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THE ECONOMICS AND REGULATION OF CONCENTRATIONS OF MEDIA OWNERSHIP IN THE UK

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ABSTRACT

Since the early 1990s, regulators in the UK and in many other countries have faced increasing pressure from media industry participants to liberalise media and cross-media ownership restrictions. Many countries, including the UK, have responded to this pressure by amending their domestic legislative frameworks in such ways as to remove at least some restrictions which had previously been established in order to protect pluralism. The main aim for this study has been to assess the 'economic' case in favour of de-regulating media and cross-media ownership in the UK.

The principal method of investigation has been to analyse the relationship between, on the one hand, the size and vertical or diagonal structure of a selection of UK media firms and, on the other, their recent economic performance. Findings suggest that, although factors other than size will affect performance, there is generally a strong and positive correlation between the market share and the operating profitability of firms who are involved in either television or radio broadcasting, or national newspaper publishing. This correlation reflects efficiency gains through economies of scale and scope and, also, revenue advantages arising from increased market power. On the other hand, there is little evidence that previous monomedia ownership restrictions represented a threat to the economic viability of the industry or that developments in the late 1990s have introduced significant 'new' gains for enlarged monomedia enterprises. Nor is there evidence that de-regulation of monomedia restrictions would have any positive impact on the exports performance of traditional UK media firms. With regard to diagonal expansion, there is no evidence that cross-ownership between radio and television or between television and national newspapers yields important economic benefits.

This thesis would argue that, taken as a whole, the de-regulation of UK media ownership in 1996 has delivered relatively few enhancements to the economic

efficiency or prospects of the UK media industry while, at the same time, has engendered a considerable welfare loss through lower safeguards for pluralism. This outcome reflects serious systemic problems at the national UK level in the policy-making mechanism which is supposed to curb the political influence of media owners. This study finds that the scope - via a shift in responsibility for policy-formulation to the transnational European level - for overcoming such problems will be limited, not least because the protection of pluralism remains outside the official competence of the European Commission.

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PREFACE

Whatever success has been achieved in probing the questions which this study set out to investigate owes much to the generosity and candour of those who agreed to be interviewed for this project. Their willingness to participate has been on the basis that any and all opinions or views contributed to this research will not be disseminated publicly in any form. For this reason, access to this thesis is restricted and neither the whole nor any part of it may be copied, circulated, quoted, published or otherwise reproduced without prior written permission from the author.

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Chapter 1

Introduction

1.1 Media Ownership Regulation

Both in Britain and internationally, the media as a sector of economic activity may be distinguished from others by its subjection, particularly since the introduction of broadcasting, to various forms of direct and indirect regulation. The array of media-related law currently on statute in Britain underlines a general sense of conviction that the media industry is different from others. In spite of the fashion for non-interventionist industrial policies which swept to prominence in Britain in the 1980s (Moschandreas, 1994, p499), the view that "television, radio and the press have a unique role in ... the democratic process" (DNH, 1995a, p16), which calls for a special regulatory response, remains widely supported.

The potential to address a mass audience is redolent with commercial possibilities which have been amply demonstrated over the last few centuries in virtually all developed economies. More recently, the profitability of the media sector is well documented in the annual financial returns of market sector firms in the UK, for example, EMAP plc, Pearson plc and United News & Media plc. On the other hand, as evidenced by the extensive and varied writings of leading contemporary academic media specialists such as Jay Blumler, Tim Congdon, Dennis McQuaid, Ralph Negrine and others, "the output of the media can profoundly affect a society's well-being" (Congdon et al, 1995, p13) or, more generally, the potential to communicate with a mass audience is inseparable from its social implications. Herein lies a dilemma for regulators which is as old and as far-reaching as the media itself. How are societal concerns surrounding the nature of media provision to be balanced against the commercial interests of media providers?

Standard economic theory concerning the behaviour of firms suggests that the primary objective of market sector firms in any industry is profit maximisation (Lipsey, 1989, p170; Tirole, 1988, p34). This also holds true for the commercial media sector where "shareholders and managements are concerned, very properly, with maximising their profits, not with larger questions of public policy such as the need to sustain a healthy political debate" (Congdon et al, 1995, p23). A media industry focused on profit seems unlikely to deliver a socially optimal provision of media and, in practice, there is no shortage of empirical evidence that commercial pressures on media firms can and do result in output which, in socio-political and cultural terms, is found wanting.[1]

The contradictory pull between what would best serve the interests of society and what would best suit the media industry's participants is exemplified, with particular clarity, by the issue of rules on media ownership. The public interest in media pluralism suggests that ".. clear rules will be needed which impose limits on concentration of ownership and on excessive cross-media ownership, in order to keep the market open for newcomers and to prevent any tendency towards editorial uniformity or domination by a few groups" (Home Office, 1988) and, on this account, rules to prevent media concentrations have long been established in Britain and in other European countries (CEC, 1992). However, the conclusions offered by conventional economic theory (Locksley, 1988; Lipsey, 1989, pp236-7, p426) - again, well supported by recent international empirical evidence - support the counter-position that, in order to maximise economies, media firms will tend to enlarge and become vertically and diagonally integrated.

Since the early 1990s, the tension between liberating media ownership rules to allow firms to develop as they would wish and restricting ownership to preserve pluralism has been pushed to crisis point. "Technology is transforming the media business, promising a convergence of broadcast, print and personal forms of communication and increasing

[1] For example, the Independent Television Commission (ITC), which is responsible for licensing and monitoring commercial television broadcasting in the UK, recently expressed concern about "diminishing diversity" in ITV's service "brought about by increased drama, entertainment and features, and by corresponding reductions in documentaries, arts and children's drama" (ITC, 1997, p61).

opportunities for companies to operate across previously discrete media" (Congdon et al, 1995, p4). From an industrial perspective, technological developments are thought to have improved the economic benefits of enlargement and expansion into complementary business activities. As "the barriers which separate communication, entertainment and information are crumbling" (DNH, 1995a, p4) and market boundaries fade, economies of scale and scope in the media seem to have become more feasible and more attractive than ever. As a consequence, policy-makers have been faced with intense pressure to change media and cross-media ownership rules in order to accommodate new industrial strategies for the latter half of the 1990s.

1.2 Research Question and Aims

Against this background, the primary purpose of this research is to assess, by means of empirical investigation, the economic rationale which has supported industrial arguments in favour of relaxing media ownership rules. The main focus of the study will be on UK media ownership regulation in the broader context of European Union media policy.

The key question this investigation will address is the extent to which the recent performance of UK media firms has provided a compelling economic case in favour of amending the framework of media and cross-media ownership regulation which existed prior to the 1996 Broadcasting Act. By analysing the performance of a sample of leading UK media firms engaged in varied corporate strategies (in terms of monomedia and multimedia expansion), this study will examine and test general propositions about the relationship between, on the one hand, the size and vertical or diagonal structure of media organisations and, on the other, their economic or financial "efficiency". The findings from this exercise will facilitate an appraisal of the impact of recent UK media ownership rule changes on the economic prospects for indigenous media companies.

Industrial or economic considerations, however compelling they may be, are not the only priority for policy-makers concerned with media. Against these must be weighed the significant socio-political and cultural implications of any policy changes which would alter the general configuration of control over media provision. Such implications have been underlined in many of the public submissions to both UK and EU regulators responsible for reviewing media ownership rules over the last 3-4 years. Consequently, this investigation of the "economic" case for changing media ownership restrictions is framed within a wider analysis of the full range of concerns shaping policy-makers' response to the issue.

In summary then, the aims of this research are

- to identify and analyse the range of key factors and concerns which influenced the recent re-formulation of UK media and cross-media ownership policies;
- likewise, to identify and analyse the concerns and policy objectives which are shaping the approach towards an EU-wide media ownership policy initiative;
- against this background, to empirically test (in the UK context) the validity of "economic" arguments favouring a liberal media ownership policy regime;
- to analyse, with reference to its key policy objectives, the likely effectiveness of the new media ownership policy (introduced by the 1996 Broadcasting Act) in the UK;
- to consider the impact of the transition to an enlarged or "global" media economy on the formulation of national (UK) or transnational (EU) media ownership policy frameworks.

Chapter 2

Literature Review

Ownership and control of the media has been a concern for many previous writers and this chapter reviews a range of socio-political, legal and economic perspectives on this and related public policy issues.

First (in section 2.1), general or introductory studies of the media which include a discussion of ownership are considered, and then (in section 2.2) those which have made media concentration or pluralism a primary focus are reviewed. More recent research directed at regulations about media ownership is then examined, for the UK (in section 2.3) and also in the broader international context (in section 2.4).

Most of this previous work has emerged from the broad disciplines of sociology of media or political science. By contrast, the economics of media ownership seem comparatively neglected, and empirical or theoretical work focused specifically on the economics of media expansion or vertical integration is extremely scarce. The handful of studies which fall into this category - mostly concerned with particular segments of the US media - offer a helpful background for this research and are considered below (in section 2.6).

Whereas concentrations of media ownership have received relatively little specific attention from economists, industrial economics and industrial organisation provide a range of theoretical perspectives on the relationship, more generally, between expansion or vertical integration by firms and their economic performance. Such work is of particular relevance for this study and is reviewed below (in section 2.5). More extensive theorisation of the economics of expansion and vertical or diagonal integration involving media firms is carried out in Chapter 6, in order to develop a suitable model for this study.

2.1 General Studies of the Media

For media, the prevailing regulatory order is a crucial determinant of their operating climate. Wherever media flourish and by whatever technological means, any systematic analysis of what is provided requires contextualisation in terms of the governing regulatory framework. Hence, many general or introductory studies of the media, regardless of the discipline from which they emerge or the territory to which they refer, involve some elucidation of the political and regulatory landscape, occasionally including reference to issues surrounding ownership. Few published commentators have taken issue with the general principle of regulating media ownership, and even those who, in general, feel strongly "inclined towards market provision" of media goods and services (Brittan, 1987, p6) appear to nevertheless accept the necessity for regulations "to prevent monopolistic concentration" (Peacock, 1986, para. 598).[2]

A number of general studies of the UK media, such as by Seymour-Ure (1974, 1991), Curran and Seaton (1997), and Negrine (1994) offer useful insights into the broad impact of changing political and regulatory influences over British media companies. Some of these include a dedicated, if brief, discussion of media ownership and control in Britain (Curran & Seaton, 1997, pp45-8, pp71-89; Negrine, 1994, pp58-67; Seymour-Ure, 1991, pp36-43) by way of describing the general political environment for the media.

Other work, most notably by Siune and Truetzschler (1992) and, more recently, by Weymouth and Lamizet (1996) offers a comparative international perspective on the impact of media regulation across a range of western European countries. Weymouth and Lamizet include specific discussions of media concentration in Europe (1996, pp18-21; pp219-20), Britain (ibid, pp71-2), Germany (ibid, pp 121-4) and Spain (ibid, pp189-93) as part of their analysis of general developments affecting Europe media. Building on the earlier work of Sánchez-Tabernero (1993) discussed below, the Weymouth and

[2] Samuel Brittan was a member of the Peacock Committee.

Lamizet study describes the emergence of cross-media concentrations in five of Europe's major markets, but offers little or no fresh economic analysis of these developments. The state of European media ownership policies is reviewed briefly and the authors conclude that "the whole issue of multi-media ownership is currently caught between the protracted and inconclusive deliberations of the European Commission .. and the inability or unwillingness of national governments to act decisively in this field", although the UK government is cited as an exception (ibid, p219). Weymouth and Lamizet's study offers a useful testimony to the development of media empires as an international phenomenon in Europe and, also, an up-to-date summary of broad policy developments in this area.

Likewise, Gianpietro Mazzoleni and Michael Palmer's description of the emergence of media empires in Western Europe (in Siune & Truetzschler, 1992, pp26-41) forms part of a more broad-ranging analysis of changes affecting European media, focusing on the early 1990s. Mazzolini and Palmer point to the pressure exerted by expanding media groups on public policy-makers to de-regulate media ownership - a concern echoed by Weymouth and Lamizet (1996) and others - and they call for action at the European Community level to counter the growth of international media concentrations.

A useful aspect of studies such as the above, which incorporate a comment on media ownership as part of a broader assessment of the impact of regulatory changes on the media in the UK and Europe, is that the perspective offered on ownership usually forms part of a coherent overall analysis of a shifting and developing media policy landscape. Jeremy Tunstall (1983), for example, in describing the general development of media policy in the UK, characterises the process as unfocused and haphazard. Hitchens (1995, p622), in her later work on policy developments specifically in the area of media ownership, suggests that this tradition of an unsystematic approach to media policy-making in the UK provides a pertinent reference point. "Tunstall's description of British media policy-making is indicative of an approach which relies on "muddling through", rather than one of identifying goals and methods" (ibid) and, as Hitchens points out, this

particular approach has once again characterised British policy formulation in the area of media ownership.

The main drawbacks of general studies of media and media regulation, as far as this investigation is concerned, are the lack of in-depth analyses of media ownership policy issues and the failure to elucidate the important ways in which ownership regulation has developed separately from influences bearing on other areas of media policy. Some studies (Negrine, 1994, p202) readily acknowledge the "compartmentalization" of media policy but, nevertheless, do not engage with the economic or socio-political issues associated with concentrations of media power in any particular depth.

2.2 Studies of Media Ownership

By contrast, some researchers have focused specifically on ownership of the media. Some of the earliest work in Britain was carried out by Graham Murdock and Peter Golding who were primarily concerned with the socio-political implications of allowing media owners to develop excessive control over the distribution of ideas. Taking up a Marxist position, these authors have argued (Murdock & Golding, 1977) that concentrations of ownership enable capitalist media owners to secure and perpetuate a dominant public voice for their own ideology, thus maintaining class inequalities.

It is beyond the scope or intention of this thesis to examine the validity of specific assertions about how control over the media is actually abused. However, given the editorial diversity evident in the UK media today, it seems doubtful whether, in practice, UK media owners actually exercise such potential to exert a collective ideological domination in the manner in which Murdock and Golding imply. In a later essay, Murdock reviews alternative approaches to precisely where control over mass communication systems is located, and takes account of more pluralistic approaches

which, for example, emphasise the power and autonomy of media managers (and consumers) as much as that of media owners (Murdock, 1982). Most significantly perhaps, Murdock and Golding (1977; 1991) have pointed to what is generally perceived as the greatest danger of excessive ownership of the media i.e. the accompanying potential for direct control over editorial output which could be translated into political power, with undesirable consequences.

The threat to democracy posed by excessive concentrations of media ownership has been a focus for many studies, some of which have emerged in the course of researching appropriate public policies to counteract this danger. The Council of Europe[3] has been particularly active in commissioning reports relating to media concentrations and their impact on pluralism. Pluralism has been defined by the Council of Europe as "diversity of media supply", which can be measured by the existence of separate and autonomous owners, by diversity of output and by levels of access to media distribution (CE, 1997, p7). The Council's interest in how media concentrations affect pluralism is associated with a commitment to the protection of "freedom of expression" [4] in its member states; media pluralism and diversity are seen as "a prerequisite for effective freedom of expression and information" (ibid, p3).

A major study (Lange & Van Loon) carried out on behalf of the Council in 1991 took stock of trends towards media concentration in Europe and it described, broadly, the sort of legislative responses to safeguarding pluralism which existed in member states. Later studies on behalf of the Council have focused on the notion of access to media markets (Mortensen, 1993), on the impact of new communications technologies (Prosser, Goldberg & Verhulst, 1996) and on the effects of consolidation or "sharing" of resources within and between media firms (Doyle, 1997a).

