Lawrence and Phillips, 2004; Pacheco et al., 2010; Rao, 1998; Zilber, 2002, 2007). Empirical work on framing includes Rao's study (1998) on the powerful legitimizing effect of framing on the establishment of consumer watchdog associations and the Hargadon and Douglas (2001) study on the framing of new electric lighting systems in familiar terms with existing gas lights. In addition, Lounsbury et al. (2003) found that environmental activists for recycling needed to be able to frame recycling as part of a broader dialogue, a field-level frame, in order to mobilize resources.

While new market entrants use strategic framing to legitimize their product/service, incumbents typically use a counterforce to influence institutions in order to protect their markets. The existence of framing contests<sup>3</sup> that emerge out of this tension has been documented as a central mechanism leading to institution creation (Kaplan, 2008; Schneiberg & Soule, 2005, Guerard et al, 2013). Among these, Kaplan (2008) is noteworthy as the first empirical attempt to uncover the emergence and development of framing contests; however, the setting of this study is intra-organizational. The recent study by Guerard et al (2013) examines framing contests in an interorganizational setting where NGO's and car manufacturers entered into framing contests over the establishment of emission filters for diesel cars in Germany. However, this study focuses on the normative emergence of institutions and does not consider the role of regulatory institutions in the framing contest.

***Collective action.*** Studies show that organizing *collective action*, i.e. purposeful collective behaviour, is a critical step for entrepreneurs in gaining socio-political legitimacy (Fligstein,

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<sup>3</sup> A framing contest is the struggle over meaning which attempts to influence the interpretative schemes of actors involved in a given situation (Kaplan, 2008).

1996; King and Soule, 2007; Lawrence et al., 2002; Pacheco et al., 2010; Wijen and Ansari, 2007). A common form of collective action is interfirm collaboration with resource-rich and politically powerful firms (Bonardi et al., 2005; Eisenhardt and Schoonhoven, 1996; Hillman and Hitt, 1999; Ozcan and Eisenhardt, 2009; Stuart et al, 1999). Another is to initiate collective action through industry associations, which can represent members' interests and lobby for resources, promote agendas and propose new legislation (David et al, 2012; Galvin, 2002; Granovetter and McGuire, 1998; Greenwood et al., 2002; O'Mahony and Bechky, 2008; Sine et al., 2007).

Collective action can also take the form of social movements (Haveman and Rao, 1997; Lounsbury et al, 2003; Rao, 2009; Schneiberg et al., 2008; Sine and Lee, 2009; Swaminathan and Wade, 2001), which can be defined as an action system of mobilized networks of groups and organizations that try to achieve social change by using collective protest (see Sine and David, 2010, for a review). A common form of collective action at this level is to organize public campaigns that aim to identify the population with one's cause (Frank et al., 2000), and collective lobbying to pressure the political authorities for recognition and to get one's demands met (Bonchek & Shepsle, 1996; Hillman & Hitt, 1999; Lee, 2009, Ingram and Rao, 2004). Studies show that in order to provide content for their movement, actors often use objectification (Tolbert and Zucker, 1996) through usage or information giving by legitimate actors e.g. academics, celebrities (Guerard et al, 2013; Rao et al, 2003).

Overall, our literature review reveals a strong need for empirical studies uncovering the longitudinal process of how entrepreneurs and incumbents can use framing and collective action to shape a regulated environment in their favor. In particular, we find that while studies emphasize framing as an important strategic tool, most deal with only one type of actor and rarely examine how framing contests occur and the frames of different parties coevolve. Regarding collective action, our knowledge is still limited on how actors can use different types of collective action to influence actors of different types, and whether they tackle them all at once or follow a

certain pattern in their approach. Given the importance of a favorable regulatory environment for firm survival (Edelman and Suchman, 1997), the goal of this study is to uncover how entrepreneurs and incumbents use these and other tools to shape a regulated market.

## RESEARCH METHODS

Given limited theory and empirical evidence on our research question, *how do entrepreneurs and incumbents advance/protect their interests and shape a regulated market in their favor*, we conducted an inductive study (Eisenhardt, 1989). Inductive studies are especially a good choice for answering process based questions such as ours (Eisenhardt and Graebner, 2007). Rather than a single-case study, we examine two cases which enables comparative analysis that is likely to result in a more accurate, generalizable theory (Eisenhardt, 1991; Yin, 1994). Our two cases are the two technologies that were developed to offer pay TV services in the US, namely Over the Air pay TV ('OTA pay TV' from here on) and pay cable TV. This research setting is particularly appropriate for our study for several reasons. First, pay TV service was introduced into the broadcasting industry, which is an established industry with a strong regulator (the Federal Communications Commission, FCC from here on). In addition, this controlled setting allowed us to systematically observe how political action of various firms and institutions affects the development of the two services. Finally, our cases occur over an extended period of time, between 1949 and 1985. Studies show that entrepreneurship often occurs in long periods of turbulence and uncertainty (Aldrich and Fiol, 1994; Anderson and Zeithaml, 1984; Tushman and Anderson, 1986). Our longitudinal approach allows us to observe how entrepreneurs and incumbents can shape a regulated environment over time.

### Data Sources

We used archival data including annual reports of regulatory agencies, FCC and FRC (Federal Radio Commission), from 1927 to 1985, historical books on pay TV (e.g. Hilmes, 1990;

Le Duc, 1973; Mosco, 1979; Mullen, 2003; Parsons, 2008), communications of the National Association of Broadcasting (NAB from here on) and National Cable Television Association (NCTA from here on), newsletters and trade journals (e.g. *The Broadcasting Journal*) as well as articles from law and economic journals. Furthermore, we used 204 *New York Times* articles (1949–1985), obtained with a keyword search on ‘pay TV’ (see Appendix A for a list of these data sources). Using extensive archival data is appropriate for our setting for several reasons. First, the large quantity of documents over the time period shows the prevalence of publicly accessible communications in the broadcasting industry and these documents provide historical insight into the process. Second, since a large proportion of these documents are official reports, they are long (FCC reports average more than 100 pages) and carefully prepared, and therefore provide a very rich data source. In addition, the FCC annual reports are the regulator’s main method of communication and therefore capture important and timely information about how the regulator views particular issues and responds to other actors’ demands. Similarly, newsletters and articles in trade journals showing the communications of the NAB and the NCTA illustrate the logic and framing efforts of these key actors. Furthermore, 20 articles from law and economics journals from this period were also a key source, since a lot of public and academic discussion based on changing regulation captured the attention of academics. Finally, the *New York Times* is the leading newspaper in the city where powerful TV networks were located during the period of the study. The 204 news articles we obtained provide extensive coverage of different parties’ opinions and complement the official documents we analyzed. In addition to written documents, we used interviews with various cable and pay cable entrepreneurs. These interviews were recorded between 1985 and 2000 by The Cable Center<sup>4</sup> to document the lives and stories of ‘cable mavericks’. We analyzed audio files and transcripts from 15 interviews ranging from 60 to 150 minutes in length. We enriched our findings by integrating these

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<sup>4</sup> Cable Center is a non-profit organization which serves as the educational arm of the cable industry and archives extensive historical information about the growth and development of the industry.

interviews into the cases.

## **Data Analysis**

For data analysis, we followed an iterative process of moving back and forth between theory and data as described below.

**Phase 1:** We began by writing individual case histories on OTA pay TV and pay cable TV based on the archival data described above. We first compiled facts about the two cases and quotes from key players from archival sources such as NY Times articles, industry newsletters, and FCC annual reports. Next, we filled in the gaps by adding data from various academic articles and books on the history of pay TV in the United States. We finalized our cases by listening to 15 audio interviews with key cable entrepreneurs in order to enrich the data with personal stories and quotes. Each researcher reviewed the data to form independent views of the accounts. We synthesized these views within each case history. The resulting cases were about 60 pages long, including quotes and timelines. As we developed the case histories, we also marked key events (e.g. beginning and final ruling of highly visible court cases, launch of public campaigns, new legislation) that shaped the course of development of the two services. We put these key events into a timetable, which we used in the subsequent phases described below.

**Phase 2:** Once the case histories were finished, we began to compare them, looking for variance in the descriptions of how the OTA pay TV and cable TV operators acted (both individually and collectively) as they attempted to legitimize their product. Here, we used theory and empirical evidence from prior studies (e.g. Guerard, 2013; Hargadon and Douglas, 2001, Rao, 1998) to identify two main categories of analysis that we were interested in, framing and collective action. For the framing category, we included data/quotes when we saw actors interpreting reality/events and communicating their version to other actors (e.g. “pay cable is the lifeblood of cable TV”). With respect to collective action, we included data/quotes when we saw instances of action taken by a group of individuals/organizations in order to achieve a common

objective such as forming an industry association or launching a public campaign. This analysis suggested that while OTA pay TV operators only addressed regulators directly to obtain permission to broadcast, cable operators indeed employed framing and various forms of collective action (e.g. industry associations, public campaigns) over time.

**Phase 3:** Next, we reexamined the data in order to uncover the details of the actions we identified in Phase 2. Using existing theory (e.g. Kaplan, 2008; Guerard, 2013; Hargadon and Douglas, 2001; Rao, 2009) we coded various actions within the categories of framing and collective action. We compared/contrasted these actions with the extant theory, and came up with the four new framing related sub categories which reflected strategic action over time. Within the category of framing, we coded an action as *frame alignment* when the frame used by the actors matched an existing frame in the market. This happened, for instance, when cable entrepreneurs stated that their service was “an extension of free TV”, in order to categorize themselves as serving the public interest the same way that existing TV channels did. For *new frame creation*, we searched for evidence regarding the uniqueness of the frame that the entrepreneurs diffused. For *frame multiplicity* we followed a similar logic, searching for evidence in the data for the existence of multiple interpretations of the notion “public interest” following the entrepreneurs’ framing efforts. Finally, for *frame consensus*, we identified entrepreneurs’ efforts to unite various actors around their new frame of public interest (e.g. public statements encouraging the FCC “act in the public interest and stop restricting cable TV”). For the category of collective action, we identified different forms of collective action by examining all actions taken within the process of framing. In order to narrow these down into subcategories, we then compared the identified actions with extant theory. We identified for instance that cable broadcasters used “industry associations” as their main communications medium; pay cable TV broadcasters formed “coalitions” with cable TV broadcasters to have their support; and they “lobbied” legislators as their main target of influence (Figure 3). During

this exercise, we also found evidence that the cable entrepreneurs used framing and collective action to target various different groups (e.g. incumbents, regulators, legislators, mainstream media, and public groups) over time. We noted all evidence of framing, collective action and the targeted groups in the timeline that we created in Phase 1 to further develop a visual illustration of the process (Figure 2). During Phase 3, we also found interview data that provided evidence that some of the actions that we observed were not intentional, but rather serendipitous. We noted these incidents in the case history for cable TV, which helped us build a more realistic count of the events. We also used these anecdotes to explain the evolution of the focal actors from local, improvising individuals to collective and powerful institutional entrepreneurs (see pages 43-44 for details).

