Chapter III

Dynamic Boundaries and Vertical Integration

Introduction

In this chapter we will review existing theories and models of the boundaries of firms and industries. The goal is to gain a better understanding of the forces behind the current development in the mobile services industry. It is argued here that at the end of the day, there are very few elements that are totally new even in the most advanced high-tech industries, when the focus is on the evolution of an industry.

Every day we get to read in newspapers about how deregulation, globalization, and technological convergence are inducing dramatic changes in the boundaries of firms and whole industries. The mobile industry is clearly in the midst of such turmoil — going through a colossal transformation of the very foundations of the business. In this chapter, we will review how researchers
have approached this kind of dramatic phase in the evolution of an industry in order to find out if they have managed to create any useful models or theories that would help us make sense of the presence and the future of the mobile services industry.

Such profound changes do not typically happen easily; instead, they are often painful for those involved in the process. A good example of this kind of development is a story by Mark Coblizt, senior vice-president of strategic planning at Comcast. Coblizt (2004) describes the process of aligning the interests and growth opportunities of cable companies and consumer electronics industry in the development of a “plug and play” agreement for the cable TV in the U.S. market: “The inter-industry negotiations that led to this agreement were arduous and often highly contentious. But I think they have given each of us a much better understanding of other’s industry (p. 6).” No pain, no gain. This appears to be a slogan for the coming years in technology-driven industries.

The dynamic changes of firm and industry boundaries have not passed unnoticed in economic research either. Researchers argue that research in technological change has focused too much on individual firms without paying enough attention to the impact of change on their business environment (e.g., Afuah, 2001). However, in the highly open and interrelated world we are living in, it is not enough to analyze this kind of changes just within the boundaries of one firm. This is exactly what this book is trying to achieve: to raise the level of analysis from the level of a single firm to network/industry analysis or even higher.

But let us look first how researchers’ views of the boundaries of a firm have evolved over time. This will help us to understand the changes currently taking place in the mobile industry, once we start to analyze the differences between various geographical markets and try to recognize certain patterns in the way the industry itself and the companies within it have defined their roles in the business.

### The Concept of Vertical Integration

The question of vertical integration — what it means and is it good for you — has been the subject of lively discussions over the last few decades. Michael Porter has defined vertical integration as “the combination of distinct produc-