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[3] The Council of Europe's Steering Committee on the Mass Media (CDMM) set up a sub-committee of Experts on media concentrations and pluralism (MM-CM) in 1992, whose remit has been to monitor the development of media concentrations throughout Europe and to analyse the impact of these concentrations on pluralism (CE, 1997, pp 3-14).

[4] Secured by Article 10 of the European Convention on Human Rights.

Such studies have facilitated extensive theorisation surrounding the highly complex relationship between media concentrations and pluralism. Rather than examining the economic advantages which encourage strategies of media concentration, the main aim has been to consider the impact of concentrations - whether positive or negative - on plurality and diversity in the media. Mortensen (1993, p2), for example, suggests that pluralism may be seen as function of several variables, of which concentrations of media ownership are but one:

$$\text{Media pluralism} = f(x_1, x_2, \ldots x_n)$$

Other variables likely to have an impact on pluralism include the extent of resources available within the market in question, structural and other aspects of the media system, and the objectives and competitiveness of media firms (CE, 1997, p56). This being so, such studies frequently point to the need for policy instruments other than (and in addition to) media ownership rules in order to secure pluralism (Prosser, Goldberg & Verhulst, 1996; Doyle, 1997a).

A study of UK and European media ownership by Jeremy Tunstall and Michael Palmer (1991) identifies a number of emerging and long-standing media empires. This study focuses primarily on the management style of the individual "moguls" who have created dominant positions in the British media, and on their French, German and Italian counter-parts. As with most other work in this area, the emphasis of Tunstall and Palmer's study is primarily on the socio-political implications of media concentrations and there is little critical investigation of the economic logic behind media empire building. Nor does this study provide any detailed analysis of the range of influences shaping media ownership legislation.

The political influence wielded by media owners and, more specifically, their influence over media ownership policy-making in the UK, has been emphasised in the writings of Williams (1994; 1996) who represents the Campaign for Press and Broadcasting Freedom, a lobbying group on behalf of workers in the UK media sector. Williams'

work is referred to by Humphreys (1997, p2) whose own research has focused on the emergence of "a few powerful 'multimedia' concerns and individual media moguls" in some of the large European member states. Humphreys suggests that, although European writers such as Williams (1996), Ruggeri and Guarino (1994), and Zerdick (1993) have, from time to time, given accounts of the political influence wielded by large media concerns (in the UK, Italy and Germany respectively), a "groundbreaking critique of corporate media control" - along the lines of US writer Ben Bagdikian's *The Media Monopoly* (1992) - has yet to be written for Western Europe (Humphreys, 1997, p8).

In successive editions of *The Media Monopoly,* Ben Bagdikian has traced the intensifying concentration of media ownership in the United States, demonstrating how editorial diversity is threatened by this and how (Bagdikian, 1992, pp90-101) some large media companies have used their power to gain corporate favours from government. Bagdikian points out how, throughout the 1980s and early 1990s, control over the mass media has fallen into the hands of an ever-decreasing number of large media owners. Likewise, Dennis Mazzocco (1994) is concerned with how media power is concentrated in the US television industry and he calls for ownership of the US broadcast media to be moved out of corporate hands and placed under "citizen control through non-profit public foundations" (Mazzocco, 1994, p151).

By contrast, an earlier study of US media ownership by Benjamin Compaine (1982), which identified the largest companies in each of the main sub-sectors of the US media and their owners, arrives at a rather different conclusion about whether there is justification for public concern. Compaine suggests that, because shareholdings in large US media companies are spread amongst institutional and private investors (who are interested in earnings, and not control) as well as families of the founders, "the system is able to encourage a robust exchange and competitive flow of ideas, entertainment, information and commerce throughout the media" (Compaine, 1982, p465). In stark contrast with Bagdikian's later conclusions, Compaine denies any lessening of diversity

in US media ownership and emphasises that ownership rules should take account of the need for large well-resourced enterprises, both to serve US national needs efficiently and to compete successfully with foreign media rivals (ibid, p493).

In the UK and other European policy-making arenas, these latter arguments have frequently been cited as providing an economic rationale for deregulating media ownership. However, few of the more recent European proponents of this industrial viewpoint have supported their conclusions by means of dedicated empirical research, and nor does Compaine. The aim of the following project is to test, by means of empirical investigation, whether or not expansion and vertical integration appears to improve the economic performance of media firms in the UK. Thus, its findings will contribute to the debate about media ownership policies, by assessing the validity of these frequently espoused claims.

2.3 Regulation of Media Ownership in the UK

Focusing specifically on rules about media ownership, especially in the UK context, a recent study was commissioned by the BBC (Congdon et al, 1995) to follow up on the publication of new media ownership policy proposals by the UK Government in the Summer of 1995 (DNH, 1995a). This collection of essays, written by four UK economists and policy advisers, is broadly concerned with what sort of adjustments in the UK policy framework are needed to ensure pluralism in the coming era of digital technology. The authors also focus on the specific issue of whether it would be plausible to switch the basis for regulating UK cross-media ownership from a sector-by-sector approach to one which allows any company's share of market power across the UK media as a whole to be measured. Such a move was considered by the UK Government in new proposals for regulating media ownership published in May 1995 (DNH, 1995a). Although the concept of a "single media market" approach was subsequently rejected by

the UK Government, it remains of considerable relevance to the issue of how, in the face of on-going technological transformations, regulators will maintain pluralism in future.

Andrew Graham (Congdon et al, 1995, pp38-48) sets out the distinction between two general categories of concern raised by concentrations of media ownership. Firstly, there are the usual competition concerns relevant to any industrial sector in which domination occurs that "if a single firm controls too much of the market excessive prices will be charged" or some other abuse of consumers might take place (ibid, p39). Graham suggests that these economic concerns should be dealt with by existing competition law. Secondly, of specific relevance to the media, are the political concerns alluded to earlier by Murdock and Golding which call for regulations to ensure pluralism. Graham is concerned with what type of measures of media control could work effectively to protect pluralism and he questions "whether, in principle, *any* measure could ever be objective when the ultimate concern must be a *political* question: which is what form of media industry is consistent with a democratic society?" (ibid, p40, emphasis provided). What matters about media power is not just "influence" but also the "purposes of the supplier" (ibid, p42) - whether pro or anti-democratic - and, according to Graham, it would be impossible to devise an effective universal measure of different editorial purposes. Faced with such problems, UK regulators would do better to stick with special cross-media ownership rules "based on a series of indicators market by market" (ibid, p48) rather than to transfer to a new system of evaluating media power across the media industry as a whole.

In common with his fellow authors, Damien Green (Congdon et al, 1995, pp25-37) acknowledges the ongoing need for regulation to protect pluralism, even in a digital era, but is unable to pinpoint an infallible tool for regulators since "measuring (media) influence is itself hugely difficult" (ibid p36). For Green, the problems associated with measuring audience usage for new electronic media such as the Internet suggest that an audience-based measure would not survive as an effective means of regulating media

power in the long-term. Thus, he concludes that "revenue looks the most promising" as an objective criterion for regulators to measure influence across different sectors of the media, since revenue is already measured, has a common denomination, and it "reflects both the size of the audience and its level of interest" (ibid). This latter point is arguable since, as Congdon indicates (ibid, p12), much media revenue is received from advertisers rather than from media end-users and "as a result the revenues of the media industries are not a reliable measure of the benefits that viewers, listeners and readers receive".

Bill Robinson (Congdon et al, 1995, pp50-72) assesses the various possible approaches to measuring an individual firm's share of the total UK media market (including audience share, and time use as well as revenue) by applying each to a selection of UK media companies and undertaking a direct comparison of their results. Demonstrating that each approach produces quite different results, Robinson concludes that "no single measure will capture all the dimensions required to gauge influence (and, by extension, access and diversity of content)" (ibid, p67). Therefore, regulators should use a combination of different measures and their own judgement to determine the degree of influence of any media company. Furthermore, according to Robinson, a clear distinction between content that is primarily news or information and content which is entertainment is required as an initial step in order to assist regulators to measure media influence effectively.

The distinction between news and other content is, to some extent, echoed in Congdon's own essay (Congdon et al, 1995, pp11-24) which considers the broad regulatory challenges posed by "the multimedia revolution". Congdon suggests that an "open society"[5] requires healthy political debate and he emphasises "the special importance of the news" (ibid, p17) as part of this. But "high levels of concentration in the media might reduce the diversity of the inputs to the political debate" (ibid, p24). In any event, Congdon suggests that commercial media enterprises are naturally more concerned with

[5] Congdon is referring to the type of society described by Karl Popper in 'The Open Society and its Enemies'.

profit maximisation than with "the preconditions of healthy political debate"(ibid, p16). By contrast, a public service broadcaster such as the BBC is well placed to contribute to and encourage pluralistic political debate. Therefore, Congdon's central argument is that the BBC can play an important role in sustaining healthy political debate in Britain as the multimedia revolution takes over in coming decades.

The main findings offered by Congdon and his fellow authors are that the framework of media ownership policy in Britain needs to be updated to take account of converging technology and that, although there appear to be no straightforward means for regulators to measure (and, therefore, constrain to a common limit) the influence of any particular media company, a new framework would benefit from distinguishing between what is being delivered - i.e. whether news/information or entertainment - as much as the means by which it is delivered. This raises some interesting questions about the precise aims and means of constraining media power, which are explored further as this research traces the reformulation of media ownership policy through the 1995 Broadcasting Bill and the 1996 Act.

A more recent study (Murroni, Collins & Coote, 1996) concerned with how UK media policy needs to adjust to technological changes also specifically addresses the question of media ownership rules. The findings of this study rest on the view that regulatory objectives for media are not just about economic efficiency but should include socio-political concerns: "In the public interest, we expect media markets to provide us with a plurality of sources and diversity of content" (ibid, p27). However, market forces, even when constrained by competition policy measures, cannot ensure such plurality so special rules on media ownership are required. Murroni and Collins echo the earlier conclusions of Congdon et al about the difficulty of devising a universal measure which would calculate media power effectively. In any event, such a measure would not resolve the over-arching issue of deciding precisely where to set limits over media influence. Thus, Murroni and her fellow authors suggest that "a more robust solution" (ibid, p31) would be

to decide what would be the minimum number of media owners which would be tolerable in the UK.

But how should this be decided? Murroni and Collins propose that "seven owners, each with no more than 15% of the total media market" (ibid) would seem to be a reasonable minimum. This proposal is based on the view that "a market of ten media owners does not threaten pluralism, but that one of five would" (ibid). Precisely why Murroni and Collins feel that five owners would threaten pluralism but that seven would be alright is not explained. The question of how such a decision might be arrived at, which is vital as far as regulatory design is concerned, is simply side-stepped.

Murroni and Collins suggest a sliding scale of limits, whereby any owner in all sectors of the media - defined as comprising radio, television, national newspapers and regional newspapers - would be restricted to a 15% market share, but an owner in only two media sectors would be allowed to own up to a 30% share in both markets, and an owner in one medium would be allowed up to a 40% market share. "Each sector can be measured in the most appropriate way, precluding the need for an elusive cross-media yardstick" (ibid, p32). These specific policy recommendations back up Murroni and Collins' assertion that "we need to say what too great a share is" (ibid, p31) - a challenge which most studies other than this seem unwilling to tackle.

The proposals offered by Murroni et al would, for instance, allow any individual or company to simultaneously own up to 30% of both the television and the national newspaper markets in the UK. Notwithstanding the distinction between a "sliding scale" approach and the prevailing regulatory order, this would allow significantly *higher* levels of cross-ownership in these sectors than what was deemed acceptable by the UK Government in its own policy proposals (DNH, 1995a), or than what has been suggested under recent draft proposals on media ownership from the European Commission (CEC, 1997b).

Murroni and fellow authors repeatedly assert the need for media policies to "promote, and not simply defend" the public interest (1996, p11; p13). Whether such an extensive liberalisation of UK media ownership restrictions would promote the public interest seems arguable. Murroni and Collins acknowledge that their proposals "are based on judgements" (ibid, p33) and would require broad public debate. But how these judgements were formed or might be supported intellectually is not explained. As Hitchens has pointed out, "policy and regulatory structures need to be built from rational and properly analysed foundations, not from unsupported assertions, generalisations and prejudices" (1995, p629). In terms of contributing to any debate about media ownership policy, a serious shortcoming of the Murroni and Collins study is that the rationale behind its precise judgements about where to set media ownership limits receives little or no explicit analysis.

The aims of the following study do not include either devising an appropriate measure for media influence in the UK nor pinpointing the level at which any single operator's share of media power should be arrested. Clearly, these will have been essential considerations for UK and EU policy-makers concerned with regulating media ownership and, as such, will be examined in the course of this study. But, rather than originating any new policy solutions, the primary aim of this research is to test the arguments in favour of one particular approach to media ownership policy - more precisely, to analyse the economic rationale which has supported industrial arguments in favour of de-regulating media ownership.

This thesis does not set out to make specific recommendations about whether upper thresholds on media ownership are necessary or, if so, where these should be set - the challenge of framing policies is fundamentally a political one, and one which is well beyond the scope of this thesis. On the other hand, this study aims to *research* the effectiveness of new changes in UK policies on media and cross-media ownership. The "effectiveness" of new UK media ownership policy measures can be assessed partly by

reference to their match with the official goals for re-formulating policy in this area (Levin, 1997, pp33-4; Parsons, 1995, p601). Also, findings from empirical research into the economics of monomedia and cross-media expansion will, in turn, facilitate an appraisal of the economic impact of specific policy changes.

However, much can be revealed about the likely effectiveness of new policy measures simply by examining the process by which such measures came into being. So, as well as identifying the official goals for the revision of UK media ownership policy[6], this research is broadly concerned with the actual conduct of the policy formulation process, i.e. how these goals were identified, researched, analysed, prioritised, weighed up against each other, etc.; and how appropriate regulatory measures were arrived at by the DNH.

Much previous research has been carried out relating to how, in general, policy-making is conducted, and such research has yielded a number of alternative conceptual approaches to how the process might operate (Levin, 1997, pp41-51; Minogue, 1993, pp10-33; Parsons, 1995, pp39-40). Many theorists - for example, Hogwood and Gunn (1984) - have considered the process and techniques through which policies are determined and, typically, such approaches focus attention on the role of "rationality" in this process. Others - for example, Marxist and pluralist-elitist thinkers (Parsons, 1995, p39) - have adopted the broader analytical vantage point of the environment or political context within which policy-making occurs, thus, typically, lending emphasis to the power of certain groups who interact in and have influence over policy-making. Both approaches are open to criticism - the first (sometimes called the "managerialism" approach), on account of ignoring or underplaying the importance of politics; and the second (the political science approach), on account of its "obsession with inter-relationships" at the expense of examining underlying causes and effects for specific policy actions (Minogue, 1993, pp11-2).

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[6] As set out in the 1995 Green Paper on Media Ownership (DNH, 1995a).

This study will draw on both sorts of approaches. Indeed, "[b]oth the interest and the complexity of the study of public policy lie in its propensity to disrupt disciplinary boundaries..." (Minogue, 1993, p10). As this research will demonstrate, the regulation of media ownership in the UK cannot be analysed successfully without taking into account the political *context* within which such policy-making has been located, and the evident power of certain influential interest groups. At the same time, this study focuses particular attention on the manner in which policy-making was conducted, i.e. the *process* through the provisions set out in 1996 Broadcasting Act were arrived at.[7]

The frameworks commonly used in analysis of the policy-making process range from the "comprehensive rationality" model, in which policy goals are specified and then regulatory options are analysed until the most appropriate is found and selected (Weimer & Vining, 1989, p183); to the "bounded rationality" model, sometimes used in economics, "which takes account of the limitations of decision-makers in terms of their ability to observe, and understand, the system in which they are operating" (Lipsey, 1989, p773); to the "incrementalist" model or, as has Hitchens and others have put it, "muddling through" (1995, p622), under which policies are formulated on a fragmented or piecemeal basis (Carley, 1980, pp14-5).