**Phase 4:** The entrepreneurs we observed did not exist and act in isolation. In order to truly understand the sociopolitical process that led to the success of pay cable TV and failure of OTA pay TV, we compared our findings from Phase 3 regarding the actions of cable entrepreneurs with the rest of the actors in the case histories. We had already examined the actions of the OTA pay TV operators in Phase 2 and found no evidence of framing or collective action in order to influence their environment. Therefore, we reexamined the data to look for the actions of the incumbents. This analysis led to the conclusion that the framing efforts and supporting collective actions of the incumbents were very similar to those of the cable operators that we identified in the previous phase (Figure 1). This led us back to searching existing theory, where we identified framing contests (Kaplan, 2008; Guerard et al, 2013) as a fitting description of the phenomenon we observed in the case of pay cable TV. We also compared how the same incumbents acted in the case of OTA pay TV versus pay cable TV. This comparison yielded that these actors used very similar tactics in both cases. We noted these actions in the visual illustrations we created in Phase 3 in order to provide multifaceted accounts (Figures 1 and 2).

**Phase 5:** In this final phase, we revisited existing theory in order to move from the visual

illustrations that we finalized in Phase 4 (Figures 1 and 2) to a more theoretical model (Figure 3) where we made use of our strategic framing and collective action subcategories. Once created, we sharpened this model through iteration between theory and data, comparing our findings with the extant literature to identify similarities and differences in order to raise the generalizability of the emergent theory (Eisenhardt, 1989).

## **FINDINGS**

In this section, we provide a narrative comparing the development of two different pay TV services from their emergence in late 1940s until the 1980s when pay cable TV had established a stronghold in the market and OTA pay TV had disappeared. The first part summarizes the development of OTA pay TV, while the second one focuses on pay cable TV. A summary of the main events described in both parts is shown in Table 1.

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### **Over the Air Pay TV**

#### ***Emergence of the Service***

The concept of pay TV emerged in the late 1940s when TV audiences started growing. The first actors that pushed OTA pay TV were large and established corporations. Movie producers initially proposed to bring the economics of film exhibition to the broadcasting business by charging for television viewing on a per-program basis. TV manufacturers quickly joined them in the effort in order to sell more new generation TV's. Three large firms led the quest in the 1950s: TV manufacturer Zenith, movie producer Paramount, and electronics company Skiatron. They proposed a small modification of the basic broadcasting technology already in use for public television. A broadcast channel would transmit a scrambled signal over the air and a decoder would unscramble it at the subscriber's home. The first company to file for testing was Zenith's Phonevision. E. F. Mc Donald, Jr., president of Zenith, stated that shows on

subscription television could lead to a box office of five million dollars to be divided between the producers, distributors, and broadcasting stations when the audience pays 25 cents per show.

In August 1949, Zenith's Phonevision filed to the FCC<sup>5</sup> the first request to test pay television in the United States in a 90-day experiment. The first response of the FCC was reluctance, which stemmed from their pursuit of the public interest based on the Communications Act (1934, Section 303), which empowered and directed the FCC to 'study new uses for radio, provide for experimental uses of frequencies and generally encourage the larger and more effective uses of radio in the public interest'. At the time, the FCC commissioner publicly stated:

[This] may prove to be the first step toward the introduction of pay television and radio into the American system of broadcasting. I do not believe that even the first step toward such a momentous change into the American system of broadcasting should be taken without the benefit of a public hearing. (Hilmes, 1990: 130)

In December 1949, the FCC called a congressional hearing to determine how to classify Phonevision, "whether it should be classified as a broadcast service, a common carrier service, or other type of communication service." (Hilmes, 1990: 130)<sup>6</sup>. In February 1950, when Zenith appealed for reconsideration, the FCC permitted testing without a public hearing, but only at a small scale in Hartford, Connecticut, until reaching a final decision on whether or not subscription pay TV was in the public interest. At the end of Zenith's testing period, the FCC insisted again on a public hearing before moving ahead. Zenith filed an appeal for a test at a national scale in 1952. After waiting for an answer for two years, Zenith filed a petition to the FCC stating that nothing in its rules could be "interpreted to prohibit subscription television by a

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<sup>5</sup> The Federal Radio Commission was founded in 1927 to regulate broadcasting industry. It maintained that the electromagnetic spectrum is a limited resource belonging to the public, and only those most capable of serving the public interest will be permitted to have a broadcast license. In 1934, Congress passed the Communications Act, which abolished the FRC and transferred jurisdiction to the Federal Communications Commission.

<sup>6</sup> A common carrier only provides a medium for content while a broadcaster also selects its content. A common carrier today would be Youtube or iTunes while a broadcaster would be a TV or radio station that selects its content.

commercial television station” (Bellamy, 1988: 11 ). In 1955, the Commission responded to the petition by opening a court hearing this time.

### ***Formation of Incumbent Resistance***

Following the FCC’s permission for the Hartford trial, market incumbents formed a movement against OTA pay TV. This movement was led by two groups whose revenues were threatened by this alternative revenue model: movie theatre owners that feared box office erosion and ad-supported TV broadcasters that feared destruction of their monopoly where the higher revenues for pay TV would lead to higher quality programs and higher subscriptions, which in turn would introduce higher revenues. The TV broadcasters used their existing association, the NAB, which was originally founded in 1922 by radio broadcasters. With the support of movie theatre owners, they framed ad-supported TV as “free TV” and contrasted it with subscriber-supported TV, which they named “pay TV”. This distinction helped them align themselves with the current public interest frame of the regulators (Figure 1). To reach the general public, movie theatres and the NAB launched a well-funded publicity campaign against OTA pay TV in 1956. They sent out pamphlets, flyers and “fact sheets” to various interest groups. CBS (Columbia Broadcasting System) targeted women’s groups with a packet titled “Television in a Free world” with pamphlets and fact sheets criticized pay TV for taking away citizens’ rights:

Pay TV would hijack the American public into paying for the privilege of looking at its own television sets. ... This is a booby trap, a scheme to render the television owner blind, and then rent him a seeing eye dog at so much per mile—to restore to him, only very partially, what he had previously enjoyed as a natural right.

In another pamphlet, advertising was defended as:

Television advertising, which has proven amazing effectiveness, helps make possible efficient distribution. This in turn results in making more goods available to more people at lower cost and keeps production and employment at high levels...that’s why Free television advertising is an important factor in our free economy.

The groups even quantified their argument, suggesting that pay TV would cost the average family \$1,156<sup>7</sup> a year for the same kind of programs as in free TV.

Once they gained public support, the incumbents moved on to gain institutional support by influencing legislators (Figure 1). First, they framed pay TV as unpopular among the public. The broadcasters sent pamphlets to Congress explaining the public's opposition to pay TV based on newspaper polls and letters of support from organizations and individuals. The NAB pamphlet in 1957 read:

The final outcome of the pay television proposal, presently before the FCC, will be decided ultimately on the basis of whether or not pay TV is in the public interest. And the nation's viewers, as they become acquainted with the nature of this proposed system through television and other mass media have given a clear answer to this question. They have expressed themselves through their civic organizations in resolutions, and in testimony before Congress. Independent newspaper surveys revealed a public that is anywhere from 72 percent to 99 percent opposed to paying for its home TV entertainment. And congress as well as the FCC has received thousands of comments from viewers stating their enthusiasm for today's free television, and protesting any authorization of pay TV.

To convince legislators, broadcasters used two frames related to protecting the public interest. First, broadcasters asserted that advertiser-supported TV enhanced customer welfare more than audience supported pay TV. In a pamphlet to Congress in 1956, the NAB stated:

Pay to see television will add nothing to present programming except a bill. It cannot be regarded as an addition to free television; it is a substitute for free television. Free television robbed of its talent must itself inevitably turn to pay television or deteriorate to mediocrity or worse. In either event the public will receive less service for more money.

Second, broadcasters stressed that only the wealthy could watch pay TV while the majority of citizens would have no programming. In the 1956 NAB pamphlet, CBS stated, "The privilege of looking and listening will exist in direct proportion to the resources of the family pocketbook." In a double-page advertisement in *TV Guide*, CBS similarly declared, "Free television as we know it cannot survive alongside pay television."

### ***Effect of Incumbents' Campaign on Legislators and Regulators***

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<sup>7</sup> Equal to about \$10,000 per year in 2013 US Dollars.

The legislators responded to incumbents' campaign to ban pay TV. The House Committee on Interstate and Foreign Commerce introduced a "rule making hearing". After receiving over twenty-five thousand letters, the majority against pay TV by a 2:1 margin, public hearings were held. During these hearings, many arguments were put forth by incumbents against pay TV. The head of ABC television networks, for instance, stated:

The FCC was created by Congress to develop and foster our American system of free radio and free television—not to authorize or encourage another system which could lead to its destruction, without first ascertaining the will of Congress.

In 1956, five congressional bills were introduced to ban OTA pay TV. The incumbents immediately stated their support. The president of CBS television networks announced:

I believe there has been some progress—at least as far as the Congress is concerned, where legislative action in favor of pay television has been indefinitely postponed.

Incumbents' campaign affected the regulators as well. While the congressional hearings continued, the FCC postponed decision making, stating that before it could decide on the issue, it had to decide whether it possessed the authority to regulate subscription television, whether safeguards would be necessary to make sure that the public generally continued to get "well balanced programming without charge" and whether the service would be in the public interest (Schuster, 1955). In January 1958, the Congress passed a resolution that prohibited pay TV "except for technical tests, ...until specifically authorized and regulated by federal law" (Bellamy, 1988: 11). After this, the FCC set a March 1958 filing date for applications to test pay TV, but for no more than three regions per company, and for no longer than three years (Hilmes, 1990). In addition, pay TV operators were barred from selling equipment to subscribers, which placed the cost burden of manufacturing, distributing, and repairing equipment on the subscription television companies rather than splitting it between suppliers and users.

The proponents of OTA pay TV, Paramount, Zenith, and Skiatron, all applied. However, legislators intervened this time. The House Interstate and Senate Committee requested the FCC to delay trials for two years. In 1960, when the FCC permitted trials again, only Zenith applied in

Hartford, Connecticut. Skiatron and Telemeter declared plans to implement a cable system “because such systems were not then subject to FCC regulation” (Bellamy, 1988: 12)<sup>8</sup>.

This time, opposition came locally from the Connecticut Committee against pay TV, Connecticut Theatres, and the Manchester Drive in Theatre. After another two years of delay, the Hartford trial began in June 1962 with three hundred subscribers and ended up with five thousand in 1965. Although this was a significant achievement, it was insufficient for Zenith as a minimum of twenty thousand subscribers was needed to achieve a profit for the pay television operation. In 1965, Zenith appealed to the FCC to authorize unlimited pay television on a national scale. In fact, in most of the OTA pay TV’s history, OTA pay TV proponents’ actions were limited to directly asking the FCC for permission to broadcast rather than building a wider public and institutional support to influence these actors (Figure 1).

Between 1965 and 1970, The House Committee intervened twice more, asking the FCC for a one-year delay. In 1967, in a rare attempt to influence an institutional actor to put pressure on the FCC, the president of Zenith, Joseph Wright, appealed to the Congress arguing, “Subscription TV provides a popular and useful service as a supplement to our existing broadcasting.” The FCC finally authorized OTA pay TV in 1969, but maintained the position of protecting Free TV, stating:

Through limiting OTA pay TV to five or more station communities and to one station in those communities, and through limiting the kind of programming that the stations broadcast, we have taken sufficient steps to protect the existing TV structure (Gershon, 1990: 11).

After FCC’s authorization of OTA pay TV in 1969, three OTA pay TV services received licenses in Boston, Milwaukee, and Los Angeles between 1970 and 1975. However, the restrictions regarding the broadcast of movies and sporting events continued. In 1977, when FCC abolished the restrictions for pay cable TV, they quickly applied the same ruling for OTA pay

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<sup>8</sup> Skiatron went bankrupt before launching a cable service. Telemeter became one of the first companies to experiment with cable, but shut down its operations in the US only after a few months due to the opposition received from incumbents.

TV broadcasters. Between 1977 and 1980, 11 more OTA pay companies came into operation, with 16 more authorized and ready to launch. However, these companies could not compete with pay cable TV in terms of coverage and subscriber base, as described in the next section. Consequently, many OTA pay TV companies never launched after receiving the official permission. Those in big cities survived longer, but eventually closed as well (Table 2). In 1983, OTA pay TV had 1,5 million customers, compared to the 28 million customers of pay cable.

-----INSERT TABLE 2 ABOUT HERE-----

To summarize, the story of OTA Pay TV is marked by strong efforts of incumbents in framing the new service against the public interest and using collective action to influence key actors in the environment in order to ban the service (Figure 1). Specifically, incumbent public TV broadcasters and movie theatres first created a distinction between themselves and the new service by framing themselves as “free TV” and the new service as “pay TV”. Using this frame, which was in accordance with the public interest frame of the regulators, the incumbents then gathered their efforts around their industry association, the NAB, and started a public campaign. Once they gained public support, they appealed to various institutional actors (e.g. government, legislators) showing evidence of the negative public opinion and calling these actors to action to protect the public interest. By influencing these actors, the incumbents succeeded in stalling the development of the new service. In contrast to the incumbents, OTA pay TV broadcasters did not provide any alternative frames to influence the public or institutions (except in 1967, when one firm appealed to the Congress with a public interest frame similar to the one used in the 1950s by cable entrepreneurs). Their actions were focused on addressing the regulators and asking for permission to broadcast nationally.

-----INSERT FIGURES 1 AND 2 ABOUT HERE-----

## **Pay Cable TV**

In this section, we tell the story of pay cable TV, which is embedded within the emergence of the broader cable TV service. The subsections of the narrative correspond to the different periods demarcated by the key events illustrated in Figure 2.

### ***Initial Regulatory Void and Subsequent Period of Frame Alignment***

Community antenna television<sup>9</sup> (CATV) emerged around the same time as OTA pay TV, in the late 1940s, by regional technology entrepreneurs whose initial purpose was to deliver television programs through wires to rural homes that were too far to receive over the air signals. The first of these entrepreneurs was appliance store owner John Walson, who, frustrated with the poor TV reception in his town in rural Pennsylvania, built an antenna on the top of a nearby mountain and strung a wire from it to homes. His idea was quickly replicated in other rural areas. Interviews show that these regional entrepreneurs were using limited resources, operating in trial and error mode, addressing issues as they arose. One of them, George Gardner, recalled: “I knew more than anybody else in the group, and I didn’t know anything”. Another entrepreneur, Milton Shapp, described: “There was no test equipment. There were no trained technical people to go up the poles and adjust the amplifiers”. Entrepreneur Benjamin Conroy stated, “One crisis after another would come up and we’d go from one to the other. We were really kind of firefighters”.

Matters changed when, in 1951, a small group of community antenna (CATV) operators gathered in Pennsylvania to discuss their concern over new taxes, and in the process, discovered their common interests. In January 1952, they officially founded the National Community Television Association (NCTA). Within one year, 40 regional entrepreneurs had joined.

Because the entrepreneurs introduced community antenna as complementary to the service of the incumbents, most TV broadcasters welcomed it as a way to increase viewers and

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<sup>9</sup> The initial name of the service was community antenna television. The CATV entrepreneurs later changed its name to cable television as part of their legitimization strategy. See page 30 for details on this change.

advertising revenues<sup>10</sup>. An early cable entrepreneur, Archer Taylor, explained their initial framing as follows: “We didn’t want to compete with broadcasters, we didn’t go after the advertisers. We were an extension of their services.” As part of this strategy of aligning with the current public interest frame (Figure 2), the entrepreneurs framed their service as “a completely passive technology” that mainly served to bring TV to larger audiences, thus was “a simple but necessary extension of the customer’s receiver” (Parsons, 2008: 106). The entrepreneurs even suggested to change their association from National Community Television Association to National Community Antenna Association, adding the word “antenna” to strengthen their frame. The success of this strategy is evident by FCC chairman Newton Minnow’s statement below:

At that time, cable and broadcasters loved each other. They had an extremely happy relationship because broadcast signals would reach places that the signals could not reach over the air. Cable was providing a service that broadcasters loved. It was not a competitor; it was an affiliate; it was an extender of broadcast signals. Cable did not sell advertising; it was not a competitor on that side. It did not do programming. All it was doing was taking a broadcast signal into areas that people wanted to receive broadcasting and couldn't. So it was a love affair.

Regarding regulation, cable TV initially fell into a regulatory void (Figure 2). It provided television programs, so the FCC was thought to be the appropriate regulatory agency. However, it did not use over the air signals directly, rather it distributed over the air signals arriving at community antennas to households through wires. Since it used wires to distribute, cable was out of the FCC’s jurisdiction. Instead of immediately mounting regulatory barriers to entry, the FCC adopted a laissez-faire position through the 1950s, mainly because they viewed the cable entrepreneurs’ framing of extending incumbent broadcasters’ signals and therefore bringing diverse programs to rural areas in the public interest. One of their statements read: ‘We do not now envision where we could find that the public interest would be disserved by affording an

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<sup>10</sup> Among broadcasters, only Hanna in New York, was wary of the development of community antenna. In an NAB meeting, the president stated: “We must not sponsor the growth of a system that will prevent establishment of television stations in smaller markets”. But other broadcasters wanted to extend their audience, so decided to “keep their hands off” of community antenna (Broadcasting-Telecasting magazine, February 1953).

opportunity for choice of service and the benefits of competition and diversity of expression.’ (Dibadj, 2003: 251). In addition, FCC commissioner Doerfer added:

In my opinion it is doubtful that FCC has jurisdiction over the community antenna television system. The objective of the FCC is to make possible for everyone in the US at least one free television service. In my opinion, it would be more consistent with the American philosophy to accomplish this by providing opportunity rather than imposing artificial restraints.

### ***Formation of Incumbent Resistance***

In the 50’s, NCTA had created a frame of CATV as “a politically and economically benign adjunct to rooftop antenna” (Parsons, 2008: 186). In the late 1950’s, we observe the emergence of the pay revenue model for cable TV<sup>11</sup> when some entrepreneurs started pondering over the prospect of CATV delivering paid programming. In 1957, an entrepreneur named Bill Daniels, called for a “wedding” of the community antenna and theatre businesses. “The combination”, he said, “could form the most lucrative and pleasant partnership that has seen or will be seen in American business.” Another report stated that companies such as RKO and Teleprompter saw ‘a gold mine’ in the possibility of pay TV:

If the FCC finally flashes the green light for fee TV and such major viewing fare as Broadway openings and first run movies is made available, CATV operators believe that they will have little trouble signing for subscribers (Barrons, 1962: 5).

This was the first time that the pay TV service was framed as the savior of cable TV overall.

Another factor that fuelled the emergence of the pay model was the consolidation in the market. Until the 60’s, most cable operators were “mom-and-pop” operations in small regional markets. However, the industry started to get concentrated after large corporations from different sectors (e.g. electronics, TV broadcasting and publishing) started to acquire these small cable

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<sup>11</sup> There are two distinct types of entrepreneurs in the history of cable TV. Cable TV entrepreneurs built the technology for distributing TV channels, free or paid, over cable for a monthly fee. Pay cable TV entrepreneurs used cable as a channel to broadcast premium channels for a fee. Their stories are intertwined as many pay cable companies emerged within cable companies. Examples include HBO, launched by cable operator Time Inc. in 1972, and Showtime, launched by Viacom in 1976. In 1978, cable operator Teleprompter bought a 50% stake in Showtime. See Table 3 for more examples.

operators throughout the United States. Among them, Teleprompter was the first to bring the pay TV service to cable on a larger scale. Irving Kahn, the founder of Teleprompter, explains that they only realized by chance that cable TV was an ideal place to experiment with this new revenue model: “Originally, I didn’t know what cable was and I wanted a place to experiment with pay TV. That’s what got me into it. When we got there, we began to see opportunities”. Once he recognized the opportunity, Kahn was determined to keep the pay TV initiative under the radar: “We figured if we tried it out in Silver City (New Mexico) and it was successful, who will know? We can hide it until we develop it.” In 1960, Irving Kahn introduced a pay TV prototype called “Key TV” that could be used in combination with CATV, and demonstrated it at the NCTA convention in Miami, speaking on a large screen, live from New York.

The initial reaction of the incumbents was one of wariness. They warned against the new development in *The Broadcasting Magazine*, the dominant trade publication in the television industry at that time, and a major influence in Washington. One headline read “CATV: A Big Problem That's Getting Bigger.” In a lengthy article, they stated, ‘Television’s bonus baby, CATV has suddenly turned into a problem child.’ The article noted that while the networks and large markets had historically treated CATV as a happy accident that extended their market, the “young monster” now threatened small market telecasters because it could be used in conjunction with proposed Pay TV systems (Broadcasting, 1958: 12). Their association, the NAB, also cautioned “eternal vigilance lest pay TV be allowed to come in through the back door of CATV” and started to pressure the FCC to take action (Shaffer, 1964: 929).

While the incumbents became more restless, cable operators continued to grow. Teleprompter, for instance, acquired several cable operators all around the country, reaching 46,463 subscribers nationwide by 1964. Throughout, Teleprompter did not make any public announcements in order to avoid opposition. In fact, it was only in 1964 when another company,

Subscription Television Inc (STV), launched a “pay cable TV Service” with a highly visible campaign in Los Angeles that pay cable TV officially came into existence.

The launch of STV became a turning point for incumbents from careful observation to full blown public resistance (Figure 2). Together with 250 movie theatre owners, they set up “Citizens Committee for Free TV”. Then, in alignment with California Federation of Women’s clubs and California Crusade for Free TV, they proposed a referendum to ban pay TV. One of their slogans was: “Pay TV/Before you’re done/You’ll charge for air/And rent the sun!” Another ad showed a masked burglar stealing an old woman’s TV. The committee also pressured TV stations and newspapers not to accept pay TV ads. After these efforts, the California referendum in 1964 received great public support against pay TV, with a 2:1 margin of votes to ban STV<sup>12</sup>.

The incumbents’ resistance started to show its affects on the FCC as well. The same year, the Commission proposed a legislation that would give them authority to govern CATV in any area covered both by CATV and broadcast television. This proposed legislation received no support in the Senate. FCC Chairman Ford stated,

We do not agree that we are powerless to prevent the demise of the local television station, and the eventual loss of service to a substantial population; nor do we agree that the Commission’s expertise may not be invoked in this instance to predict this ultimate situation.

In the meantime, the incumbents legitimized their arguments by commissioning a study on the impact of cable TV on local broadcasters. MIT Professor Fisher’s study concluded that for every 1000 subscribers on a cable system, the local broadcaster could see a reduction of 10 to 50 percent on net profits. The Fisher report also suggested that,

The rapid growth of CATVs is a present threat to all but the largest stations... television broadcast stations cannot long both survive the competitive assault of CATV’s, and at the same time, continue high cost public service programming’ (Shaffer, 1964: 931)

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<sup>12</sup> STV consequently challenged the vote in the California Supreme Court. After NCTA’s The California Supreme Court took STV’s side and abolished the ban in 1965, declaring the state’s anti-pay television law unconstitutional. The State of California immediately appealed to the US Supreme Court, which also ruled in favor of STV in 1966. But by then, STV had gone bankrupt after two years of legal battles and no revenue (Ostroff, 1983).