Lesley Hitchens (1995) has applied such models in the specific context of the recent UK Review of Cross-Media Ownership[8] and, in so doing, has identified two important shortcomings of the process. First of all, the haphazard way in which cross-media ownership policies in the UK had been determined prior to the 1994-95 Review had created pressures for change which were then "difficult to resist without seeming to favour some media interests over others" (ibid, p621). Secondly, the way in which the Review was structured - revealing little to the public about its terms, and with very limited arrangements for public participation - made it unlikely that any proper analysis of the issues would be carried out.

[7] In Chapter 9.

[8] Announced by the then UK Secretary of State for National Heritage, Mr Peter Brooke, in January 1994.

With impressive clarity and persuasiveness, Hitchens argues that the real impetus for the 1994-95 Review was "earlier inadequate policy-making" rather than, as the Government was suggesting, technological and international developments (ibid, p636). The then Secretary of State for National Heritage, Mr Brooke, "presented the issue of convergence of media as something new, implying that this was not a factor present at the time of the adoption of the [1990] Broadcasting Act - yet this was not so. Issues of convergence of media were as much on the agenda then as they are now" (ibid p635). But, by framing the need for a Review in terms of these so-called "new" issues, attention was deflected away from its real motivation; to respond to pressure from particular industry groups (especially, the influential "British Media Industry Group", comprised of several national newspaper publishers) who felt that the existing regulatory order was "uneven" (ibid). Meanwhile, the sort of questions which ought to have been fundamental to the design of an effective media ownership policy regime were never raised by the Review.

Hitchens' analysis provides an illuminating indictment of the whole Review process, whose shortcomings she demonstrates by reference to the two models of policy-making at opposite polar extremes to each other; the "incrementalist" and the "comprehensive rationality" approach. Hitchens points out that, from its earliest days, UK policy-making relating to the media and, more specifically, media ownership, has been characterised by a disjointed "incrementalist" approach - i.e. a series of mechanistic adjustments to previous policies, based on little or no empirical study and giving little in-depth consideration to the overall design and coherence of the regulatory structure. Echoing the earlier findings of Tunstall (1983) about the haphazard approach to media policy-making in Britain, Hitchens traces the development of cross-media ownership policy making until 1994, showing how the ingredients necessary for a "comprehensive rationality" approach - i.e. systematic evidence gathering, distinguishing between opinions and fact, and scrupulous analysis of regulatory options - have persistently been absent.

As a result of this unsystematic approach, the media ownership policy regime which was in existence ahead of the 1994-95 Review was widely regarded as an "unlevel playing field" containing a number of loopholes which particularly favoured the interests of News International (Hitchens, 1995, p628). UK media ownership "policy, and, more particularly, its implementation, appear to be a half-hearted and token gesture towards regulation against excessive control" (ibid, p629). Whether this situation reflects, on the Government's part, lack of awareness of the appropriate tools for analysis, or lack of willingness to provide these, seems to be an open question. Hitchens suggests that the traditional absence of systematic analysis in officially commissioned reports has, firstly, enabled the Government to disregard such reports (if their findings were politically inconvenient) and, secondly, has left the public without any useful evidence or research upon which either to assess the merits of a chosen policy option or to call the political body to question (ibid, p629).

Hitchens' findings are extremely pertinent for this research thesis. Although her work was carried out at the time when the 1994-95 Review was still in progress, and her critique is levelled squarely at the conduct of and circumstances leading up to that Review, Hitchens' insights and conclusions are highly relevant to the ensuing process by which the proposals offered by the Review Committee (in the 1995 Green Paper) then became translated into legislation (in the 1996 Broadcasting Act). It is this latter stage in the policy formulation process which provides the main focus for this research project. Even so, Hitchens' articulation of what might be expected of media ownership policy-makers, under the comprehensive rationality model, represents a useful and rigorous foundation for the analysis of the 1996 Broadcasting Act which this research will present.

Hitchens argues that the way in which the 1994-95 Review was structured was clearly destined to ensure a continuation of the haphazard incrementalist approach to media ownership policy-making. Drawing on each of the elements of a comprehensive rationality model, Hitchens questions, firstly, the circumstances under which the Review

was set up. She notes that the only source of information about the terms of the Review was a DNH press release in early January 1994 calling for public views and responses, but setting a final date for submissions which was only seven weeks from the announcement (1995, p631).

"No clear statement of the Review's issues is to be found, and hence no statement of priorities" existed (ibid, p632). This failure by policy-makers to identify and prioritise the issues narrowed the scope of the inquiry "because it enables the media industry to set the agenda and the direction of the Review by the specification of the issues it considers relevant" (ibid). This was particularly risky, since the Review involved no public hearings and even industry regulators (the Independent Television Commission and the Radio Authority) "were relegated to the role of making submissions only" (ibid).

The Review lacked "thoroughness" - a key ingredient in the comprehensive rationality model. The short time-span for public consultation minimised the possibility of wide participation or in-depth analytical public submissions. According to Hitchens, the proposals eventually announced seemed to resemble rather closely recommendations which had been put forward in February 1995 by one particular lobby group, the British Media Industry Group, rather than recommendations understood to have been arrived at by the Review Committee when it originally reported to Ministers in the Summer of 1994. Thus, "one is left wondering just what influence the Review's committee really had in the final outcome of the inquiry" (ibid, p634).

Hitchens' analysis finishes up by assessing whether the outcome of the Review - namely, the proposals set out in the 1995 Green Paper on Media ownership - supports her critique of the policy-making process which generated this outcome. Prominent amongst the recommendations of the 1995 Green Paper was the proposal for, in the longer-term, a switch to a "share of the total media market" approach to media ownership regulation.[9]

[9] In fact, the Government abandoned this proposal after the Green Paper (May 1995) and before the publication of the Broadcasting Bill (December 1995).

Hitchens concedes that this policy seems to depart from the old incrementalist approach, insofar as it represents a radical change in the "style and substance" of the existing media ownership regime (ibid, p638). On the other hand, she questions whether the design of this new policy really matches up with the policy "context" or rationale set out in the Green Paper: "despite the references to convergence and the need to adapt to technological developments, the legislative proposals, both forthcoming and long term, are still essentially confined to the traditional press and broadcasting" (ibid, p639). In reality, the policy recommendations in the Green Paper make no provision for the impact of convergence where it is truly making an impact i.e. involving media, telecommunications and computing (ibid).

For Hitchens, the type of inquiry set up by the Government to review media ownership rules - "a committee of civil servants who in turn appeared to be reliant upon the random submission of responses to the inquiry" - was simply not equipped to address the more complex fundamental policy issues associated with ownership and cross-ownership of the media (ibid, p640). Policy-makers are highly vulnerable to the "technological mystique" surrounding media developments, and to what has been described elsewhere as a sort of "technological determinism" (Schlesinger & Doyle, 1995) whereby it is assumed that, in the interests of industry, legislation must accommodate such developments.

The central thrust of Hitchens' criticism - that no steps were taken to ensure that policy-making relied on a coherent articulation of the issues, and on extensive evidence-gathering, and on the implementation of proper tools of analysis which might have ensured rational and desirable solutions - is whole-heartedly supported in the findings of this research project. However, this research goes beyond Hitchens' study in two important ways.

Firstly, this research is based on face-to-face interviews with UK policy-makers and industry participants rather than solely relying on analysis of documents, texts of

speeches etc. Hitchens' study clearly shows that the latter methodology is sufficient to raise serious doubts about the efficacy of the process by which new UK media ownership policies were formulated. But this research goes an important stage further by taking evidence from those who were central participants within this process.

Thus, the critique offered here probes much more deeply into factors shaping the policy formulation process which were not explicit in any public texts. While Hitchens rightly criticises the absence of any coherent articulation and prioritisation of the issues at the outset of the Review, this research investigates - from within the process - the range of competing pressures which actually guided and shaped the gradual development of new media ownership policy measures. This brings to light important new findings concerning the role played by political forces in the creation of these policies, and it highlights far graver cause for concern about the system by which such policies are created than, simply, the perpetuation of an "incrementalist" approach.

Moreover, the scope of Hitchens' study is confined to the 1994-95 Review process (and preceding events), and the blueprint against which she evaluates the conduct of this phase of policy-making is the "comprehensive rationality" model. By contrast, the scope of this research spans the whole process of the recent re-formulation of UK media ownership policy, focusing particularly on the subsequent phase of policy-making, i.e. from the 1995 Green Paper to the 1996 Broadcasting Act. The blueprint against which the conduct of policy-making is evaluated is not a theoretical construct, but is the officially stated goals for policy-making espoused in the 1995 Green Paper. There are good grounds for questioning, as Hitchens does, how these goals were arrived at, and this research builds on Hitchens' work by probing further into this precise question. However, the main aim for this research is not so much to critique the process by which new legislative measures were formulated *per se*, but to shed some light on how effective such measures as have been formulated are likely to be in meeting objectives which serve the public interest.

A second important way in which this research differs from that of Hitchens is in seeking to carry out some of the groundwork which, according to the comprehensive rationality model, ought to have been undertaken by the DNH. Hitchens underlines the need, under a comprehensive rationality approach, for policy makers to use appropriate analytical tools to consider the consequences of each policy option (1995, p634). As far as amending media ownership rules is concerned, policy aims may be crudely sub-divided between societal (i.e. the impact on political and cultural pluralism) and economic (i.e. the impact on the performance of media firms). This research is concerned primarily with the latter. Empirical research will be carried out into the relationship between particular configurations of media ownership and the efficiency of media firms. On the basis of findings from this investigation, a rational - i.e. an informed - "means-end" analysis (Levin, 1997, p34) of the economic consequences of amending allowable configurations of media ownership will be carried out.

2.4 Regulation of Media Ownership in Europe

Although there is no specific pan-European media ownership regulatory framework in place at the moment, the European Commission is working on bringing forward an initiative in this area. Such an initiative would clearly have important implications for media ownership and how it is regulated in all European member states, including Britain. Some previous studies have focused on existing levels of media concentration across Europe (Barnard et al, 1996; European Audiovisual Observatory, 1997) and many have discussed the general weakness of policy-making in this area (Sánchez-Tabernero, 1993; MacLeod, 1996; Lamizet and Weymouth, 1996). Others have addressed the politics underlying the formation of media policies in the single European market (Collins, 1994). However, relatively little previous research has focused specifically on the current issues and pressures surrounding media ownership policy formation at the level of the European Union.

Alfonso Sánchez-Tabernero's (1993) study of media concentrations across seventeen European states identifies a number of "empires" and attempts to account for the economic motives which lead to international media concentrations. Sánchez-Tabernero outlines various beneficial consequences of horizontal and vertical integrations for the industries involved, such as "des synergies entre les divers médias ... une position dominante sur le marché ... des économies d'échelle ... une diversification des risques ... de plus grandes possibilités d'innovation ..." (ibid, pp201-2). These factors are discussed in broad terms but without the support of specific or detailed empirical research. At the same time, Sánchez-Tabernero acknowledges the potentially dangerous socio-political implications of media concentrations: ".. on sait que les médias ont le pouvoir d'établir l'ordre du jour des débats publics et donc d'influencer l'opinion publique" (ibid, p312). He maps out the general state of media ownership legislation across Europe at the beginning of the 1990s and concludes that, in order to stem international media concentrations, existing rules need to be strengthened and a "supra-national" regulatory body established.

A more recent study, also published by the European Institute for the Media (Mounier, 1996) updates the view that many media concentrations may be observed across Europe and that these concentrations are a potential threat to pluralism. But it is difficult to promote pluralism and free competition simultaneously. Integration strategies by media companies (alliances, partnerships etc.) do not always give rise to harmful concentrations and, conversely, concentrations which are dangerous may sometimes arise in markets (e.g. airtime sales, on-line services) which are not covered by existing safeguards for pluralism. "Il y a .. un besoin de modeler des réglementations et les politiques des médias selon les nouvelles formes de concentration et les nouvelles méthodes d'évaluation" (Mounier, 1996, p198). According to Mounier, regulators across Europe ought to consider alternative measures which could strengthen pluralism e.g. content regulation, better education for media consumers.

MacLeod et al (1996) offers a country by country analysis of media ownership regulations which focuses on France, Germany, Greece, Italy and the United Kingdom, as well as a number of non-European territories. Each country is dealt with in a separate chapter (written by an expert media commentator in that area) which, typically, outlines the extent of concentration within that market and maps out the current national policy debate about adapting media ownership in response to changing technology. Interestingly, accounts of pressures in favour of liberalisation in many other countries seem to mirror the UK situation. Christa-Maria Ridder's analysis of the German policy debate (MacLeod, 1996, pp65-82) describes how prevailing media ownership restrictions are seen by national actors "as discriminating against domestic companies in favour of large international media conglomerates, which can maximise economies of scale and scope abroad. Calls for liberalisation of ownership rules are therefore increasingly coming from domestic companies and their political lobby, claiming that restrictions on their growth ... undermine their competitive position on the eve of the digital era" (ibid, p67). In France, deregulatory pressures have likewise fuelled fears that "if ownership and control regulations to protect pluralism and diversity at the national level were too strict, then French companies might lose out in the international marketplace" (ibid, p58).

Ad Van Loon's concluding chapter on "Global Trends-Global Solutions?" (in MacLeod, 1996, pp 281-298) recounts the findings of earlier work (Locksley, 1988) concerning economies of scale and scope in the media industry which, he says, "urge media undertakings to become large and move into adjacent markets" (MacLeod, 1996, p285) and he suggests that current media ownership configurations are "determined, to a large extent, by autonomous economic and technological developments" (ibid, p297). For Van Loon, this raises questions about whether the regulation of media ownership is really possible and is really the most effective way to guarantee media and political diversity, since "ownership of assets may, for example, bear little correlation to the degree of influence a media company can exert on its audience" (ibid, p298). Van Loon also concludes that attempting to control media ownership at the national level may be

inappropriate, "given that concentration of media ownership is a transfrontier phenomenon" (ibid).

Such work is important, not only in charting the intensification of European media concentrations in recent years, but also in demonstrating the need for a more effective and coordinated transnational European policy approach to this issue. However, the possibility of a unified response is considerably weakened by what Richard Collins (1994) has referred to, in relation to European Union audiovisual policies, as "variable geometry" within and across the different political and administrative organs responsible for making policy.

In a more recent paper (Schlesinger and Doyle, 1995) emphasising the contradictory pull between industrial or economic and social or cultural policy objectives for European media regulators, the specific complexities surrounding the formulation of a collective ownership policy at the EU level have been examined. This work takes stock of the European Commission's progress on bringing forward an initiative on media concentrations. It analyses the range of influences bearing on its efforts which include the desire to protect cultural diversity, the need to promote pluralism, the (not necessarily compatible) impetus to boost investment in new multimedia technologies and the "information society", the practical problems associated with devising an effective framework for European countries of very different sizes and, not least, intensifying deregulatory pressure based on industrial or "economic" concerns. The following research project will build on this earlier work by reviewing each of these policy considerations in greater depth and, more significantly, will add to its findings by carrying out an empirical examination of the economics of enlargement and vertical integration by media firms.

The contradictions involved in "fitting the political and cultural issue of pluralism on to the economistic Procrustean bed of the Single European Market" have also been

emphasised by Kaitatzi-Whitlock (1996, p455). Kaitatzi-Whitlock considers various view-points represented to the European Commission during its efforts to formulate a European-wide policy initiative on media ownership and she concludes that "policy paralysis" is inevitable, because the institutional and political structures of the EC are inadequate to deal with powerful economic and industrial forces (ibid, p453).

Francesca Beltrame (1996a; 1996b) also focuses on questions and controversies surrounding a pan-European media ownership policy, particularly those surrounding the Commission's competence to introduce a policy initiative in this area. Beltrame points out how the internal struggle at the Commission to establish a legal basis for intervention in media ownership has been significant in defining which policy goals the initiative should be aimed at. Ostensibly, promoting the internal market provides a legitimate case for harmonisation of media ownership but, in reality, the Commission has had to work hard to create any genuine interest and support for intervention based on this rationale.

Alison Harcourt (1996) also highlights how the quest for a legal basis for European level intervention in media ownership policies has been characterised by conflict between different Directorates of the Commission which, at least in theory, could stake a claim to this issue. These include, for example, DG IV, which is responsible for competition policy and which "believes that existing competition law could be expanded to encompass the media sector's special status" (Harcourt, 1996, p207), as opposed to DGXV which has taken on responsibility under the banner of promoting the internal market. According to Harcourt, delays in producing any new initiative can be attributed to "lack of a legal basis, enlargement, issues of transparency, and the increased powers of the EP" as well as the on-going resistance from large media firms and other interest groups, and from opposing member states: Germany and the UK (Harcourt, 1996, p208).

Other writers (Hitchens, 1994; Iosifides, 1996) have focused more specifically on the crucial distinction between competition objectives and pluralism. Petros Iosifides' brief

examination of various "media" cases which have been dealt with under European merger control regulation concludes that, because these rules are only concerned with large mergers and do not cover all situations which are a threat to pluralism, the latter "can only be fostered by specific media rules on either content or ownership" (Iosifides, 1996, p24).

Hitchens' (1994) work on the European approach to media ownership focuses on the Commission's Green Paper on Media Ownership (CEC, 1992) and its preoccupation with identifying a legal basis for Community intervention. As with her later work in relation to the re-formulation of UK media ownership policy (Hitchens, 1995), Hitchens denounces the failure of policy-makers - in this case, at the European Commission - "to look at the complexities of media ownership and control, and the scope for regulation, broadly and creatively" (1994, p601). Instead, European policy-makers have expended most of their energies trying to accommodate concerns (especially at the European Parliament) about safeguarding pluralism within the framework of possible legal justifications for a pan-European policy initiative - i.e. in terms of competition, the proper operation of European single market etc. But such concerns are fundamentally different from the need for pluralism.

The current research builds on the findings of previous writers who have highlighted the obstruction to any progress on a pan-European initiative caused by doubts about the Commission's legal competence in the area of pluralism. However, as discussed above, the scope of this investigation goes beyond the legal dimension to consider a number of additional factors which have played a role in shaping progress towards a possible European Directive on media ownership. Also, this research will break new ground by analysing concrete proposals circulated by the European Commission in Autumn 1996 and (in a revised version) in Spring 1997 which have recently taken the European debate an important step further.

2.5 Economics of Expansion by the Firm

A principal aim for this study is to test the economic rationale which has supported industrial arguments in favour of relaxing UK media ownership rules, i.e. to examine the truth of broad assertions about the nature of the relationship between, on the one hand, the allowable size or vertical or diagonal structure of media organisations and, on the other, their economic or financial efficiency. Previous work in the field of industrial economics provides a useful general background for this investigation which is presented below in chapter 6 (section 6.7) and in chapters 7 and 8. The key areas of economic theory which are drawn upon concern the process of expansion by the firm (motivations for and consequences of) as well the more general relationship between market structure and economic performance.

With regard to the underlying motivations for expansion by firms (in *any* industry), the traditional economic view that the strategies of commercial organisations are guided solely by a desire to maximise profits has been challenged from a number of directions over the years. Some "new" theories of the firm suggest that because firms are generally controlled by hierarchies of managers rather than owners, their main goal will be to maximise the utility of managers rather than to maximise profits (Baumol, 1967; Marris 1963; Williamson, 1963). Whether or not ownership of a firm can be divorced from control is a debatable point: the evidence produced by recent studies of this subject in the UK suggests that, for the majority of industry, there is "by no means a total separation of ownership and control" (George, Joll & Lynk, 1991, p41). Indeed, as far as UK media firms are concerned, there is no shortage of evidence that a link exists between ownership and control (Curran & Seaton, 1997, pp72-7). Nonetheless, that the desire for corporate expansion might be based on somehow advancing the personal interests of the firm's managers (e.g. in higher salaries or greater prestige) rather than those of its shareholders (e.g. in greater profitability) is certainly a relevant possibility for firms operating in the UK media industry.

Williamson (1963) has argued that the goal which will be pursued by managers is to maximise discretionary expenditure on staff and management perquisites whereas, for Baumol (1967), managers are more concerned with maximising sales revenue. A third model (Marris, 1963; discussed in George, Joll & Lynk, 1991, pp50-1; Martin, 1993, p259) suggests that managers are primarily interested in *maximising the rate of growth of the firm* rather than profits, because large firms confer power and greater respect on the managers who control them (although this also depends on profits performance) and because managing a large firm increases the probability of being invited to join prestigious industry bodies, etc. Also, greater size reduces the likelihood of the firm being taken over by a predator and existing management being replaced. According to the evidence considered below, avoidance of a hostile takeover is commonly perceived as the key motivation behind some instances of expansion involving UK media firms.

The assumption that managers are free to pursue whatever goals suit their own personal interests (rather than those of shareholders) might be seen as a weakness of management theories of the firm. But, in fact, the importance of satisfying owners is not ignored. Most management utility theories incorporate a minimum profit constraint - i.e. it is acknowledged that managers must seek to keep reported profits at an acceptable level, even if *maximisation* of profits is not the primary goal. Thus, for example, shareholders in a successful UK television company might, on the expectation of a continuation in above average earnings growth, be persuaded to go along with a diversification strategy favoured by management, even where the underlying profit-maximising rationale in support of such a strategy is far from proven.

Most scholars of industrial economics clearly accept that managers have some element of discretion to pursue goals other than profit maximisation, and that managerial agendas may help to explain corporate behaviour, at least in the short run. However, evidence concerning mergers and subsequent divestitures and restructuring in the US during the 1970s and 1980s supports the view that, over the long run, financial markets will tend to

correct strategies which do not result in profit maximisation (Martin, 1993, p260). Moreover, most deterministic approaches concerning expansion on the part of the firm emphasise profit maximisation as the fundamental motive.

The current study sets out to examine the economic consequences associated with three broad types of corporate strategy which, as far as UK media firms are concerned, have been subject to tight regulation - namely, horizontal, vertical and diagonal expansion. The investigation below (in Chapters 7 and 8) draws on what have generally been presented as the main advantages or disadvantages of these strategies so as to explore, more specifically, the economic benefits of monomedia (horizontal) and cross-media (vertical or diagonal) expansion. In general, the theoretical advantages of horizontal, vertical and diagonal growth tend to centre either on "efficiency" and/or on "market power" (George, Joll & Lynk, 1991, pp63-4; Lipsey, 1989, p426; Martin, 1993, p258-82).

Looking, first, at horizontal growth - i.e. expanding the firm's market share either through internal growth or, particularly, by acquisition of another firm with a similar product - the accumulation of "market power" may be an important incentive (George, Joll & Lynk, 1991, p91; Martin, 1993, p261). A monopolist or a dominant firm has greater ability to exercise some control over price (Martin, 1993, p68) and, thus, under normal circumstances, the motive of profit maximisation would encourage firms to pursue such market power. Some media markets are not predominantly characterised by price competition e.g. most broadcasters in the UK still tend to compete for viewers or listeners purely on the basis of product (i.e. programmes offered). On the other hand, price competition *is* a feature in transactions with advertisers. Thus, the pursuit of market power - i.e. increased negotiating power in the market for advertiser access to audiences - will, for many commercial media firms, serve as an incentive for expansion.

Potential efficiency gains are another important type of advantage: the relationship between the size and efficiency of firms depends largely on the availability of economies

of scale - i.e. whether marginal costs are less than average costs as output expands (ibid, p21) - which, in turn, is often determined by technological considerations. When marginal costs are less than average costs - as, indeed, is the case in very many sectors of the media - horizontal expansion will create economies of scale.[10]

Economies of scale, which are frequently cited as the most important motive for horizontal mergers or acquisitions (George, Joll & Lynk, 1991, p89), are a particularly prevalent incentive for expansion by media firms. The realisation of scale economies may, in turn, facilitate higher levels of gross investment and speedier adoption of new technologies (ibid, p63). Faster growing firms may attract better-quality personnel (ibid). Internal growth may be motivated by the existence of unused resources (e.g. surplus printing or production capacity) within the firm[11] or, by the same token, horizontal mergers may create the opportunity for cost-reductions through elimination of overlapping or excess capacity (Martin, 1993, p266).

Looking at the economics of horizontal expansion across other European territories, a study by Frédérique Sachwald (1994) examines the transnational growth and performance of companies in a number of sectors in the late 1980s. He points out that, in order to exploit economies of dimension (broadly, economies of scale, scope and learning) "firms largely resort to concentration" - a process which European competition policy seeks to impede (Sachwald, 1994, p12). Thus, although the Single Market has been set up precisely to foster a more competitive Europe, and even if European firms are expanding transnationally and implement the right strategic decisions for themselves, "this does not automatically lead to better European competitiveness" (ibid., p322). The private objectives of firms will not necessarily coincide with collective European industrial re-

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[10] Economies of scale are summarised by the function coefficient (*FC*) which measures the ratio of average cost (*AC*) to marginal cost (*MC*): $FC = \frac{AC}{MC}$

Economies of scale are present where the value of the function coefficient is greater than 1. A unitary value implies constant returns to scale. A value of less than 1 means that there diseconomies of scale are present

[11] Where indivisibilities are present in the factors of production, there would clearly be an efficiency motive for expansion.

structuring objectives and "globalization means that European firms consider the Single Market as only one of the factors in their strategies" (ibid., p25). Even though media are not amongst the sectors examined by Sachwald, his general conclusions about the discrepancies between national (or European) competitiveness and firms' competitiveness are of relevance to the following study.

As far as vertical integration is concerned - i.e. expansion across more than one stage in the production and supply chain - efficiency is generally held to be a more important incentive than market power (Lipsey, 1989, p426). However, as for all forms of expansion by the firm, both motives may be present and "the two are not unrelated" (George, Joll & Lynk, 1991, p65). Vertical integration may be motivated by the desire to minimise costs or by the desire for greater security - e.g. access to essential raw materials such as, for a broadcaster, attractive television programming - and the latter may result in market dominance (ibid).

In terms of minimising costs, an important consideration is the difference between the expenses involved in buying from or selling to other firms - obtaining information, negotiating contracts etc. - and, alternatively, the expenses involved in carrying out the functions performed by these other firms within one's own organisation. Ronald Coase (1937) first introduced the idea that "the market" and "the firm" represent *alternative* modes for allocating resources. For Coase, firms exist because the co-ordination of economic activity through the firm (by hierarchies of managers) is less costly than through the market (by the pricing system). Integration of activities within the structure of a firm will occur because it creates transaction cost savings. Blair and Gomery explain how a feature of vertical integration is the "replacement of a market exchange by an internal (within the firm) exchange" (Blair and Gomery, 1983, p11), with the accompanying reduction in transaction costs - however variable - acting as a key incentive to integrate vertically.

Coase's central notion that the *raison d'être* for firms is efficiency gains has been widely accepted and Oliver Williamson's work (1975, 1993) has built upon this idea to develop the concept of transaction costs and their significance for the choice of organisational form. The potential for cost reduction within a firm may stem from improved information - e.g. about price or product specifications or, more generally, about the market - or from eliminating opportunistic behaviour (Williamson & Winter, 1993, p92). The degree of "asset specificity" involved is a key determinant of transaction costs - i.e. the extent to which each party to the transaction is using assets which would have a much lower value if the transaction broke down and these assets had to be employed elsewhere (George, Joll & Lynk, 1991, p63). If transactions carried out in the market which are at different vertical stages are characterised by uncertainty, or if they occur frequently, or if there is a high degree of asset specificity, then there will be efficiency motives for a vertically integrated organisational form to develop.

Vertical integration may offer important strategic advantages (Martin, 1993, p273). Integrated firms can avoid the market power of dominant suppliers or buyers - vertical expansion gives secure access to, for example, essential inputs or distribution outlets for output. This is a key advantage in the media, since firms depend on secure access both to content and to avenues for distribution of content. But it is sometimes difficult to disentangle the pursuit of greater efficiency and greater security from the pursuit of monopoly power (George, Joll & Lynk, 1991, p72). Vertical expansion could disadvantage rivals by giving the integrated firm control over all substitute inputs at an upstream stage (e.g. a broadcaster acquiring all producers of, say, football programming). Vertical integration may protect the market power of incumbent firms by increasing barriers to entry (George, Joll & Lynk, 1991, p64). "A firm that controls high-quality supplies of an essential input will enjoy a cost advantage vis-à-vis less fortunate rivals" (Martin, 1993, p274). Thus, a vertically integrated organisational form can be seen, in one sense (i.e. that of Coase), as a *response* to market failures and imperfections and, in another sense, as the *source* of such market imperfections.

Turning to diagonal (or "lateral") integration - i.e. expansion across different product markets (e.g. newspapers and television broadcasting) - the writings of industrial economists suggest a range of possible motives or advantages. It is not always easy to draw a sharp distinction between what is horizontal expansion and what is diagonal expansion, because the practice of product differentiation sometimes blurs the distinction between product markets (George, Joll & Lynk, 1991, p77). In either case - whether a firm is expanding horizontally into the production of a different variety of the *same* product, or whether it is expanding diagonally into the production of a *different* product - an important potential efficiency gain is the opportunity to share the use of specialised resources or expertise across more than one product (Martin, 1993, p279). Efficiency gains would arise if specialist content gathered for one media product (e.g. a newspaper or magazine) can be easily and cheaply reformatted into another (e.g. an electronic newsletter). Economies of scope will be present if the cost of producing two non-identical products under common ownership is lower than if each were produced by separate firms (Moschandreas, 1994, p150) - for example, because both products share some common component. "[T]he more closely products are related in either production or distribution, the more important will be economies of scope which make it cheaper for several products to be manufactured and/or distributed by the same firm rather than separately in different firms" (George, Joll & Lynk, 1991, p82).

Risk-reduction is another potential benefit of diagonal expansion (Lipsey, 1989, p426; Martin, 1993, p278). A firm operating in a declining industry may wish to diversify into a perceived growth area. For instance, the UK national newspaper industry provides a clear example of a sector which is in slow decline while, at the same time, subscription television and electronic media are perceived as growth areas. Thus, newspaper owners might well seek to diversify in order to secure growth in future earnings. Similarly, if a firm is operating in an industry that is prone to cyclical fluctuations (e.g. the commercial radio industry is highly sensitive to cycles in advertising expenditure), it may wish stabilise its income by expanding into another product market which is less cyclical.

An alternative explanation for diversification, based neither on efficiency gains nor stabilisation of revenues, is the desire by managers to "build empires". A large company size helps to avoid the possibility of takeover but, since horizontal or vertical expansion may be restricted by competition rules, diagonal or "conglomerate" mergers may be the easiest avenue for growth (George, Joll & Lynk, 1991, p82; Martin, 1993, p280). Thus, as suggested by managerial utility theories, expansion may be pursued beyond the point justified by profitability.