By the end of 1964, the Wall Street Journal reported that broadcasters' movement had become so powerful that "the government and industry officials expected the FCC to begin regulation next year with or without enabling legislation from the congress." (Wall Street Journal, 1964: 24)

While incumbents were increasing pressure on the FCC, the NCTA commissioned a study to Dr. Herbert Arkin, statistician at the City College of New York, who attacked the Fisher report, pointing to the small number of cases in which CATV came into economic conflict with local broadcasters and even smaller number in which any harm could be demonstrated<sup>13</sup>.

In the meantime, protests were forming against all cable operators in the rest of the country. Local broadcasters publicly attacked cable operators. Montana cable operator Archer Taylor recalled an open letter from a local broadcaster that said "I can't really refer to you people as thieves, because thieves work stealthily at night and you guys work right out in the open." At a national scale, a major broadcaster, ABC, filed motions with the FCC arguing for stricter limits in signal importation<sup>14</sup>. Following ABC, the Association of Maximum Service Telecasters, comprised of about 150 big-market stations, asked the FCC to require cable systems to carry all local TV stations and to bar them from originating programming, and from carrying signals beyond 80 miles from the source. The broadcasters also used The Broadcasting Magazine to fight their cause. The publisher of the magazine, Sol Taishoff, was also a central actor who routinely dined with members of the FCC and Congress. By the spring of 1965, the anti-cable campaign had reached large scale and full-speed. As cable entrepreneur Dan Anderson stated: "The broadcasters were extremely powerful in those days and certainly out-lobbied the cable industry".

### ***Period of Strict Regulation and Framing Contests***

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<sup>13</sup> The report noted that of the 107 UHF stations that went off the air between 1952 and 1964, only twenty were in CATV towns, and in two of those, the broadcaster had testified that CATV had worked to their benefit. NCTA noted that out of the 19 local TV stations that testified before congress in 1958 and 1959 that CATV had put them on the "brink of disaster", 18 were still in operation in 1964.

<sup>14</sup> Signal importation refers to the retransmission of a television station's distant signals through cable systems when the receiver is too far to get the signal over the air. This would allow viewers in Arizona to watch channels from California, for instance, creating competition for their local stations.

In 1964-1965, incumbents' pressure against cable TV led the FCC to again request authority over it. In 1964, the chairman of the FCC explained:

It makes no sense to have highly controlled pay TV experiments using broadcast frequencies while giving carte blanche to the development of pay TV over wires. Legislation is clearly required and action by the commission or the industry. Congress, the commission and the industry must make critical decisions about cable television. (Gould, 1964: 28).

Montana cable operator Archer Taylor recalled the FCC's position as follows:

I think the commission just felt we were bad people. They thought we were cheap and dirty people and that we were not professional. We weren't to be trusted.

Shut down by the Congress, the FCC then issued two policy statements, the First and Second Cable Television Report and Orders, where it simply assumed authority over cable TV (Figure 2), based on the argument that cable was "ancillary" to broadcasting and its expansion would "cause the demise of local stations". In the first report, the FCC banned cable operators from showing publicly available local programs for 30 days before and after the broadcast, and required them to obtain FCC's formal permission to operate, which proved to be painstaking. The second report made some minor changes to the first report and added a major regulation to disallow the importation of distant signals into the top 100 markets, making CATV profitable only in cities with poor reception. It read: "Our conclusion is that community antenna television serves the public interest when it acts as a supplement rather than a substitute for off the air television service."

### ***Period of New Frame Creation***

Following this first formal action of the FCC to restrict cable, cable operators started a public campaign to magnify their influence. They first targeted at various groups including intellectual communities that desired more sophisticated (i.e. social and educational) programming; ethnic minorities, who desired services catering to their needs and tastes; and producers of programs rejected by mass markets (e.g. 'underground' film producers).

During their campaign, cable operators used several arguments to create a new frame around cable TV. First, they emphasized that cable was not ancillary to conventional broadcasting, as the FCC claimed, but a stand-alone technology. Carnegie Commission on Educational Television (1967:75) stated, for instance, that cable gave the “promise of a comprehensive system, not small adjustments or patchwork changes”, and that it will become “a new and fundamental institution in American culture, different from any now in existence”. Second, they focused on cable’s ability to provide diversity in services, namely to receive and send data, receive mail and newspaper reproductions, and use interactive features (e.g. catalog shopping or banking). An article in the US. News and World Report of April 1966 explained:

It is suggested that homes will be linked by cables not only to the TV outlets, but to stores and banks. Merchants will use extra channels to display their wares more fully than they can on the usual spot commercial... The housewife may be able to do much of her shopping without leaving her home, select a dress from the television screen, electronically place her order for the dress, and direct her bank to make the payment.’ (US. News and World Report, 1966: 92)

Operators also started talking about cable’s potential for burglary, fire alarm, and facsimile news services. By 1966, both Associated Press (AP) and United Press International (UPI) signed deals with cable operators to develop news text services. As part of this campaign, cable operators changed the name of their service from ‘community antenna TV’ (CATV) to “cable TV”, and the association from National Community Antenna Association to National Cable Television Association in 1968.

In addition to these arguments, cable operators stumbled upon some additional benefits of cable in the social and educational sphere, and leveraged them immediately. Irving Kahn, stated, “Not that we knew the applications of cable in the educational field at the beginning, it happened by accident.” Cable operators quickly realized that cable’s higher carrying capacity allowed for more channels including local news, weather, and education (Barnett and Greenberg, 1968). Charles Clemens recalled that once they discovered the educational benefits by chance, they made schools part of their public campaign: “Educational people convinced the city council that

every school district needed a TV channel.” The same happened for churches. “We got a request for a locally originated religious program and we started working with many local churches from then on”, explained Yolanda Barco. Following the NCTA convention in 1966, the executive board directed president Frederick Ford to begin a national campaign to promote local public service programming on cable. His campaign emphasized cable’s potential to offer diversity in social and educational programs, leveraging complaints about public TV being a “wasteland”.

In addition to publicizing the benefits of cable TV, pay cable operators actively demonstrated a coalition with cable operators by framing their service as crucial for cable’s survival (Figure 2). Archer Taylor explained: “At that time, cable had entered all the remote markets. The industry took a serious slump. It was then that we felt that pay TV was likely to be cable’s salvation.” Cable operators were convinced. One campaign booklet read:

The revenue generated by pay programming is necessary to support social services, such as public access facilities and channels, now required by FCC regulations and increasingly by local municipalities’ (Parsons, 2008: 355).

One executive, Ralph Baruch, stated:

We charted the revenue outlook in the next five years with the cost side of running cable. It was obvious that within the next two to three years the costs were going to outpace revenues, which would have been an insupportable condition. The question was, what do we do? Well, it seemed to us that the only thing on the horizon was pay television.

In fact, the number of companies providing pay cable services rapidly increased after FCC’s national approval of OTA pay TV in 1969 (Table 3).

-----INSERT TABLE 3 ABOUT HERE-----

#### *Creation of Frame Multiplicity Among Institutional Actors*

Through campaigns targeted at intellectuals and minorities, cable and pay cable operators activated these groups, diffusing an alternative frame of public interest that justified their cause and increased pressure in the institutional sphere. NCTA board member Bill Bresnan stated: “It is with the overwhelming support of the public that we are at the doorsteps of the senate.” They started to receive a response in the institution sphere. The Johnson Presidential Committee, for

instance, stated in 1968 that “cable television offered promise of a new era in broadcasting, permitting diversity in programs for society”, recommending relaxation of FCC’s restrictions. In 1969, the Justice department sent a letter to the FCC with the same request. Attorney General Donald Baker stated: “Since cable TV is a capital intensive industry, it requires profit incentives in order to develop. FCC’s extensive restrictions stifle cable’s growth” (Stern, 1981: 184).

While support for cable TV was growing in the public and legislative spheres, some judiciary actors still followed the original public interest frame of “protecting free TV” and supported FCC in its policy to restrict cable. In 1968, for instance, when Southwestern Cable Company requested permission to import signals to San Diego via cable, the FCC immediately denied it on the basis of its ban on distant signals importation. When Southwestern went to court, the court ruled FCC’s regulations appropriate. Southwestern Cable then appealed to the Supreme Court, but the Supreme Court also supported FCC’s decision and banned Southwestern forever. At that time, the Supreme Court declared: “The commission has reasonably found that the achievement of the protection of broadcasting is placed in jeopardy by the unregulated explosive growth of cable TV” and added that the FCC could regulate cable because the cable industry was ‘ancillary’ to its jurisdiction (Southwick, 1998). In 1969, the FCC further ruled that cable companies could only show movies that were over 10 years old and sporting events that were already broadcasted on free TV. In addition, it required all operators with over 3500 subscribers to have facilities for local origination of programming, which was a large economic burden.

These events created a true polarization among various actors on what served the public interest. The incumbents, FCC and courts supported ‘free TV’ while public and academic groups, soon followed by legislators, advocated the benefits of the new and “superior technology”.

In the 70s, a series of academic studies commissioned by the National Science Foundation and carried out by the Rand Corporation (Park, 1970, 1971) concluded that, “in time, cable television may influence the way we live as radically as the automobile and the telephone

have done”. These studies framed cable as serving the public interest based on its high channel carrying capacity. Other researchers argued that cable could make the audience participate actively in the selection and dissemination of mass communications (Le Duc, 1973). Soon after these academic endorsements, President Nixon’s Administration started supporting cable as well. The White House Office of Telecommunication Policy asked for the removal of government regulation over cable TV, and suggested that cable TV have the same freedoms as print media under the First Amendment. In 1972, a seminal book by journalist Ralph Lee Smith, *‘The Wired Nation’*, contributed greatly to public awareness of the potential of cable technology. Following these events, the FCC gave in to the increasing pressure and softened some of the restrictions on CATV, particularly with respect to importing distant signals.

In addition to the overall support for cable TV in public and legislative spheres, pay cable TV started to receive support as well. In 1971, for instance, the Sloan Commission on Cable Communications, which consisted of presidents of universities and research centres, lawyers, scientists and public officials, asserted that pay TV should be introduced on a controlled basis nationally. In 1973, a study by Brookings Institute, a very influential nonprofit public policy organization, stated that pay cable was the only foreseeable revenue producing service to make cable TV a viable medium. This argument was further supported in 1974 by a Stanford Research Institute report that forecasted rapid growth of pay TV as complementary to free TV.

#### *Period of Frame Consensus and the Beginning of Deregulation*

In 1973, the NAB launched a full-scale public relations assault on pay cable, which the broadcasters saw as “the engine of their destruction”. The NAB formed an anti pay TV committee and began extensive lobbying. Spending more than \$600,000 in the battle, they took out full-page ads in newspapers with titles such as ‘Keep Free TV Free’.

NCTA responded with a \$250,000 counter campaign, reciting the benefits of cable described above. But differently from before, they now publicly accused the FCC of blocking

cable overall. Pay cable operators supported this effort through public statements questioning whether the FCC just opposed the pay revenue model or cable TV overall. Through news coverage of the FCC Cable proceedings and articles in mass magazines (e.g. Time, Newsweek), pay cable operators pictured themselves as fighting side by side with cable in informing the public of the potential services of cable technology. In an interview, HBO founder Charles Dolan stated: “pay TV is the lifeblood of cable television.” In 1974, CableVision, a biweekly magazine on cable’s advantages and offers, was launched. Within a couple of years, it surpassed regular TV magazines in sales, and became ‘the industry bible’ (Southwick, 1998).