More commonly, however, industrial economics attributes expansion - whether horizontal, vertical or diagonal and whether through internal growth or through mergers and takeovers - to two key incentives. From the firm's point of view, the potential benefits of expansion are that it may increase market power or it may increase efficiency. The net impact on market performance and, more generally, on *societal welfare* generally depends on the trade-off between these two possible results (Martin, 1993, pp313-7). Although expansion may be predicated on improvements in efficiency (e.g. the realisation of economies of scale), the accumulation of a dominant market position can lead to behaviour and practices which run contrary to the public interest (Moschandreas, 1994, p483).[12] Once a dominant position has been achieved, the removal of competitive pressures may give rise to various inefficiencies, including excessive expenditure of resources aimed simply at maintaining dominance. Hence, competition policy interventions will strive to promote sufficient competition to induce incumbent firms to operate efficiently (ibid, p484).

The principal focus for investigation in this study is not competition policy *per se* but, rather, policy on ownership and cross-ownership of the media. Nonetheless, the key question under investigation - namely, what is the nature of the relationship between size and efficiency for firms operating in the UK media sector? - involves the possibility that a better performance by large media firms might reflect the abuse of a dominant market

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[12] As far as media firms are concerned, the non-economic consequences of accumulations of market power (i.e. the impact on pluralism) represent a crucial additional consideration.

position as much as it reflects the achievement of more positive efficiency gains (e.g. economies of scale). Where appropriate, some distinction between these types of benefits will be drawn, since the underlying concern in this study is with the broad "economic" gains arising from the expansion of media firms rather than, simply, the gains for individual media firms.

2.6 Economics of Concentrated Ownership in the Media

Relatively few previous studies emerging from economics as a discipline have focused on issues surrounding enlargement and vertical integration specifically involving media firms. Perhaps this is understandable. As far as media are concerned, the welfare implications of any reduction in diversity which might arise from strategies of expansion are peculiarly significant but, at the same time, it is virtually impossible to pin down and translate such welfare effects into a quantitative analysis. This serves as a major impediment to any straightforward economic analyses of expansion or vertical integration involving the media sector.

A recent media economics textbook from the US (Alexander et al, 1993) focuses attention on media ownership. Douglas Gomery describes how "giant media corporations, using the techniques of economies of scale, vertical integration, and corporate diversification, have achieved a remarkable amount of control..." (ibid, p67). This tendency towards expansion and concentration reflects the fact that "the optimal market for selling a television programme, a feature film, music on CD or tape, or a printed publication is the entire planet" (ibid, p64). As well as economies of scale from horizontal expansion, media companies can benefit from vertical expansion by reducing transaction costs and also by ensuring distribution access for their products. Gomery also describes how diversification into other media activities (diagonal integration) provides

gains by allowing firms to spread the risk of innovating new media product across a variety of formats or delivery methods (ibid, p66). His analysis of these economic benefits is, however, very brief and is not supported by any empirical research.

Gary Ozanich and Michael Wirth's chapter on "Media Mergers and Acquisitions" (Alexander et al, 1993, pp115-33) traces an increase in mergers and acquisitions (M&A) activity involving US media firms during the 1980s which is attributable to factors including barriers to entry (e.g. FCC licensing restrictions), some liberalisation of ownership rules during that period, and a growth phase for the "relatively immature" media industry offering investors attractive cashflow returns (ibid, p124). Another reason for the increase in media-related M&A activity in the 1980s was the availability of new sources of capital through "junk bonds"; broadly, high yield high risk debt instruments (ibid, pp126-9). Ozanich and Wirth suggest that, despite public policy concerns typically associated with media ownership, media companies are well suited to traditional financial analysis and decisions about merger and acquisition activity are primarily based "on the same criteria as capital allocations in any other industry" (ibid, p131), i.e. returns on investment. In any event, to ameliorate such public concerns, the increase in media M&A activity in the 1980s took place during a period of rapid expansion in the availability of distribution channels for media (ibid, p130). Nevertheless, Ozanich and Wirth conclude that issues worthy of further analysis include the potential for anti-competitive behaviour due to concentrated media ownership.

A recent article by US media economist Robert Picard (1996) looks at the motives for the development of media conglomerates and emphasises the role played by the egos of individual leaders in "empire building". As with the managerial theories of the firm discussed above (in section 2.5), Picard accounts for the growth strategies of US media organisations primarily in terms of the concerns and motivations of the individuals who happen to run these companies, albeit that, for Picard, efficiency gains and the desire for increased market power (i.e. conventional goals for the firm, rather than the individual)

seem to figure prominently amongst the concerns attributed to these leaders. Nonetheless, media "empires rise through the efforts of strong leaders who have a vision of enlarging their spheres of control and influence and who are able to marshal and mobilize the resources necessary for expansion and growth" (Picard, 1996, p25) and, similarly, "they stagnate, decline or fall when they have problems coordinating and managing needed resources..." (ibid, p30), e.g. if succession problems arise.

Drawing on the history of shifting power among empires since ancient Greece, Picard's central thesis, directed at "those who wish to control or reduce the harmful effects of empires" (ibid, p37), is that the forces driving media conglomerates and their leaders lead not only to expansion but also, ultimately, to decline. Thus, in spite of plentiful contemporary evidence of growing media empires in the US as elsewhere, the view that world communication will be dominated by a handful of companies in the 21st century is, for Picard, "highly distorted" and "ignores history and ... behavioural forces that affect and will continue to affect communication organisations" (ibid, p24).

Others take a less sanguine view of where current trends may be heading. Alan Albarran and John Dimmick (1996) provide an analysis of empirical data concerning concentrations within and across 14 sectors of the US communication industry from 1990 to 1994. They put forward the concept of "economies of multiformity" as a way of describing the benefits of cross-sectoral (as opposed to horizontal) expansion - this term refers to whatever cost-savings and/ or revenue gains may arise when communication firms extend their activities across two or more sectors (Albarran and Dimmick, 1996, p43). For example, economies of multiformity may arise because cross-sectoral diversification allows for increased usage of an existing infrastructure (e.g. offering telephony as well as television services over the same cable distribution system), or when existing media content can be re-formatted into different products at a low marginal cost, or because additional outlets are gained through which some important ingredient of media content which has already been contracted can then be further exploited (ibid).

However, for Albarran and Dimmick, the main aim is simply to measure patterns of concentration in the US media industry, and not to analyse why these occur. A tool which is often employed for such a task is the Herfindahl-Hirschman Index, or HHI, which calculates concentration levels by summing the squared market shares of all firms in a given market (George, Joll & Lynk, 1993, pp134; Moschandreas, 1994, p23). Since Albarran and Dimmick did not have complete information about the market shares of each US communications firm, they used "concentration ratios" instead (1996, p44). This measure describes the ratio of the revenues earned by the largest four (CR4) or the largest eight (CR8) firms to the total revenue of all firms operating in an individual sector. Albarran and Dimmick use the same measure to calculate cross-sectoral concentration, again, comparing the share of the revenues earned by the largest four and largest eight firms operating within and across the 14 specified sectors comprising "the US communications industry" with the total revenues earned by all firms in the industry. Their findings indicate very high levels of concentration - i.e. a four-firm ratio in excess of 50% or an eight-firm ratio in excess of 75% - within most of the 14 individual sectors examined but, perhaps not surprisingly, more moderate levels of (cross-sectoral) concentration when the benchmark used was share of revenues of the communications industry as a whole. The authors conclude that although the indices they have used suggest that "across-industry" concentration is not yet a problem, recent de-regulation and increased pursuit of "economies of multiformity" is likely to make cross-sectoral concentrations in the communications industry a serious concern for regulators in the future (Albarran and Dimmick , 1996, p49).

Some media economists have used industrial organisation theory to examine questions concerning the extent to which various media are concentrated and the possible impact of vertical integration in media markets. The development of this field of microeconomic theory, from the "structure -> conduct -> performance" (SCP) paradigm to the more recent use of game theory in studying industries, is examined in a comprehensive study of industrial organisation theory by Jean Tirole (1988). The SCP approach, which links an

industry's structure with the conduct of firms within that market and/or with that industry's performance, provides a useful broad framework for this study since its central aim is to examine the relationship between the economic structure and the performance of the UK media sector.[13] However, a limitation of the SCP approach is that, because of the complexity of determining the direction of cause and effect between structure, conduct and performance, links between these variables can usually only be interpreted as correlations rather than as causal relationships (Tirole, 1988, p2). Also, "market performance is a multidimensional concept and therefore difficult to define and measure for use as a dependent variable in multiple regression analysis" (Wirth and Bloch, 1995, p18), especially so in the context of media. As discussed below and in Chapter 6, more recent industrial organisation theorising by Hendriks (1995), which is specifically focused on the media, offers some useful guidance about how to build on the SCP paradigm as a loose framework for this research.

Previous studies of the economics of the media have produced some worthwhile findings about the impact of structure on the conduct or performance of media firms. Owen and Wildman (1992) describe the development of Steiner, Beebe and Spence-Owen models which link the conduct (especially as regards diversity in programme scheduling strategies) of television broadcasters with market structures (the number and ownership of competing broadcasters). These models explain the general propensity amongst separately-owned television rivals, where only a small number of rivals exist and each is supported by advertising revenue, to duplicate each others' programme schedules. If all rival stations were owned by a single monopolist, a strategy of maximising aggregate audiences (through greater programme diversity between channels) would become feasible. Thus, by implication, concentrated media ownership could confer societal benefits under certain circumstances.

[13] The SCP paradigm and other theoretical approaches to analysing the relationship between horizontal or vertical integration strategies and the economic performance of media companies are considered in further detail at the beginning of chapter 6.

Another study from the US considers the specific effects of vertical integration on conduct (pricing and product variety) amongst media suppliers. Waterman (1993) concludes that, because of especially high economies of scale in the distribution of information products, vertical integration between producers and retailers may result in a lower final price for the product of an integrated seller "and, by implication, the elimination of rival, affiliated products from the integrated retailer's menu" (Waterman, 1993, p33). Thus, Waterman's suggestion of lower prices for consumers goes hand in hand with the implication of a welfare loss, through lower diversity.

Looking at the relationship between structure and performance (especially, as regards the impact on profitability of cost savings) Dertouzos and Thorpe (1982) provide an empirical examination of mergers in the US newspaper industry in the 1972-1980 period. Their findings suggest that the growth of newspaper chains in the US during the 1970s was "not the result of efficiency gains resulting from conglomeration" (Dertouzos and Thorpe, 1982, p viii) since, insofar as this investigation revealed, such benefits are few and far between. Instead, the primary incentive for newspaper groups to merge was the prevailing tax laws during that period which, because of "the divergence between capital gains and personal tax rates gives corporations the incentive to engage in merger activity" (ibid, p65). A later study of the economic effects of newspapers mergers in the US by Dertouzos and Trautman (1990) reinforces the view that, because newspaper markets in the US are essentially local in character, "marginal costs of advertising, circulation and news are no lower for newspapers owned by chains" than they would be for independently owned titles (Dertouzos and Trautman, 1990, p13). Thus, again, Dertouzos concludes that "tax advantages associated with investing retained earnings in other newspaper properties" act as the main incentive for merger activity in the newspaper industry (ibid, p13).

Whether, as Dertouzos insists, US newspaper chains do not benefit from efficiency gains is open to question. John Busterna's more recent study (1991) of the advertising prices

charged by newspaper chains (as opposed to independently owned titles) in the US reveals that, in one case at least, group-owned newspapers benefit from a 10 percent markup in the prices they are able to set. Busterna's study identifies the "market power" of the newspaper chain as playing an important role in this premium (Busterna, 1991, p13), thereby contradicting Dertouzas' earlier conclusions about the lack of evidence concerning gains for large newspaper groups.

This research focuses, in some detail, on the relationship between ownership (or market share) and performance (i.e. profitability) in the UK national newspaper industry and, again, its findings tend to refute Dertouzos and Thorpe's conclusion that the potential efficiency gains for enlarged newspaper operators are few and far between. As with Busterna's study, this research identifies some important revenue advantages for larger and more powerful industry players. This research also identifies a number of economies of scope available to multi-product newspaper publishers in the UK; i.e., firms owning several rather than just one newspaper title. On the other hand, the "essentially local character" of the US newspaper industry (Dertouzos and Trautman, 1990, p13) is an important feature which distinguishes it from the national UK newspaper industry. The need, in highly localised markets, to replicate news-gathering, editorial, printing, marketing, administrative and other costs would naturally eliminate many of the economies of scope available to multi-product suppliers serving the multi-segmented and overlapping but essentially single UK national newspaper market.

In a recent article reviewing previous studies of media industries in which industrial organization theory provides either the explicit or implicit framework, Wirth and Bloch (1995) point out that many of these (e.g. Owen and Wildman) have lacked complementary empirical research or, in some cases, they apply theory without making adequate allowance for the particular circumstances of the media industry. Wirth and Bloch conclude that "industrial organization research focused on the media will need to begin to incorporate many of the ideas and theoretical approaches suggested by new

industrial organisation economists in order to continue to provide useful analyses for media policy-makers" (Wirth and Bloch, 1995, p24). The new ideas they are referring to include game theory (Tirole, 1988, pp422-453) which is concerned with the role of conjectures about rival behaviour in the strategic behaviour of firms in oligopoly markets, the concept of "contestability"[14] (Tirole, 1988, pp307-311), and other theoretical approaches which go beyond the limitations of the SCP paradigm. The following study will attempt to take account of relevant developments in industrial organization theory which would inform the design of an appropriate model for analysing the relationship between the size and structure of media firms and their economic performance.

A ready-made theoretical framework for economic research into the development of media industries has been proposed by Patrick Hendriks (1995). Hendriks is concerned with evaluating what he calls "media market performance" (Hendriks, 1995, p62) i.e. the performance of media in respect of various sociocultural as well as economic criteria. The crucial elements of media market performance are defined as (in economic terms) efficiency, equity, innovativeness (and in sociocultural terms) freedom and diversity. In the framework Hendriks presents, performance in the above terms can be seen as the result of a number of dynamic factors: the structure and situation of the industry, the strategic behaviour of media companies, external forces (such as changes in technology) and public policy affecting the media. Hendriks does not seek to define precisely how all these factors are linked, but presents his framework as "a platform from which theory building and testing can take place" (Hendriks, 1995, p67) and he suggests that case study research seems to be the appropriate way forward.

Hendriks' framework provides a good theoretical starting point for the following study since it proposes a coherent context for analysing the links between the strategies of media firms and the economic performance of the media industry. Hendriks does not

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[14] This idea is associated with William Baumol (Baumol & Willig, 1982) who argued that having a small number of firms does not necessarily imply an absence of competition, since potential competition or the threat of entry by new rivals - i.e. the 'contestability' of the market - may serve to discipline established firms.

offer any basis for establishing cause-consequence associations between the key variables he identifies, but instead, simply distinguishes these key factors affecting the performance of the media industry which, according to his model, act and react on different levels at different points in time. Clearly then, Hendriks has provided a general guiding framework which is of value for this research, but his framework remains a platform upon which much further refinement and definition will be required in order to test the specific questions this study is concerned with.[15]

As far as the UK is concerned, far less work has been carried out which focuses on the economics of enlargement and vertical integration affecting the media. The most influential economic study of the UK media thus far - albeit focused on the television sector alone - was that carried out by the Peacock Committee (Peacock, 1986) which was to have a significant impact on subsequent UK broadcasting legislation. This report was the first major and comprehensive economic analysis of commercial and public sector television broadcasting in Britain and, prominent amongst its findings, was the view that the vertical structure of the television industry was in need of change. Peacock observed that the vertically integrated structure of Britain's traditional terrestrial television broadcasters meant that there was little effective distinction between the functions of, on the one hand, programme making and, on the other, television broadcasting. In Peacock's view, UK broadcasters' domination over the related but separate business of programme production created inefficiency and left little scope for independent producers (who could make programmes more cost-effectively than broadcasters) to compete and participate in programme supply. As a consequence, the Peacock Committee recommended that a compulsory minimum quota be imposed on broadcasters for a proportion of their programming output to be sourced from producers who were "independent", i.e. not owned or controlled by a television broadcaster. This measure (subsequently enacted by the government) would introduce competition in programme production and thus force

[15] This further theorising is carried out in Chapter 6.

UK broadcasters to restructure their operations so as to disaggregate programme making from broadcasting.

The Peacock Report led to another short economic study focused on the UK television industry which was carried out by Martin Cave (1989). Cave distinguishes five different stages in the production and distribution of television programmes - programme production, networking, local channel management, delivery, and revenue collection - and then considers, firstly, the extent of economies of scale at each stage and, secondly, whether there are grounds for encouraging or prohibiting vertical integration. Building also on earlier empirical research by Eli Noam (1985) into the US cable industry, Cave concludes that "apart from the most obvious case of networking, the only stage in the production process likely to involve economies of scale is programme delivery to households" (Cave, 1989, p35). With regard to vertical integration within the television industry Cave, again building on earlier empirical research and theoretical modelling (Fournier, 1985), concludes that "there seem to be few arguments suggesting that vertical integration should be encouraged or required" (Cave, 1989, p35). Cave acknowledges the impediment for his analysis caused by a lack of systematic data concerning the television industry, and whether or not his conclusions hold true in the broadcasting environment of the late 1990s may be tested by the findings of the current research project.

Most previous US and UK economic studies of horizontal and vertical integration in the media seem to share the approach of focusing on a narrowly defined sub-sector of the industry (e.g. newspapers or television), usually defined by a particular territory as well as product. Empirical research frequently necessitates such a narrowly defined approach but, in view of the emerging conditions of sectoral overlap in the media, its relevance can be questioned. "Research and continuing developments in technologies, along with the rise of new media, have raised the issue of what the proper definition of the market is and what factors need to be considered when examining levels of concentration and

competition" (Bates, 1993, p4). The focus for the following study will be across all the main traditional sectors of the media. By looking at the issues of expansion and integration amongst all of these sectors, this research project intends to go considerably further than earlier work is assessing economies of scale or scope and vertical or diagonal integration affecting the media.

The assumption of improved economic efficiency has been central to the industrial case for a relaxation of UK and EU media and cross-media ownership restrictions. In spite of its topicality for policy-making, little or no empirical research has been dedicated to either supporting or refuting this assumption. Even so, the industrial case appears to have held sway with policy-makers at every level. By means of an empirical examination into the economic and financial effects of corporate changes in a number of leading UK media organisations, this research will test the relationship between horizontal and vertical or diagonal structure of media firms and their economic efficiency. The difficulties of applying such a test in the context of cultural provision are recognised and shall be examined. Nonetheless, at a time when the media policy agenda in the UK and Europe is dominated by economic concerns, it seems crucial that this gap is addressed.

In an expanded media economy, such as that which UK media firms now find themselves operating in, the theory of international trade would favour a free market and the concentration of media resources wherever the conditions of comparative advantage happen to prevail. The relevance of traditional economic trade models to media has been questioned (Collins, Garnham & Locksley, 1988) and the successful "cultural" exclusion of audio-visual services from the Uruguay round of GATT trade negotiations in 1993 underlines the reasons for so doing. Building on limited work in this area thus far (Schlesinger and Doyle, 1995), this investigation will consider the impact of the transition to an enlarged or "global" media economy on the ability of national (UK) or transnational (EU) jurisdictions to implement appropriate and effective internal media ownership frameworks.

Chapter 3

Research Methods

This study is concerned with how one aspect of media policy - regulations governing ownership - has been changing in the 1990s. As well as assessing the likely consequences of such policy changes in the UK, this research seeks to examine how and the reasons why media ownership rules have generally been subject to change.

The aims for this research, as set out in the introductory chapter (Section 1.2), can be simplified and restated as a strategy involving three broad stages. The research techniques deployed involve some overlap between these stages:

(i) *Those factors contributing to the re-shaping of media ownership policies are examined.* This is achieved mainly by examination of documentary submissions to policy-makers; through interviews with policy-makers; and through the analysis of legislation and other official policy documents.

(ii) *Economic factors are subjected to further analysis.* This analysis rests on both quantitative and qualitative data collected primarily from a sample of UK media industry participants. Data is gathered through interviews with senior personnel and from each organisation's financial statements. Quantitative data is subjected to correlation analysis.

(iii) *The likely effect of recent policy changes is assessed.* This is based on findings from stages (i) and (ii) above; on documentary analysis of official policy statements; and on interviews with policy-makers and senior personnel from media organisations.

This chapter explains the methods of research used in the course of this study by tracing the project onwards from early preparation. A neat, tidy and linear approach to describing the conduct of the project might be seen as "misleading" (Burgess, 1984, p31) since, as is generally intrinsic to research, some flexibility has been essential to allow for discoveries to guide the course of this project. Nonetheless, the techniques used in this research have been very closely shaped by those questions which were identified at its outset. Therefore, the design stage provides a coherent point of departure for describing and explaining the methods of research used. Later sections in this chapter will explain how this design was implemented and its findings presented.

3.1 Preparation

Establishing Research Questions

One of the notable aspects of an international impetus to review media ownership policies in the mid 1990s has been the deployment, by commercial media organisations, of so-called "economic" arguments in favour of de-regulation. Scratching at the surface of these arguments, it appeared that these were being asserted without any persuasive evidence or corroborating research. Even so, such arguments seemed not only to occupy a high status in the public debate but also to be accepted, uncritically, by policy-makers as a case for implementing change.

Thus, the initial inspiration for this project was a desire to explore the validity of an economic case put forward by industry in favour of de-regulating media ownership: to test the proposition that enlarged and diversified organisational configurations were essential to the survival and economic health of indigenous media firms. If, as it appeared to be in the UK, this case was sufficiently persuasive to call into question

restrictions designed to protect the public interest in media pluralism, then it ought to be open to validation by means of independent research. The findings of such research would provide a useful contribution to media economics as a field of study.

By itself, however, an investigation into the economics of media and cross-media concentrations would only provide a partial explanation of how media ownership policy has been, or ought to be, re-formulated in the mid-1990s. A separate and on-going concern for policy-makers - in fact, the primary justification for special restrictions on ownership of the media - has been the protection of pluralism. This begs the question of what other goals or "considerations" (Levin, 1997, p35) might be involved in shaping media ownership policies and, as a related issue, how different sets of policy objectives could be reconciled within a single legislative framework?

In order to understand how economic priorities might be accommodated within new legislation, it would be essential to frame this investigation in the context of the full range of possible concerns guiding policy-making in this area. For completeness and accuracy, the parameters of this research would also need to take account of an increasingly complex relationship between international developments affecting the media and the domestic policy agenda. A number of related disciplines within the social sciences - in particular, sociology, political science and economics - were interwoven within these questions. Thus, this research could provide useful insights into the guiding priorities and the mechanism itself by which policies affecting the media are formulated in the UK in the 1990s.

The process of conceptualisation, or "moving from vague ideas" about what was to be researched to decisions about how the project might be "operationalised" (Babbie, 1992, p114), was informed considerably by an initial review of existing literature involving accounts of previous research into either the economics or regulation of media concentrations. This exercise (Chapter 6, Sections 6.1- 6.5) revealed what sorts of

approaches have been taken in the past to researching and analysing questions surrounding the relationship between organisational structures and economic efficiency (George, Joll & Lynk, 1991; Moschandreas, 1994), and how these might be tackled in the specialised context of the media (Hendriks, 1995). It also revealed (see Chapter 2) the wealth of existing research into regulation of the media and, in particular, the evolution of media ownership policies in the UK and Europe, as well as approaches commonly used in public policy analysis (Levin, 1997; Parsons, 1995; Weimer & Vining, 1991).

Most importantly, the review of literature provided a clear indication that little previous research has been focused on an issue of crucial topicality to media policy-making in the 1990s; namely, the economics of media and cross-media concentrations. Accompanying (and, perhaps, as a consequence of) this gap, there is a tendency in studies concerning the regulation of media ownership to deal with economic concerns in only a fleeting or superficial way. Thus, this project set out to build on and modify the approaches utilised in previous economic research to generate findings about the economics of media and cross-media concentrations which, in turn, would facilitate a more informed analysis of contemporary policy-formulation in this area.

Designing a Research Strategy

The research strategy was designed in terms of the main questions it set out to answer:

(i) What concerns have contributed to the re-shaping of media ownership policies ?

With regard to identifying the range of main factors and concerns which influenced the re-formulation of media and cross-media ownership policies in the UK, a key source of available evidence was the documentary submissions of the many institutions and individuals who took part in a public consultation exercise organised by Media Cross-

Ownership Review Committee led by the Department of National Heritage (DNH)[16] in 1994-95. Many of these submissions could be accessed through approaches to the DNH or to the individuals or organisations involved.

It is undoubtedly the case that, since respondents to the consultation exercise were self-selecting, their submissions represent the views of "interested parties" rather than, in any unbiased way, public opinion at large (Babbie, 1992, p196). Nonetheless, the issues raised by "interested parties" in the debate are clearly a highly suitable source of evidence in respect of the issue in question: the predominant considerations which faced policy-makers. These submissions were subjected to analysis, as was the Government's response set out in its Media Ownership Green Paper (DNH, 1995a) and in the ensuing the 1996 Broadcasting Act. The latter documents were available for purchase from Her Majesty's Stationery Office (HMSO).

Although content analysis was not the only technique used to address the above question in relation to the UK media ownership policy review, it has several advantages as a method of investigation. First of all, in relation to key concerns and positions occupied in the debate over UK media ownership policy, it was clearly more economical and more reliable to rely on the written submissions prepared (presumably, with some care) for the DNH by each "interested party", than to attempt to establish contact with and derive personal feedback from an appropriate spokesperson at each institution involved. Another general point cited in favour of document analysis is that, because it is an "unobtrusive" measure, the analyst has no effect on the subject being studied (Babbie, 1992, p328).

Secondly, in relation to how these concerns may have influenced policy-making, there is no rival for recourse to the officially stated position of the Government as set out in the appropriate policy documents. An agenda and a rationale for policy amendments is laid

[16] The DNH was re-named the Department of Culture, Media and Sports in July 1997.

out in the 1995 Green Paper on Media Ownership (DNH, 1995a). To arrive at an understanding of this agenda, and of which concerns it tends to favour, some content analysis of the Green Paper and the ensuing 1996 Broadcasting Act was essential.

On the other hand, the possibility remained that additional "considerations" (Levin, 1997, pp35-7) - concerns other than those which received an airing in the public debate - might have exerted a "covert" influence over the policy changes introduced through the 1996 legislation. Thus, a "mixed strategy" appeared to offer the ideal course (Burgess, 1984, p145). In addition to content analysis, information was gathered from informants with a first-hand knowledge of the process by which a new UK media ownership policy was arrived at.

Such informants were not chosen on a random sampling basis. As Burgess explains, "[t]he selection of individuals in field studies is ... a different procedure from selection procedures associated with statistical sampling in survey research. For in field research informants are selected for their knowledge of a particular setting ..." (1984, p75). A "purposive" sample (Babbie, 1992, p230), selected on the basis of prior knowledge of who had participated in the process of re-formulating media ownership policy, provided the most economical and effective route to the information being sought.

Thus, the research strategy included interviews with senior members of the DNH media policy group who were involved in assessing these submissions and in drafting the Media Ownership Green Paper and overseeing the course of the 1995 Broadcasting Bill (also available from HMSO) through Parliament into the legislation finally embodied in the 1996 Act. The selection of individuals was carried on a "judgmental" basis (Babbie, 1992, p292) in the sense of each being chosen specifically because, owing to the central role they played in constructing the UK Government's new media ownership policies, they would be able to provide a relevant contribution to this study. Willingness to contribute was another matter.

Fortunately, on the basis of prior acquaintance with one senior civil servant from the DNH, it was possible both to identify and gain access to those within this Department who were best placed to provide first-hand observations of each of the stages involved in the re-formulation of UK cross-ownership policies. The selected individuals were, firstly, **Paul Wright**, who was Head of the Media Policy Unit at the DNH and a senior Member of the Cross-Ownership Review Committee in 1994-95 and who played a central role in the formulation of the Government's Green Paper on Media Ownership (DNH, 1995a). And, secondly, **Paul Bolt**, currently Head of the Broadcasting Policy Unit at the DNH and who, in his own words, "shepherded the proposals in the Green Paper through to the final legislation" in the 1996 Broadcasting Act.

The inclusion of interviews was not merely intended to confirm or contradict findings arrived at through the above content analyses but was also intended to allow any additional factors which, perhaps, were not conspicuous in public texts and documents, to come to the fore. Interviews with relevant senior personnel at the DNH could add a substantial new body of primary evidence about key factors which influenced the re-formulation of cross-ownership policies to that which was available through public sources. In addition, they could provide more general insights into the mechanism by which policies for the media are conceived and shaped in the UK.

Although the main focus for this research would be the UK, it was important to take account of the increasingly complex relationship between developments affecting the media at an international - and especially European level - and the domestic policy agenda. To shed some light on this relationship, this research also examined the range of concerns evident in the process of conceiving (or attempting to conceive) a media ownership policy at the level of the European Union.

With regard to identifying the concerns and policy objectives which are shaping the European Commission's efforts to create a collective media ownership initiative at the EU level, a key source of available evidence was the documentary submissions and other forms of input received by the European Commission from many European institutions who participated in its public consultation exercises in 1993-96. Many of these submissions could be accessed through approaches to the organisations involved. These were analysed, along with the Commission's initial response as set out in its follow-up Communication (CEC, 1994d), and in the context of other recent EC policy initiatives which have direct implications for how a collective European media ownership policy might be framed. EC policy documents are available to the public through a variety of outlets, including European documentation libraries, the Internet, and by direct approach to the relevant Directorate of the European Commission.

(ii) How 'valid' is the economic case in favour of de-regulation?

Without pre-supposing the outcome of stage (i), it was evident from the outset of the project that so-called "economic" arguments in support of a liberalised media ownership regime have occupied a pivotal position within international policy debates. In broad terms, these arguments suggest that enlargement and cross-media vertical and diagonal integration are not only advantageous to the economic performance of media firms, but that such organisational configurations must be allowed in order to ensure the competitiveness and the survival of domestic media producers and suppliers. A key aim for this research was to investigate the validity of these arguments in the context of the UK media sector.

The key proposition which this research would seek to test is that, in view of technological and other market changes affecting media firms in the 1990s, there is now a compelling economic case for allowing concentrations of monomedia and cross-media

ownership. What evidence exists either to support or refute the case that the economic performance of UK media firms was being hampered under existing monomedia and cross-media ownership restrictions in the mid-1990s? What grounds were there for believing that the economic performance or the competitiveness of UK media firms would be enhanced by relaxing monomedia and cross-media ownership restrictions? Exactly what sorts of economic benefits might be realised through facilitating higher levels of monomedia and cross-media ownership?

At the heart of this issue is the correlation between "allowable" configurations (as dictated by media ownership restrictions) for media firms and the industry's economic performance. A logical and useful way to explore this issue would be to analyse the association between a variety of media firms' configurations and their respective economic performances over recent years. By comparing the performance of a sample of leading UK media firms engaged in varied corporate strategies (in terms of domestic and international monomedia and cross-media expansion), this study set out to examine and test general propositions about the relationship between, on the one hand, the size and vertical or diagonal configuration of media organisations and, on the other, their economic or financial "efficiency".