The pressure from both incumbents and cable operators led the FCC to conduct another set of hearings in early November 1973. Due to the high amount of lobbying from all sides, rule making was delayed until 1975. Some of the delay was attributed to ABC chairman Leonard Goldenson and President Elton Rule meeting personally with key members of the Congress, who, in turn, pressured the FCC to slow its procedures. By March 1975, the Commission finalized its new regulations, which mildly reduced the restrictions on cable TV. A coalition of cable operators (Teleprompter, UA-Columbia, ATC, Warner, Viacom, and HBO) immediately appealed in what became known as the HBO versus FCC court case. After a long battle, in 1977, the District of Columbia Court of Appeals decided that the FCC's restrictions were “arbitrary and capricious” and violated the First Amendment rights of cable operators. This marked the first time in the story that judiciary and regulatory agencies had turned against one another. The court then generalized the verdict and gave all cable operators the same First Amendment protection as newspapers. The FCC appealed the decision, but the Supreme Court declined to review the case.

The legitimization of cable TV by the courts started a period of deregulation (Figure 2). In 1978, the FCC reduced the waiting period to broadcast movies from 10 to 3 years. In “the Economic Inquiry Report” in 1979, the FCC stated that “any loss in audience caused by cable would be offset by increased population and demand for advertising in the long run and therefore,

cable was at most a minor threat to broadcast industry and no threat at all to the public well being.” In 1980, the commission ended its investigation, concluding that the old rules were unnecessary and the broadcasters had to “adjust to a new reality” (Broadcasting: 1980, 25). The remaining restrictions were abolished by the 1984 Cable Communications Policy Act and the 1985 Supreme Court ruling. Following deregulation, cable and pay cable TV witnessed a rapid growth during the 1980s. By 1989, 79% of all TV viewers were subscribed to cable (Table 4). More than one third of all cable subscribers received at least one pay service, and a growing percentage subscribed to more than one.

-----INSERT TABLES 4, 5 and 6 ABOUT HERE-----

### **A Comparison of the Two Cases**

When we compare the emergence and development of OTA versus cable pay TV, we observe several important differences (Table 5). While OTA pay TV tweaked the existing technology to be decoded at the home of the subscriber, cable TV required wiring entire neighbourhoods, so its installation costs were much higher<sup>15</sup> (Table 6). All else equal, this cost difference constituted a significant entry barrier for cable entrepreneurs. Second, the cable technology had many problems in the early years. Much of the equipment used to build the first systems was either made by the operator or adapted from other equipment. Cable entrepreneurs, eager to move forward, often installed them without testing. Therefore, the cable equipment was often unreliable<sup>16</sup>. Third, OTA pay TV promoters were large firms with abundant resources. For instance, Zenith, a large TV manufacturer, spent \$10 million in 1950s on developing and promoting OTA pay TV. Cable TV promoters, in contrast, began as regional entrepreneurs with limited resources. Even after they consolidated and grew larger later on in the story, they

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<sup>15</sup> Donald Rogers of the New York Herald Tribune stated: ‘To wire entire streets or communities could cost up to \$150 a home and call for great capital investment.’ He estimated that in large cities, the costs went up to \$100,000/mile (\$750,000 in 2014 figures) and noted that maintenance costs were also high.

<sup>16</sup> The coaxial cable was susceptible to leakage. In addition, the vacuum tubes in the amplifier and other parts of the system were sensitive to temperature changes. The cable also was prone to signal leakage. As more towns received both OTA and cable services, the OTA signal sometimes leaked into cable, creating ghosting on the screen.

remained small compared to the incumbent broadcasting networks. Overall, the high cost and initial technical unreliability of the cable service as well as the limited resources of the cable entrepreneurs suggest that OTA pay TV operators had a serious advantage in establishing their service. However, there were other differences that enabled cable and pay cable TV's success.

First, during market entry, OTA pay TV was immediately under heavy regulation, while cable TV was in a regulatory void. But more importantly, the FCC did not attempt to overcome this regulatory void for 15 years. The main reason for this long wait was that the initial approach of the cable entrepreneurs was aligned very carefully with the frame of the regulators and the interests of the incumbents. To align themselves with the regulators, the entrepreneurs emphasized that they were providing diverse TV programs to rural areas, which fit the public interest frame of the FCC, based on the Radio Act of 1927<sup>17</sup>. The incumbents also did not object cable TV in the first 10-15 years. One possible explanation for this may be that the incumbents did not view cable as a threat due to the fact that initially, the technology satisfied the needs of a niche market, but provided a low performance for the mainstream market, similar to the trajectory of a disruptive technology as identified by Bower and Christensen (1995). However, this explanation cannot be the only one given the long timeframe for the lack of resistance. Our data show that a stronger reason was that the entrepreneurs framed themselves as complementary to the incumbents by extending incumbents' service to underserved market segments, i.e. rural areas. When the incumbents did not object, the FCC did not receive any pressure to act quickly.

In the case of OTA pay TV, the incumbents immediately perceived it as a threat and started a public campaign to frame it against the public interest. This strategy was highly effective as it involved the *raison d'être* of regulation, leaving the FCC no choice but to block the new service in order to maintain its legitimacy. OTA pay TV broadcasters did not provide any

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<sup>17</sup> Since the early days of radio, the public interest in broadcasting was defined in terms of diversity and localism. Diversity meant as large a choice as possible of programs and stations available to the listening public. Localism meant that a large share of broadcast services should come from local stations and represent "local self-expression". The commission was instructed to distribute broadcast licenses "among the several states and communities as to provide a fair, efficient, and equitable distribution of radio service to each of the same" (Communications Act, 1934).

alternative frames to defend themselves<sup>18</sup>; they only addressed the regulators to ask for permission to broadcast, and later on in courts. Therefore, when the FCC did not perceive OTA pay TV as serving the public interest, it used its jurisdiction to stifle its market entry.

Upon the emergence of the pay TV service within cable TV, a period of resistance from powerful incumbents began. How did pay cable grow stronger despite this resistance? First, instead of separating themselves as a premium service, pay cable operators remained united with cable. As mentioned above, cable operators had the initial advantage in that they could frame their service in the public interest as their initial purpose was to extend public TV to rural areas. Pay cable operators continued to use this initial frame even as “pay cable TV” became a distinct service that targeted urban areas. Only after cable had enough supporters did they make a case for themselves, arguing that pay cable was necessary for the financial survival of cable services.

United with cable operators, pay cable operators first built coalitions with private groups whose interests they could serve, in order to create a new frame of public interest. Based on the interests of these parties, they emphasized certain advantages of their service, which they then extended to a broader frame of public interest. With this new frame of public interest, they entered a framing contest with the incumbents. They used various forms of collective action in order to create a *ripple* effect<sup>19</sup> in their environment, targeting first private groups, then the general public and finally various institutional actors (e.g. government, legislators) that were influential in the adoption of their service. As the framing contest continued, a frame multiplicity emerged, which divided the institutional actors as they adopted the public interest frame of either the incumbents or the market entrants. The achievement of critical institutional support became a

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<sup>18</sup> As noted on page 21, the only exception that we observe is when Zenith’s president appealed to the Congress in 1967 with a frame of OTA pay TV as supplementary to free TV.

<sup>19</sup> A ripple effect is a situation where, like the ever expanding ripples across water when an object is dropped into it, an effect from an initial state can be followed outwards incrementally (Source: Wikipedia)

key event for cable to move from a period of strict regulation to one of deregulation<sup>20</sup>. As various powerful institutions started to put pressure on the FCC for deregulation, cable and pay cable operators directly petitioned the agency to adopt their frame of public interest, in order to establish frame consensus and end the industry turmoil. The FCC responded positively, starting a period of deregulation (see table 7a and 7b for the various phases of framing).

-----INSERT TABLES 7a and 7b ABOUT HERE-----

In the next section, we discuss potential contributions of our findings to extant literature.

## **DISCUSSION**

This paper looks at the battles between entrepreneurs and market incumbents in a regulated market. Our comparison of one failed and one successful attempt to introduce pay TV in the US reveals how entrepreneurs can first enter a regulated market without facing resistance, and then introduce a new frame to legitimize their product/service despite growing resistance from incumbents. While prior studies focus on how regulation hampers entrepreneurship (De Soto, 2000; Gray, 1987; Haveman and Norsworthy, 1989), we find that entrepreneurs do not have to take their regulatory and more broadly institutional environment for granted. Despite limited resources and resistance from powerful incumbents, they can shape the environment by influencing a variety of targets and leverage the interaction among them (Figure 3). Our narrative also uncovers the perspectives and strategies of these different targets (e.g. incumbents, interest groups, legislators, regulators) and builds a balanced story of institutional change.

-----INSERT FIGURE 3 ABOUT HERE-----

Our framework highlights framing both as a strategy to legitimize a new product/service, and as a mechanism through which multiple actors can battle to enable/disable institutional change in their environment. We discuss this and other contributions to literature below.

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<sup>20</sup> We have to acknowledge that political context might have played a role in the deregulation process. In the 1970s, there was a general climate of deregulation, which accelerated with the Reagan administration in the 1980s. While the broader political context alone cannot explain the success of pay cable TV, especially given the FCC's historical stance against deregulation, it certainly was a contributing factor.

***Framing as strategy.*** Our findings emphasize that framing is an important strategic tool during market entry. In their account of how Edison introduced electric lighting systems to the market, Hargadon and Douglas (2001) emphasize how Edison framed the new systems as similar to existing gas lights. The authors suggest that entrepreneurs should introduce new innovations as similar to the existing offering in the market to ensure that incumbent institutions will be familiar with the new technology, and therefore, accept it more easily. Our study confirms this finding and suggests that in addition to similarity, framing complementarity with the incumbents, as well as alignment with the dominant frame of the regulators are critical during market entry. As discussed before, prior studies show that in established markets, there is typically a coalition between incumbents and institutions (Aldrich and Baker, 2001) and that this coalition can be particularly strong in regulated markets where regulators have the power to erect entry barriers (Edelman and Suchman, 1997; Russo, 2001). We observe that market entrants can avoid resistance from this strong coalition by framing their product/service as complementary to the incumbents and in alignment with the dominant frame of the regulators. This strategy appeals to both parties and is more effective than only framing complementarity with the incumbents because it creates an initial positive opinion with the regulators which would take the incumbents time and effort to change, thus creating a window of opportunity for the market entrants to grow.

***Framing contests in regulated markets.*** We find that the cable operators and incumbents in our story entered framing contests (Kaplan, 2008; Guerard et al, 2013; Ryan, 1991; Schneiberg & Soule, 2005) based on the concept of public interest (Table 7a). Public interest theory argues that as regulation is designed to benefit society as a whole, regulatory agencies typically maintain a dominant frame of serving the public interest<sup>21</sup> (Pigou, 1932). The definition of what serves the public interest, however, can be open to interpretation. This was even acknowledged by one of

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<sup>21</sup> In banking, for instance, the SEC protects the public interest by ensuring that resources are allocated in a socially efficient manner (Misham, 1969) while in the food industry, the FDA protects the public interest by ensuring food safety (USFDA, 2008). The FCC, founded to regulate the broadcasting industry, assumes that the electromagnetic spectrum is a limited resource belonging to the public, and only those most capable of serving the public interest will be permitted to have a broadcast license (Communication Act, 1934).

the actors in our story, Peggy Reed, a legal advisor to the FCC: ‘The public interest is a constantly evolving concept that almost has to be vague in order to account for the evolution of various communications media’ (Krugman and Reid, 1980: 316).

The public interest concept can be particularly open to interpretation during the regulation of new technologies, for which the evaluation criteria may not yet be in place. The uncertainty caused by the absence of appropriate evaluation criteria can allow incumbents and new entrants to use strategic framing to shape the environment. In fact, the incumbents in our story attempted to influence the regulator by framing first OTA pay TV and then cable TV against the public interest. This incumbent strategy involves the *raison d’être* of the regulatory agency and forces the agency to take action in order to maintain their legitimacy.

In our story, we observe two different responses to this strategy. One was to address the regulators directly, pleading them for permission to enter the market. This led to failure. The other was to create and diffuse a new frame of public interest, thus entering a framing contest with the incumbents<sup>22</sup>. Given the strong link between the incumbents and regulators, cable operators had to choose an indirect route, identifying groups (e.g. minorities, educators, churches) whose interests they could serve, in order to create a new frame of public interest. To diffuse this frame, they used various forms of collective action<sup>23</sup> to influence key actors in the public and institutional sphere who then put pressure on the FCC. When it comes to using collective action to influence regulatory rulings, existing literature mostly focuses on firms’ direct interaction with regulators (De Figueiredo and Tiller, 2001; Lippmann, 2007; Schuler, 1996). We argue that a

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<sup>22</sup> We believe that there may have been learning effects between OTA and cable pay TV providers. Specifically, observing the resistance against OTA pay TV in the 1950s may have led cable operators to first convince the public of the benefits of the service. This was similar to the approach of the incumbents who defeated OTA pay TV earlier on. Learning may have occurred in the other direction as well. For instance, OTA operators Skiatron and Telemeter announced plans to move to cable technology to leverage the regulatory void. In addition, OTA operator Zenith used the “pay TV as supplementary to free TV” frame many years after the cable operators originally used it.

<sup>23</sup> It is noteworthy that both cable operators and incumbents engaged in a “grassroots” form of organizing networks. They allied themselves with other groups with complementary interests and resources in order to affect the outcome. Although there are parallels, we refrain from labeling their action a social movement since social movements are usually associated with marginal and isolated groups such as peripheral market players (e.g. Lounsbury et al, 2003) or NGOs (Guerard et al, 2013) rather than resourceful companies.

direct approach is risky given the strong alliance that is typically found between incumbents and regulators in established markets. Rather, an indirect approach may be more effective, starting with smaller groups, then extending the collective action to influence the general public, followed by institutional actors, and eventually the regulators. This strategy works as it leverages the support garnered from one target in influencing the next and larger target, creating a *ripple effect*.

In explaining how the framing contest got resolved, we note that the framing contest led to a frame multiplicity in the environment, which divided institutional actors into different camps based on the public interest frame they supported. Once they achieved critical level of institutional support to pressure the regulator, cable operators advocated frame consensus by directly petitioning the regulator to switch sides in order to reduce the industry turmoil. Our story highlights that during the emergence of new products and services, frame multiplicity and consensus among institutional actors is not just circumstantial, but an outcome of the framing contests between different actors. We also point out that during framing contests, not only the targets of the framing activity, but also the producers can change their dominant frame based on the interaction with their environment. In our story, cable operators strategically changed their frame from public interest as “free TV to all citizens” to public interest as “superior technology for culturally rich and diverse programs” following the framing activity of the incumbents. In addition, various institutional actors (e.g. legislators, government) diverted from an initial “save free TV” frame to “helping a revolutionary technology grow” frame due to the framing activity of cable operators. By showing how frames coevolve, we answer previous calls (e.g. Guerard et al, 2013) to provide a more realistic perspective on framing contests.

Overall, we contribute to literature by documenting underexplored processes of how framing contests unfold over time, how actors’ frames change as a result of their interaction, and how the institutions in the environment are affected and involved. We posit that framing contests involving the public interest are an inevitable process for entrants seeking legitimacy in regulated

markets. In this process, finding the right coalition partners among other market players (e.g. those who can frame their product in the public interest) as well as in the public and institutional sphere (e.g. minority groups, educational and religious institutions) who can help construct and diffuse an alternative frame of public interest is a crucial step in winning the framing contest.

*From Entrepreneurship to Institutional Entrepreneurship.* While there is evidence that cable and pay cable operators used various forms of collective action to stage an indirect approach to the regulators, we cannot deny the role of improvisation and opportunity taking, especially at the beginning. In his paper, Zahra (2007) recognizes a gap in our understanding of the processes of opportunity recognition and exploitation by entrepreneurs. Similarly, Sarasvathy (2001, 2008) notes that entrepreneurs typically start their endeavor, “with the means available based on who they are, what they know, and whom they know” and these first steps often lead to additional opportunities. Empirically, improvisation has been shown to play a role in venture creation process: due to the unstructured role of opportunities, entrepreneurs need to deal with problems as they emerge and craft solutions “making do with what is at hand”—or bricolage as defined by Lévi- Strauss (1967) (Baker and Nelson, 2005). In our study, we see that the entrepreneurs did not necessarily calculate all the steps to legitimize their services. Rather, they “stumbled upon” and leveraged certain opportunities, described below.

An important opportunity for cable entrepreneurs was the regulatory void around cable technology. A regulatory void is a type of institutional void, which arises when institutional arrangements that support markets are absent or too weak to accomplish the expected role (Mair and Martí, 2009; Khanna and Palepu, 1997). Prior literature shows that new technologies require a defined institutional space to govern the production, distribution and consumption of associated artifacts (Dosi, 1982; Rosenberg, 1982; Van de Ven & Garud, 1994). Until this is established, however, new technologies often cause environmental uncertainty (Anderson and Tushman, 1990; Bower and Christensen, 1995; Hargadon and Douglas, 2001; Tushman and Anderson,

1986). A few studies have illustrated how entrepreneurs can take advantage of this uncertainty in nascent markets (e.g. Ozcan and Eisenhardt, 2009; Santos and Eisenhardt, 2009). Our study shows that such opportunities also exist in established markets when new technologies render regulations obsolete. We argue that the regulatory void following a new technology was an important opportunity for entrepreneurs to create a foothold in the market. In addition, cable entrepreneurs' early alliances with local schools and churches constitute a good example of how they formed alliances as they recognized the opportunity. Opportunity taking especially helped the entrepreneurs form the content of their message to influence different targets. Once they stumbled upon the benefits of cable for local churches and schools, for instance, they emphasized education and diversity in their public campaign. Later on, when pay cable operators observed the decline of cable revenues, they framed pay cable service as the savior of cable.

This image of local, opportunistic entrepreneurs provides a contrast to the collective and powerful institutional entrepreneurs that we encounter later on in the story. Our longitudinal data allows us to show the evolution of our focal actors from self-serving actors with no field-level intentions to central and powerful actors, with strategic actions targeted at changing their institutional environment. Extant entrepreneurship literature recognizes that the institutional context is critical for entrepreneurial activity, but more empirical work is needed to show how entrepreneurs can become institutional entrepreneurs and deliberately manipulate their institutional contexts (Pacheco et al, 2010). On the other hand, scholars agree that entrepreneurship concepts such as opportunity taking need to be integrated into the institutional entrepreneurship literature (Phillips & Tracey, 2007; Pacheco et al, 2010). Our study follows earlier attempts (e.g. Hargadon and Douglas, 2001, Pacheco et al, 2010; Phillips & Tracey, 2007, Tracey et al., 2011) to establish a link between entrepreneurship and institutional entrepreneurship, where the latter is defined a la Aldrich (2011) through collective action but without the 'heroic connotation of individual entrepreneurs that can change institutions' (Aldrich

and Fiol 1994; Aldrich, 2011). In our story, entrepreneurs begin at a small scale with private interests in mind. As they unite and get organized through industry associations and other interest groups, they increase their scale and target, allowing the process of institutional change to begin. We document how institutional change is the outcome of a long-hauled process, which is fueled by entrepreneurs acting collectively to convince private groups and institutional actors to cooperate while battling with resisters of change through framing contests.

Finally, we argue that our findings are generalizable in various ways. First, the framing and collective action strategies we uncover are relevant for non-entrepreneurial actors. A case in point is how the market incumbents in our story used a similar strategy (i.e. used public interest framing, started a public campaign, and finally appealed to the regulators) to effectively hinder OTA pay TV (Figure 1). In addition, our findings are applicable to other regulated markets (e.g. automotive, bio and nanotechnology, food and healthcare) where the concept of public interest is central. Recently, a similar battle occurred between entrepreneurial Voice over Internet Protocol technology (VOIP) providers and incumbent fixed line telecom operators where the incumbents used public interest framing and collective action to get VOIP providers classified within ‘telecom services’ where they would have to pay the same fees and access charges as the large telecom companies rather than in ‘information services’ where there was no regulation. Similar to our case, VOIP providers responded with a public interest frame of ‘allowing a revolutionary technology to grow’. After a 10 year battle involving the FCC, legislators and courts, the VOIP providers succeeded in 2005 in being classified as information services companies, which allowed them to grow without regulation. The parallels between our case and this contemporary one highlight that in a regulated market, the fate of the entrepreneurs depend on how they frame their service/technology and use collective action to win over incumbents in influencing the critical institutional actors in their environment.

## CONCLUSION

In this study of the introduction of Pay TV in the US, we explore how entrepreneurs can gain support for their products/services in regulated markets by combining various strategies within the context of a regulatory void following technological change. In the process, we identify framing as an important strategic tool, document how framing contests unfold over time, and work towards a more realistic tale of institutional change. We show that institutional change is fueled by collections of entrepreneurs moving their target of influence from private to institutional actors, and interacting with resisters of change such as market incumbents in the meantime. We show that, similar to Alinsky's (1971) metaphor of 'political jujitsu' describing turning the force of the institutional power structure against itself, entrepreneurs can establish their products/services despite resistance from strong incumbents and powerful regulators if they influence the institutions around them, creating a ripple effect through which the institutions they already convinced put pressure on other critical institutions, and eventually on the regulators.

Overall, this study is a potentially important step in showing how entrepreneurs can establish their product or service despite strong opposition from powerful incumbents and regulatory agencies. In explaining this process, we uncover the roles of the various actors in changing a regulated environment, and highlight the importance of combining framing and collective action as part of an overall strategy to influence these actors through a ripple effect.