The necessary data for such a quantitative analysis was accessed through the historic financial statements of each firm in the sample group, available either from the Company Secretary of each firm or through Companies House. Relevant data concerning performance was extracted from each firm's historic statements. Where necessary, supplemental (unpublished) data concerning the financial performance of each firm was accessed through a direct approach to the company in question. Data concerning each firm's market share, by sector, was calculated drawing on published statistics from agencies such as, for television, the Broadcasters Audience Research Bureau (BARB); for radio, the Radio Authority (RA); and for newspapers, the Audit Bureau of Circulations (ABC), (Kent, 1994).

The initial objective was to examine the links between the operating performance of each firm in each relevant sector of its business activities and its size or share of the market in that sector. This involved a basic bivariate analysis, by sector, focused on the correlation between (percentage) operating profit margins[17] and (percentage) market shares, in a selected time frame, for all sample firms active in that sector of activity (Babbie, 1992, p436; Bryman & Cramer, 1990, p163; Lipsey, 1989, p36). Where the number of sample elements in a particular sector of activity was very low or only one, a time series analysis, focused on the correlation between (percentage) operating profit margins and (percentage) market shares for a single individual firm over time was used instead to yield the relevant findings (Babbie, 1992, p443).

A second objective was to consider the association between the performance of each firm by specific sectors of activity and levels of cross-ownership (whether vertical or diagonal) across other sectors of media activity *as well as* market share. In the context of a relatively small sample group selected precisely for variations in individual patterns of cross-sectoral activity, any comprehensive multivariate analysis (Babbie, 1992, p441; Bryman & Cramer, 1990, p189; Lipsey, 1989, p38) would prove extremely complex and, arguably, would yield little inferential value (Babbie, 1992, p440). This study adopts the less cumbersome and more promising approach of considering relevant instances of the *second* independent variable (i.e. a particular pattern of cross-sectoral involvement, such as "television plus newspaper ownership") in the context of correlation analysis between the dependent variable (performance or "operating profitability") and the *first* independent variable (size or "market share") within each of these sectors of activity. Findings derived from complementary qualitative research focusing on each of the key patterns of cross-sectoral involvement of specific interest for this study were also drawn upon so as to carry out an analysis of the (separate or simultaneous) relationship between the dependent variable and the second independent variable.

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[17] A more extensive discussion of appropriate economic performance measures for media firms is carried out in section 6.5.

Findings from this exercise might well address the question of how much the recent performance of UK media firms supports an argument for, as it were, rescuing media firms from underperformance by amending the previous framework of media ownership regulation. However, the question of what, if any, economic gains might arise in future because of the new framework of allowable configurations introduced in the 1996 Broadcasting Act would not necessarily be addressed by examining the performance of media firms prior to enactment of these changes.

To get around this problem - i.e. to create an opportunity to study, by inference, the likely economic impact of introducing a more liberalised media ownership regime - the sample group chosen was selected "purposively". The framework of regulatory constraints on UK media and cross-media ownership prior to 1996 has not prevented instances of monomedia market domination and nor, indeed, has it prohibited some limited forms of experimentation with cross-sectoral ownership, for example, through minority cross-investment stakes or cross-ownership in non-overlapping localities or cross-expansion into new broadcast delivery formats. Thus, a criterion used for the selection of an appropriate sample of firms was historic configurations which allow for an assessment to be carried out of the association between, on the one hand, a large market share and/ or cross-ownership between a number of activities and, on the other, economic performance.

In addition, the inclusion of qualitative evidence gathered from the selected sample provided another important source of information concerning the association between configuration and performance, especially as regards the impact on economic prospects for the industry of recent changes in UK media ownership rules. An inevitable concern associated with evidence collected through qualitative interviews is that the "information" revealed relies on the (essentially, subjective) opinions and beliefs of those interviewed. In this study, the reliability of qualitative evidence was strengthened by reliance on a broad range of senior and experienced managers across the sample group and, to some

extent, by the availability of historic quantitative data as a general guide. Thus, the design of this research strategy sought to draw upon valuable first-hand knowledge of the economics of the industry gained by senior managers as a means of supplementing and enriching quantitative findings.

The use and integration of a variety of methods of investigation - both quantitative and qualitative - is not unusual in social science research projects (Burgess, 1984, p143). As Babbie has suggested (1992, p106), "the best study design is one that uses more than one research method, taking advantage of their particular strengths". In the case of this investigation, there are a number of very strong arguments for drawing together both qualitative and quantitative research methods.

The main advantages of conducting interviews with each firm in the chosen sample group was, firstly, that any gaps in the data accessed through historic financial statements or any necessary further breakdown of historic financial data could be attended to expediently by directly asking the firm for these items of information.

Secondly, and much more importantly, qualitative research helped to overcome problems which might have arisen in interpreting quantitative findings. The most obvious of these is that of establishing causality (Bryman and Cramer, 1990, pp8-15). Were the quantitative research to uncover, say, a strong association between certain types of configuration and a successful economic performance in a given sector of activity, a question might remain as to the direction of causality between these variables (see Section 6.2) - i.e. financial success might encourage enlargement and cross-sectoral expansion, rather than the other way around. In addition, it seems only reasonable to allow that the financial and economic performance of media firms could be affected by a range of factors other than configuration. Qualitative input was of crucial assistance in establishing causality, where it existed, and its direction, and in identifying other antecedent or intervening variables affecting configuration and performance which might

otherwise have been overlooked, leading to an inaccurate or spurious interpretation of quantitative findings.

Thirdly, as a related issue, bivariate or even multivariate statistical analyses - even if they could be interpreted independently with perfect accuracy - would not provide any substantive account body of the reasons *why* an observed relationship between the configuration and performance of media firms is present. The main benefit of integrating both qualitative and quantitative research methods was the opportunity to not only ascertain (through statistical modelling based on empirical quantitative data) what relationship appears to exist between the variables under investigation, but to derive some meaningful analysis (through interrogating key informants) of the nature of this relationship.

Finally, (with a view towards question (i) above and question (iii) below) qualitative interviews with the sample group allowed the views of this constituency of "interested parties" to be probed as to the likely effectiveness of the 1996 Broadcasting Act and, more generally, the efficacy of the process of policy formulation for the media at the UK and European level.

The selection of an appropriate sample group represented an important stage in the design of the research. As a first step, the broad focus of the research question - UK media ownership regulation - helped to reduce the entire world population of media firms into a more manageable sampling frame; namely, those firms active in either the UK television, radio or newspaper sectors.

To ensure representativeness, in terms of the substantive interests of this study, some further refinements were required. Not only should selected firms be participants in either the UK television, radio or newspaper sectors, but they should represent varying

shares of these markets in order to allow the relationship between market share and performance to be examined. Thus, some stratification would be required according to market share, but with some general bias in favour of firms with a relatively large market presence, for whom media ownership regulations are a relevant issue. In reducing the sample frame accordingly, a useful source of guidance was data published by the DNH in appendices to the Green Paper on Media Ownership (DNH, 1995a) concerning the market shares of the largest firms active in the television, radio or newspaper sectors in the UK.[18] This reduced the population from which the sample would be chosen to around 27 firms.

Furthermore, in order for the relationship between cross-sectoral involvement and performance to be examined, the firms selected should represent a variety of "configurations" in terms of their spread of ownership of activities across these radio, television and/ or newspaper industries. In particular, (since this has been a focus for much de-regulatory pressure) cross-ownership between television and newspapers would need to be represented. Cross-ownership across radio and television broadcasting, or between newspapers and radio, would also be of some interest. In addition, examples of vertical integration between television broadcasting and programme production - another focus of calls for de-regulation - should be included.

At first glance, the need for such a wide variety of cross-media combinations would seem to imply a rather large sub-sample. As it happens, however, many of the (especially television and newspaper) firms included in the DNH's data, are companies that *also* exhibit relevant patterns of cross-media ownership.

[18] For the newspaper sector, the larger firms comprised News International, Mirror Group, United Newspapers (now United News & Media), Daily Mail and General Trust, The Telegraph, Guardian Media Group and Pearson. For the television industry, larger commercial players comprised Central, Granada, Yorkshire, Carlton , Meridian, HTV, Scottish TV, LWT, Anglia, Tyne Tees, UTV, Westcountry, Grampian TV, Border TV, GMTV and BSkyB. In commercial radio, the larger firms were Capital Radio, GWR, EMAP, Metro, Golden Rose, Virgin, Scottish Radio Holdings, Classic FM, Reuters, Chiltern and Chrysalis.

By now the sampling frame had reduced to some 20 firms. A further stratification was carried out on the basis of geographical location of activities, to ensure the selection of some media companies active at the regional as well as the national level. In addition, to avoid bias, the group was stratified again for selection of some firms who had and others who had not been "activists" in the policy debate surrounding the amendment of media ownership rules.

Before deciding, finally, on the appropriate number of firms in the sample, some reflection was given to the weighting between techniques which would best address the research questions, how "breadth" might be combined with "depth", and how data collection would be managed (Hartley, 1994, p219). Statistical evidence based on a large sample might yield more "reliable" quantitative findings. On the other hand, statistical techniques have very clear limitations, especially in the context of this project. The primary role of quantitative findings in this project was to provide *general* models of the observable relationship between configurations and performance. The journey from general models to detailed analysis and meaningful conclusions would rely on in-depth interviews to be carried out within the targeted sample group.

The selection of as few as three firms would allow all of the key cross-ownership configurations under investigation to be researched. The addition of a further three or four would allow different levels of market share within individual sectors to be cross-compared. A larger population would improve the reliability of findings but, given the proposed reliance on in-depth qualitative research, saturation would inevitably set in at a certain point (Hartley, 1994, p219). Nonetheless, since little or no previous research has been carried out against which the truth or plausibility of qualitative evidence might be tested, it would be essential to draw upon and analyse input gathered from qualified informants at a suitably broad range of firms. A sample of nine firms seemed to satisfy the study's requirements for both reliability and manageability. The following specifies

those firms selected and the range of activities they are currently or have recently been engaged in.[19]

- **EMAP plc** (Radio, Regional Newspapers, Magazines)
- **Grampian Television plc** (TV Broadcasting, TV Production, Radio)
- **Granada Media Group** (TV Broadcasting, TV Production)
- **Guardian Media Group** (TV Production, National Newspapers, Regional Newspapers, Magazines)
- **Mirror Group Newspapers plc** (TV Broadcasting, National Newspapers)
- **News International plc** (TV Broadcasting, National Newspapers)
- **Pearson plc** (TV Production, National Newspapers, Regional Newspapers)
- **Scottish Television plc** (TV Broadcasting, TV Production, Regional Newspapers)
- **United News & Media plc** (TV Broadcasting, TV Production, National Newspapers, Regional Newspapers)

As mentioned above, quantitative findings were supplemented by evidence gathered in interviews with senior management, financial and corporate strategy personnel at each of these firms. Interviewees most likely to be useful informants were selected purposively (Burgess, 1984, p73; King, 1994, p20), on the basis of prior awareness of their roles within each organisation and a careful assessment of their likely knowledge of the issues under investigation. In some cases, prior acquaintance with senior personnel at these firms meant that advice was readily available to help identify suitable informants. In other cases, a "snowballing" technique (Burgess, 1984, p55) was deployed to gain intelligence about the candidates within each organisation best placed to make a useful contribution to the project.

[19] Since the investigation and analysis of this sample was completed in late Spring 1997, additional corporate activity has taken place which, in one or two cases, has altered the configurations of these firms. Most notably, Scottish Television plc (now 'Scottish Media Group plc') acquired Grampian Television plc in the Summer of 1997. In addition, Granada Group plc, owner of Granada Media Group, took over Yorkshire-Tyne Tees Television, thus acquiring two additional ITV regional licences. This study does not take account of mergers and acquisitions after April 1997.

The following comprises the shortlist of appropriate informants targeted for each organisation:

- EMAP plc (**Chris Innis**, Director of Corporate Strategy)
- Grampian Television plc (**Donald Waters**, Chief Executive)
- Granada Media Group (**Janet Walker**, Group Finance Director)
- Guardian Media Group (**Harry Roche**, Chairman of Guardian Media Group until December 1996; now Chairman of the Press Association)
- Mirror Group Newspapers (**David Montgomery**, Chief Executive)
- News International (**Jane Reed**, Director of Corporate Affairs)
- Pearson (**Nigel Portwood**, Acting Director of Corporate Affairs)
- Scottish Television (**Gus Macdonald**, Chairman)
- United News & Media (**Clive Hollick**, Chairman)

(iii) Assessing the likely effect of UK media ownership policy changes.

Appraisal of the likely effect of changes in UK media ownership regulation (introduced in the 1996 Broadcasting Act) relied on findings uncovered in the two previous stages of research. First, the effectiveness of policy changes would need to be assessed in terms of the original concerns which inspired these changes, also taking into account the context for and process of policy determination. Findings from stage (i) helped to establish the full range of policy objectives and other concerns which the 1996 Act (and related secondary legislation) was seeking to address or respond to. Secondly, as far as industrial or "economic" objectives were concerned, findings from stage (ii) would feed into an assessment of the likely impact on performances of altering "allowable" configurations for UK media firms.

The assessment of recent UK media ownership rule changes involved a "multigoal" analytical framework (Weimer & Vining, 1989, p198), i.e. one which spans both the

socio-political and economic or industrial objectives guiding recent media ownership policy changes. The relationship between each new policy measure and its underlying goal was analysed, taking into account the general context for policy formulation (factors and considerations affecting the process by which policy was determined by the DNH). An analysis was carried out of how well each key policy objective has been served by the relevant legislative changes, thereby enabling any discrepancies between the impact of each policy measure and the stated intentions behind these to be examined, taking into account the broader context for policy-making. Thus, the conceptual framework adopted might be described as "means-ends" (Levin, 1997, p34): "means" (each important legislative change) were analysed by reference to stated "ends" (espoused policy aims) as well as practical outcomes (actual "ends").

Policy is not always exclusively the product of a stated rationale, but may reflect the process by which it was determined, or a response to certain interest groups, or the more general dynamics of political power (Levin, 1997, p32). This is why it was important to include the context as well as the goals for policy formulation within the assessment of the effect and effectiveness of recent UK media ownership policy changes. A rationalist approach would have it that policy changes ought to reflect real intended outcomes. As far as the re-formulation of UK media ownership policy is concerned, such intended outcomes appear to have found expression in the official agenda for change i.e. "Media Ownership: The Government's Proposals" (DNH, 1995a). However, to the extent that new measures in the 1996 Broadcasting Act might, possibly, be seen *not* to "match" with any official agenda, the broader political context and the specific process by which policy changes were formulated become a useful site for exploring and explaining such discrepancies. To disregard this dimension would have been to presuppose, perhaps dangerously, a perfect match between the official agenda and the ensuing legislation.

The context for policy formulation was explored through interviews with key participants involved in the process of re-shaping UK media ownership policy from 1993 through to

1996 (mentioned under (i) above). Information was sought about the nature and significance of different objectives and about other considerations and interests bearing on the policy-making process: specifically, about how objectives were researched and refined; how they were weighed up against each other; and how they became transformed into actual legislative changes.

In terms of analysing how well each of the main socio-political and economic objectives surrounding media ownership policy have been served in the new legislation, this drew on a document analysis of the new legislation (the 1996 Broadcasting Act and associated secondary legislation) and an assessment of evident outcomes. As far as pluralism is concerned - the main socio-political objective - the effect of regulatory changes on the minimum allowable number of media suppliers is clearly a useful focus, as well as any impact on the equity of media ownership constraints (i.e. do they place equal curbs on all media owners?). Qualitative input from the sample group of UK media firms was drawn upon to illuminate the latter issue.