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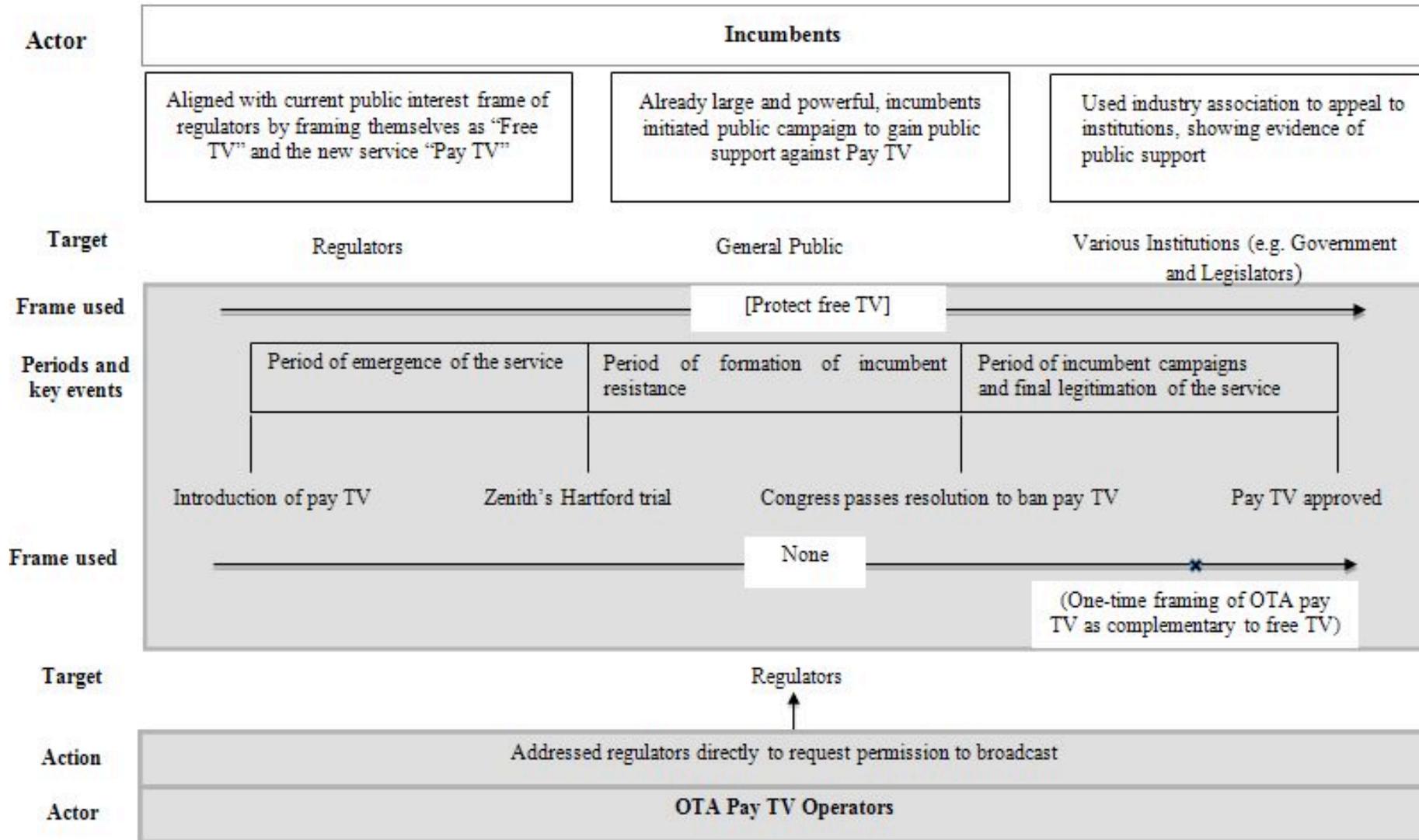
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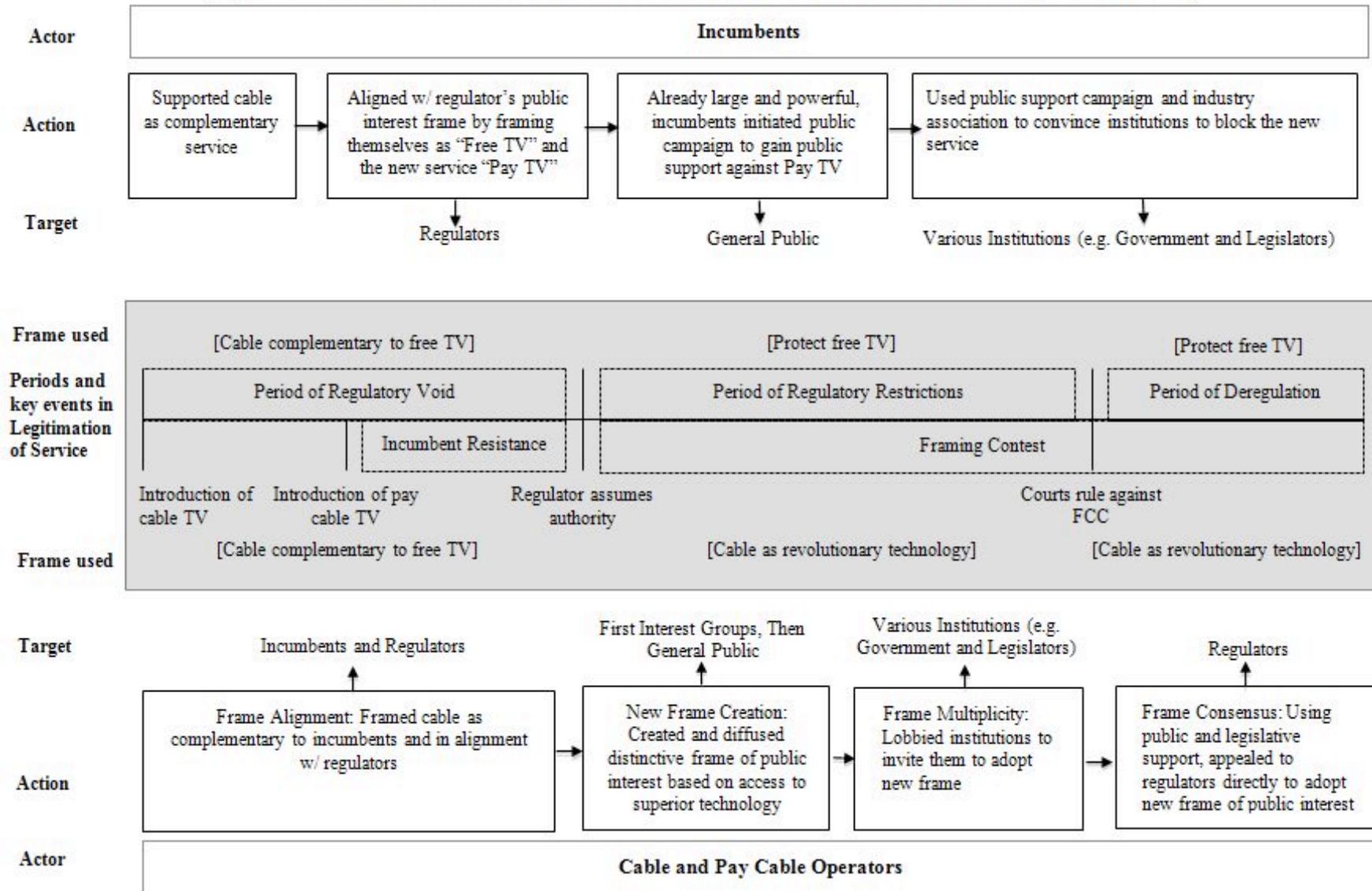
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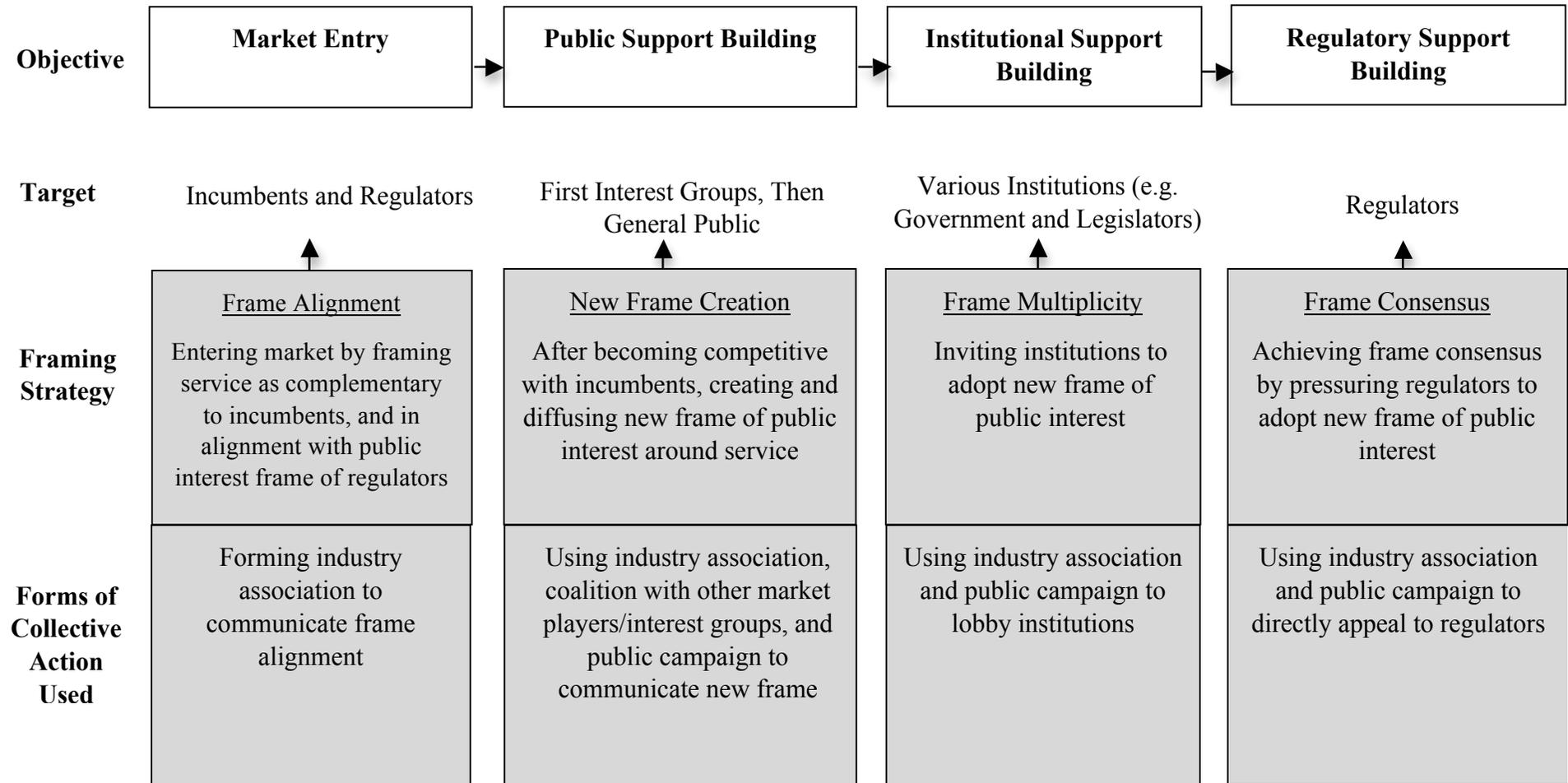
**Figure 1: Visual Illustration of Actions of Incumbents and Market Entrants in the OTA Pay TV Case**



**Figure 2: Visual Illustration of Actions of Incumbents and Market Entrants in the Pay Cable TV Case**



**Figure 3: Theoretical Framework on How Entrepreneurs Can Shape a Regulated Environment**



**Table 1: Timeline of the evolution of the two services for pay TV**

| Year | Over the air pay TV  | Pay cable TV  |
|------|--|---|
| 1948 |  | Cable first used to extend public channels to rural areas.  |
| 1949 | Zenith applies for testing.  |   |
| 1950 | FCC authorizes testing in restricted area.   |   |
| 1952 | Zenith files to test pay TV nationally, but receives no response from the FCC until 1960.                                | NCTA founded.   |
| 1954 | Incumbents (movie theaters and ad-supported TV broadcasters) start resistance against OTA pay TV.                        |   |
| 1956 | Incumbents launch public campaign against OTA pay TV. Congress introduces five bills to ban OTA pay TV.                  |   |
| 1958 | FCC gives permission for OTA pay TV pilots, but permission is then blocked by the House Interstate and Senate Committee. |   |
| 1960 | FCC permits restricted pilots for 3 years.   | Teleprompter tries pay cable TV.  |
| 1962 | Zenith begins trial in Hartford.   |   |
| 1964 |  | Launch of STV in California. Incumbents launch a public campaign against cable pay TV. STV banned following the California Referendum.  |
| 1965 | Zenith applies to broadcast nationally.  | FCC assumes jurisdiction over cable. Cable operators start public campaign.   |
| 1966 |  | FCC forces cable firms to carry local channels and to wait 30 days to show a local show. On the other hand, Associated Press (AP) and United Press International (UPI) sign deals with cable operators to develop news text services. |
| 1968 |  | Southwestern Cable banned by FCC. 'Community antenna TV' becomes 'cable TV'. Johnson Presidential Committee supports cable. Institutional actors divided as for and against cable TV.   |
| 1969 | FCC authorizes all over the air systems.   | FCC bans cable from showing new movies and sporting events. Justice department sends letter to FCC in support of cable.   |
| 1971 |  | Sloan Commission endorses pay cable TV.   |
| 1972 |  | Wired Nation book supports cable TV. FCC softens signal importation restrictions on cable. NAB and NCTA launch new public campaigns.  |
| 1974 |  | Cable Vision magazine launched. Academics support cable.  |
| 1975 | 3 OTA pay TV systems in place.   |   |
| 1977 | 6 OTA pay TV systems in place.   | HBO vs FCC, court decides FCC violated First Amendment rights of cable TV operators.  |
| 1978 |  | FCC reduces waiting period for showing films to 3 years.  |
| 1979 |  | FCC makes public statement in favor of cable.   |
| 1980 | 8 OTA pay TV systems in place.   | 4225 cable systems in place, 17.5 million homes with cable, half are pay TV subscribers.  |
| 1984 |  | Communication act deregulates cable.  |
| 1985 |  | Supreme Court eliminates all restrictions.  |
| 1987 | Most systems shut down (except SelectTV).  | 32.5 million pay cable subscribers.   |

**Table 2: Launch and close dates of OTA pay TV operators**

| Launch date | Company  | Location                                  | Shut down date |
|-------------|----------|---|----------------|
| 1976        | SelecTV  | Milwaukee, Los Angeles, Philadelphia      | 1991           |
| 1977        | ON TV    | Los Angeles, Chicago, Detroit             | 1985           |
| 1977        | Wometco  | New York City                             | 1986           |
| 1980        | Preview  | St.Louis, Cleveland, Boston, Dallas       | 1986           |
| 1980        | VEU      | Oklahoma City, Atlanta, Dallas/Fort Worth | 1984           |
| 1981        | Spectrum | Chicago                                   | 1984           |
| 1981        | Super TV | Washington, Baltimore                     | 1986           |

**Table 3: Launch of Additional Pay Cable Services after FCC Permission of OTA Pay TV**

| Company    | Subsidiary            | Name of Service | Launch date |
|------------|-----------------------|-----------------|-------------|
| Time       | Home Box Office       | HBO             | 1972        |
| Cox Cable  | Mission Cable         | Channel 100     | 1972        |
| Laser Link |                       | Theatervision   | 1972        |
| Warner     | Gridtronics (f. 1969) | Star Channel    | 1973        |
| Viacom     |                       | Viacode         | 1974        |

Source: Southwick (1998)

**Table 4: Increase in Number of Cable and Pay Cable TV Subscribers**

| Year                      | 75  | 76 | 77   | 78   | 79 | 80   | 81   | 82   | 83   | 84   | 85   | 86   | 87   | 88   | 89   |
|---------------------------|-----|----|------|------|----|------|------|------|------|------|------|------|------|------|------|
| Basic cable (millions)    | 9.8 | 11 | 12.2 | 13.4 | 15 | 17.5 | 21.1 | 25.3 | 29.4 | 32.8 | 35.4 | 38.2 | 41.2 | 44.2 | 47.5 |
| % basic cable with pay TV | 24  | 22 | 13   | 23   | 36 | 47   | 67   | 76   | 84   | 84   | 82   | 78   | 79   | 81   | 79   |

Source: Paul Kagan Associates Inc., Carmel, CA, The Cable TV Financial Databook, annual, 1999 (copyright); and The pay TV Newsletter, May 31, 1999.

**Table 5: Differences between OTA and Cable Technologies**

| <b>Differences</b>                          | <b>OTA TV</b>   | <b>Cable TV</b>  |
|---|---|--|
| Quality of service                          | Good  | Initially lower due to cable leakages and insufficient testing   |
| Size of promoting actors                    | OTA pay TV companies were large and established firms such as movie producers (RKO) and TV manufacturers (Zenith) | Cable TV companies were mostly local start-ups that later grew in their region by buying other cable companies.  |
| Set-up cost                                 | Low. The system just needed to add a decoder to their TV.   | High. Cable TV required wiring entire neighbourhoods (see Table 6 for costs).  |
| Fit with the services offered by incumbents | OTA pay TV was perceived as a threat to the services of the incumbents  | At its emergence, cable TV was perceived as complementary to the incumbents because it extended airwaves to remote areas. Pay cable used this initial positive perception to gain time for political activity. |
| Existence of regulatory voids               | OTA TV was under heavy regulation from the FCC for decades  | Cable TV did not use airwaves and therefore fell outside of the FCC's regulatory limits. This prevented the FCC from immediately assuming power to regulate the new technology.                                |

**Table 6: Comparison of costs between OTA and cable technologies**

| <b>OTA pay TV</b>   |   | <b>Pay cable TV</b>   |  |
|---|---|---|--|
| <b>Type of cost</b>   | <b>Estimate of total amount for 2000 home community</b> | <b>Type of cost</b>   | <b>Estimate of total amount for 2000 home community</b>                    |
| Cost of decoder for 2,000 home community                                      | \$30,000  | Building antenna tower, running cable to town                                 | \$30,000<br>(\$2,500–\$3,000 per mile)                                     |
|   |   | Wiring the town   | \$50,000 (\$3,000 per mile or \$25 per home with a 135 homes/mile density) |
| Start-up office costs for 2,000 home community                                | \$2,000   | Start-up office costs for 2,000 home community                                | \$2,000  |
| Fixed costs (Trucks, legal, offices, test equipment) for 2,000 home community | \$5,000-10,000  | Fixed costs (Trucks, legal, offices, test equipment) for 2,000 home community | \$5,000–10,000   |
| Maximum cost for 2,000 home community   | \$42,000  | Maximum cost for 2,000 home community   | \$92,000   |

Source: Southwick (1998)

**Table 7a: Frames adopted by various actors during framing contests in the Cable TV case**

|                              | Early 1950s to 1960s | Early to late 1960s | Mid 1960s to early 1970s | Late 1970s to 1980s |
|------------------------------|----------------------|---------------------|--------------------------|---------------------|
| Cable Operators              | □                    |                     | ○                        | ○                   |
| NAB (Incumbents)             | □                    | △                   | △                        | △                   |
| FCC                          | □                    | △                   | △                        | ○                   |
| Executive Branch             |                      |                     | ○                        | ○                   |
| Courts<br>(Judiciary Branch) |                      | △                   | △                        | ○                   |

□ : Cable complementary to free TV, ○ : Cable as revolutionary technology, △ : Protect free TV

**Table 7b: Quotes accompanying Table 7a**

|                        | Early 1950s to 1960s   | Early to late 1960s   | Mid 1960s to early 1970s  | Late 1970s to 1980s   |
|------------------------|--|---|---|---|
| <b>Cable Operators</b> | “We didn’t want to compete with broadcasters, we didn’t go after the advertisers. We were an extension of their services”  | “We ask only for the right to build a vital new communications resource--one which is founded on the public’s desire, and the need and right to new programming choices and services” |   |   |
| <b>NAB</b>             | “At that time, cable and broadcasters loved each other. They had an extremely happy relationship because broadcast signals would reach places that the signals could not reach over the air. Cable was providing a service that broadcasters loved. It was not a competitor; it was an affiliate; it was an extender of broadcast signals” | “Pay TV cannot be regarded as an addition to free television; it is a substitute for free television”   |   |   |
| <b>FCC</b>             | “We do not now envision where we could find that the public interest would be disserved by affording an opportunity for choice of service and the benefits of competition and diversity of expression”   | “Our conclusion is that community antenna television serves the public interest when it acts as a supplement rather than a substitute for off the air television service”             |   | “Cable is at most a minor threat to broadcast industry and no threat at all to the public well being. Broadcasters have to adjust to a new reality” |
| <b>Executive</b>       |  |   | “Since cable TV is a capital intensive industry, it requires profit incentives in order to develop. FCC’s extensive restrictions stifle cable’s growth” |   |
| <b>Courts</b>          |  | “The commission has reasonably found that the achievement of the protection of broadcasting is placed in jeopardy by the unregulated explosive growth of cable TV”                    |   | “FCC’s restrictions are “arbitrary and capricious” and violates the First Amendment rights of cable operators”                                      |

## Appendix A: Data sources

| Type of data  | Sources  | Example quote from the source  |
|---|--|--|
| Annual reports of the regulator                                     | FRC and FCC reports (1927-1980)  | ‘Our conclusion is that community antenna television serves the public interest when it acts as a supplement rather than a substitute for off the air television service.’   |
| Books about the history of pay TV                                   | Hilmes, 1990; Le Duc, 1973; Mosco, 1979; Mullen, 2003; Parsons, 2008; Southwick, 1998  | ‘Whether it should be classified as a broadcast service, a common carrier service, or other type of communication service.’  |
| Audio interviews with various key cable and pay cable entrepreneurs | 15 interviews from the Cablecenter organization  | ‘We didn’t want to compete with broadcasters, we didn’t go after the advertisers. We were an extension of their services.’   |
| Newspaper articles  | 204 <i>NY Times</i> articles (1949–1985)   | ‘FCC had to decide whether it possessed the authority to authorize and regulate subscription television, whether safeguards would be necessary to make sure that the public generally continued to get ‘well balanced programming without charge’ and whether the service would be in the public interest.’  |
| Academic articles   | 20 law (e.g. Communications and Law) and economics (e.g. American Economic review) journals, and studies by reputable research institutions (e.g. Rand Corporation)        | ‘Since cable TV is a capital intensive industry, it requires profit incentives in order to develop. FCC’s extensive restrictions stifle cable’s growth.’   |
| Industry communications and newsletters                             | Communications from the NAB (National Association of Broadcasters) and the NCTA (National Cable TV Association) as well as trade journals (e.g. The Broadcasting Magazine) | ‘Pay to see television will add nothing to present programming except a bill. It cannot be regarded as an addition to free television; it is a substitute for free television. Free television robbed of its talent must itself inevitably turn to pay television or deteriorate to mediocrity or worse. In either event the public will receive less service for more money.’ |

**Author Bios:**

**Kerem Gurses** (kgurses@luiss.it) is an assistant professor in the management department of Luiss University. He received his Ph.D in management from IESE Business School. His research focuses on institutional entrepreneurship, corporate political strategies of organizations and how organizations deal with regulation.

**Pinar Ozcan** (pinar.ozcan@wbs.ac.uk) is an assistant professor in the strategy and international business department of Warwick Business School at the University of Warwick. She received her Ph.D in management science and engineering from Stanford University. She specializes in strategy, entrepreneurial growth, and the emergence of new markets.