With regard to assessing the impact of media ownership provisions in the new Act on economic or industrial objectives, findings from stage (ii) allowed useful inferences to be drawn about the economic effect of introducing an additional set of "allowable" configurations for UK media firms. Admittedly, these policy changes have had little or no time to take effect.[20] Nonetheless, the purposive design of the sample group allowed for the benefits (or otherwise) of specific "newly" allowable configurations to be put to the test. In addition, qualitative contributions from the sample group provided an important additional source of evidence concerning the impact of media ownership policy changes on economic prospects for the UK media industry.

[20] The provisions of the 1996 Broadcasting Act came into effect in November 1996.

3.2 Implementation

Documentary Evidence

Access to relevant documentary evidence was straightforward as this consisted almost entirely of "public" documents (Burgess, 1984, p124); statutory UK legislation, official EU or UK policy documents, press releases or submissions to EU or UK policy-makers, and the historic annual report and accounts for the sample of UK media firms.

Relevant official policy documents and submissions to policy-makers were read in their entirety, as were the appropriate sections of legislation. The intention was to derive a reliable interpretation of the meanings conveyed in these documents. Of course, the conventions of language varied greatly as between, say, press releases and statutory legislation. In the case of latter, meticulous detail and formality of phrasing meant that the task of digesting and processing information was, at times, more demanding and time-consuming.

No system of coding was considered necessary for any of the documents under scrutiny. In the case of submissions to policy-makers or responses to public consultation exercises, some categorisation of responses was deployed in order to isolate key issues or arguments and to identify common positions amongst respondents on these (Babbie, 1992, p321). All variations in the detail or emphasis of individual responses were considered carefully.

The nature of the analysis carried out on documentary evidence could be described as "editing". According to Miller and Crabtree (1992,p20: cited in King, 1994, p26) "this style is termed editing because the interpreter enters the text much like an editor searching for meaningful segments, cutting, pasting and rearranging until the reduced summary reveals the interpretative truth in the text". This processing technique enabled

the substance within documentary materials to be extracted, cross-compared, synthesised and then incorporated within interrelated lines of inquiry.

Statistical Computation

Much of the data required to test the correlation between the configuration and performance of each element in the sample group was accessed from their historic Annual Report and Accounts. Where these documents did not furnish enough detail, estimates were constructed with some guidance from recent investment reports[21] and/ or from the selected "key informant" at each firm. Some re-categorisation and straightforward processing[22] of this data was required, in order to derive operating profit margin figures by sector of activity.

Equipped with relevant data concerning the configuration and performance of each firm, it was necessary to select a suitable time frame. In order to avoid irregularities caused by inconsistent time sampling (Burgess, 1984, p61) - for example, looking at the performance of individual elements in the sample at different stages in economic or advertising cycles - it would be best to compare all in a single common period of time. The most convenient time frame would be a year, since all firms are required to return annual financial statements. One disadvantage, however, was that the financial calendar for each firm in the sample group did not coincide exactly. It would theoretically be possible to make adjustments to reported figures which would bring all of the sample

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[21] Reports prepared by equities analysts on behalf of investors are generally the only available source of detailed information about the financial performance of a firm, other than that firm's own financial statements. Since firms are reluctant to publish commercially sensitive details of their financial circumstances, or to endorse the conclusions arrived by analysts, the information in such investment reports takes the form of 'opinion' rather than 'fact'. Even so, these opinions often provide a reliable source of guidance and several were taken into account where it was necessary to estimate breakdowns of operating profit by sector of activity (see bibliography). While the complete accuracy of estimated market shares and operating profit margin data cannot be guaranteed, the author believes these figures (see table 6.5 below) to represent a sufficiently useful approximation for the purpose of the analyses carried out.
[22] Operating profit margins depict the percentage of turnover represented by trading profits (i.e. profits before interest, investment income etc.), and are calculated by dividing trading profits into turnover for each sector of activity.

group into line with, say, a December year end. However, with little or no chance of access to the data required to do this with accuracy, it would risk creating major misrepresentations simply to overcome some minor inconsistencies in the common time frame.

The problem of slightly different year ends was accepted as an insurmountable limitation. However, the precise dates for each data set presented clearly in the tabular representation of each firm's historic performance and configuration.[23] 1996 was chosen as the most recent year for which hard data could be derived.

The approach involved in testing the validity of certain propositions about the relationship between the configuration and performance of UK media firms is "deductive" (Babbie, 1992, 52), in the sense that observations collected would allow the truth or falsity of these claims to be deduced. In the language of statistics, the procedure may be restated broadly as follows with the "null" (the claim to be examined) and the alternative hypothesis expressed as H_o and H_a respectively:

$$H_o: \quad P_{xy} \geq 0.70$$

$$H_a: \quad P_{xy} \leq 0.69$$

The claim to be tested is that there exists a strong positive correlation between media firms' configuration (denoted as *X)* and their performance (denoted as *Y)*. "The output of a correlation study is a number referred to as the correlation coefficient" and its value is always somewhere between -1 and +1 (Anderson et al, 1990, p525). In this case, the presumed correlation is both positive (> 0) and high. According Cohen and Holliday (1982; cited in Bryman & Cramer, 1990, p168), as a rule of thumb, a correlation of "0.20 to 0.39 is low; 0.40 to 0.69 is modest; 0.70 to 0.89 is high; and 0.9 to 1 is very high".

[23] See figure 6.5 below).

Thus the alternative hypothesis (Ha), which would refute the original claim, is that any correlation is either modest, weak, non-existent or negative.

In theory, it appears straightforward to implement this analysis. In practice, a major drawback is the complicated nature of the independent variable *('X')* or "configuration" as a concept for quantitative analysis. A firm's configuration[24] is comprised of two aspects; namely, the scope of its cross-sectoral involvement and its market share within each relevant sector of activity. Concentrating on the latter, a correlation coefficient can easily be calculated for each sector of activity, based on available data concerning each firm's market share and operating performance in 1996. The integration of the former (the pattern of each firm's cross-sectoral participation) into a multivariate analysis would also be possible, using a multiple regression model. The equation for such an exercise might run as follows (Anderson et al, 1990, p553):

$$y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + ... + \beta_p x_p + e$$

Again, y denotes the dependent variable (performance) while independent variables are now split into "market share" (x_1) and a number of "patterns of cross-sectoral" activity ($x_1 ... x_p$).[25] This equation is useful in depicting how the performance of a firm might be expected to reflect several aspects of its configuration exerting an impact simultaneously. However, in the context of a limited population sample exhibiting several different patterns of cross-sectoral ownership, its implementation would be extremely cumbersome. On account of the complexity of patterns of cross-sectoral involvement by individual firms, an all-embracing multivariate model would be unlikely to offer any inferential value. Instead, it could only add some descriptive statistical input concerning observations for each element in the sample. This would be of limited value and, as Babbie notes, there is a need to balance "detail and utility in data reduction"

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[24] See Section 6.4 for a further discussion of this concept.

[25] The slope of the regression equation for each independent variable is denoted as β_1, β_2 etc. while β_0 represents the intercept with the vertical axis and e represents the error term.

(1992, p440). Rather than extending the quantitative analysis to incorporate patterns of cross-sectoral ownership, a more effective alternative (qualitative) method of investigation would need to incorporated.

Thus, implementation involved a combination of what seemed most faithful and straightforward analytical techniques - both statistical or qualitative - which promised to shed light on the claims under investigation. First, correlation analysis was used to test the claim that there is a positive relationship between size and performance. "In correlation analysis, we are not concerned with identifying a mathematical equation relating an independent and dependent variable; we are concerned only with determining the extent to which the variables are linearly related. Correlation analysis is a procedure for making this determination and, if such a relationship exists, providing a measure of the relative strength of the relationship" (Anderson et al, 1990 pp 481-2). Correlation analysis was a perfect tool for providing evidence concerning the strength of the claim that performance is linked to size and for comparing the strength of that claim across each of the relevant sectors of the media. Once relevant data for the sample group had been collected and processed, implementation proved straightforward.

Having established the observable correlation between size and performance in each sector of activity, a further aim of the research was to test the claim that performance is also related to certain patterns of cross-sectoral ownership; that cross-media ownership delivers various economic gains (Albarran & Dimmick, 1996), especially "economies of scope" (Moschandreas, 1994, p155). In the following research, the analysis of such claims rests primarily on *qualitative* rather than quantitative research techniques. The conceptual approach taken towards assessing claims about the economic gains arising from cross-sectoral ownership involving radio, television and newspapers may be illustrated using mathematical formulae. On account of its commercial sensitivity, information about individual product costs between rival suppliers would clearly *not* be accessible in sufficient detail in order to implement such formulae. Nonetheless, these

equations were useful in deciding what sort of qualitative evidence would enable claims about the availability of economies of scope to be assessed.

The suggestion that economies of scope are present in the media surrounds the notion that the resources involved in supplying media can be shared across sectors (or product types) thus creating cost-efficiencies for the diversified media firm. This is not the only "economic" argument in favour of media cross-ownership, but it has been one of the most significant, especially in view of "convergence".[26] The economic rationale underlying these claims may be depicted as follows :

$$C(A,B) < C(A,0) + C(B,0)$$

In other words, the costs (C) for one firm of supplying two different types of media products (*A* and *B*) will be lower than the sum of the costs involved for two single-product firms, at the same output level. Any number of additional product types can be added to the equation, to depict the presence of multiple economies of scope across a range of media sectors. It follows that the extent of economies of scope, should they exist, can be measured as the proportion (Sc) of total costs saved by producing more than one product (say, *A* and *B*) under common ownership.

$$Sc = \frac{(C(A,0) + C(B,0)) - C(A,B)}{C(A,B)}$$

In practice then, the analysis of the relationship between configuration and performance called for different approaches and research tools to address each of the two aspects of configuration - "size" and "cross-sectoral ownership patterns". The initial correlation

[26] Convergence describes the process by which production and distribution techniques for different sectors of the media (and other industries including telecommunications provision and computing) have, in some cases, been 'converging' or growing more similar.

analysis between "size" and performance provided a useful starting point from which to investigate, through qualitative research, both the nature of this correlation and, in addition, the (simultaneous or separate) relationship between "cross-sectoral ownership patterns" and performance.

Where the topic under investigation drew upon more than one research technique - e.g. the correlation between monomedia ownership and economic performance - findings derived from each method were integrated and compared within the analysis. In addition, findings from research into the relationship between each individual aspect of configuration and performance are, to some extent, interlinked and are explicitly pulled together so as to develop overall conclusions and implications as regards media ownership policy.

Interviews

Access to the key informants who had been targeted was successfully negotiated in all cases except that of Clive Hollick at United News & Media. Since the make-up of the sample group of firms had been carefully engineered to include examples of specific patterns of UK cross-sectoral expansion (of which United News & Media provides an important case), the chosen course of action was persistence. Using a snowballing technique, another key informant within this organisation (**Charles Stern**, Group Finance Director) was identified and access negotiated.

Interviews were carried out between February and April 1997. A fairly "structured" approach (Burgess 1984, p101) was used in all interviews. These can be sub-divided between interviews with informants at each of the nine media firms ("the companies")

and interviews with two senior civil servants at the DNH ("the policy-makers").[27] Burgess describes the structured interview as "a data collection device involving situations where the interviewer merely poses questions and records answers in a set pattern" (1984, p101). In this case, the approach taken to preparing for interviews involved setting out the same themes and questions in the same order for interviews with each sub-group. On the other hand, the aim was to engender relatively open conversation rather than brief and formal responses to each of the themes raised. Thus, questions were "open" and represented a succession of themes for investigation which, in practice, required some on-the-spot refinement and re-ordering in order to manage the flow of conversation as effectively as possible.

The great advantage of carrying out interviews as opposed to any other research methods (such as a questionnaire) was that, as well as allowing for a great deal of information to be collected without asking for too much of each subjects' time, it also allowed the flexibility to probe each question in sufficient depth. The process of carrying out one-to-one interviews proved highly effective in collecting systematic data concerning the array of related questions which would enable each of the main research aims for the project be addressed. Interviewing meant that certain hazards commonly associated with other research techniques - for example, incomplete or ambiguous responses - were generally not a problem (Babbie, 1992, p282).

Before each interview, interviewees were informed of the research themes or "agenda" for discussion (Burgess, 1984, p107). In addition, each of the company interviewees was provided with a copy of the processed quantitative data for its firm which, subject to any refinements or modifications they would advise, was to be used in the correlation analysis. In all cases, the use to which interview material would be put (namely, to prepare this thesis) was clarified in advance, and interviewees were guaranteed that their permission would be sought before quoting their views in any subsequent publication.

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[27] The list of questions addressed, firstly, in 'Interviews with Companies' and, secondly, in 'Interviews with Policy-makers' is included in the appendices to this study.

In cases where disclosures made in interviews with companies appeared commercially sensitive, confidentiality was respected. In addition, some disclosures created the risk of embarrassment, either (in the case of the companies) because of unfavourable comments made about competitors, or (in the case of policy-makers) because of acknowledging questionable aspects of the policy-formulation process. To deal with the former, the identity of particular companies or individuals has, in some cases, been removed and replaced with, for example, [..Company X] or [.. Proprietor Y]. The latter risk was more difficult to avoid, since excluding or modifying frank observations supplied by first-hand participants in the policy-making process - i.e. tampering with the available evidence - would clearly undermine the investigation. Disguising the names of participants would be possible but largely ineffective because the identity of those senior civil servants responsible for the conduct of the media ownership policy review and the passage of the 1995 Broadcasting Bill through Parliament is a matter of public record.

Since all such observations were supplied voluntarily and without special requests for "off-the record" status by experienced and senior public servants, any form of censorship did not seem justified. Nonetheless, in view of the sensitivity of these matters and, above all, the desirability of protecting the interests of subjects (Burgess, 1984, p191), special caution will be exercised as to the circulation of these findings.

All interviews were carried out within the workplace of the subject. Many interviewees were prominent figures in the media industry whose status called for an appropriate blend of deference but confidence in approach (King, 1994, p23). Timing within interviews had been carefully planned, so as to allow all intended themes for discussion to be aired. Nonetheless, some participants were unable to be as generous with their time as others. This affected the pace and, sometimes, the depth of information gathering. All interviews lasted between 50 and 120 minutes, with the typical duration being 90 minutes.

All interviews were tape-recorded. Interview material was transcribed by hand from tape-recordings. Although time-consuming, this process of re-recording the evidence helped with absorbing the material, and drawing out latent as well as manifest meanings. It also facilitated some categorisation of responses to each key question or theme.

The content of interview material was analysed in stages so as to allow (the responses to) each key theme to be considered in turn. An important aspect of this analysis was uncovering similarities and differences between the sorts of information provided (Babbie, 1992, p301). For example, the perspectives offered by those managing larger firms sometimes pointed to advantages of scale or scope or, indeed, disadvantages of size which were not apparent to smaller rivals (and vice versa). Also, variations in managerial experiences or cultures contributed to some instructive and interesting divergences of opinion. Interview responses were broadly classified rather than coded and were studied for variations, so as to build up as complete and reliable a body of evidence as possible. Evidence was also drawn together from quantitative research methods, where these were relevant, and the two were cross-compared and integrated.

Patterns within the findings were identified and related to the main research question or aim under scrutiny. Thus, the findings from interviews became synthesised within a systematic analysis of each of the main research questions. As was the case with documentation, the nature of the analysis carried out on transcribed interview texts might best be described as "editing" - i.e. sifting and rearranging the material so as to distill the relevant aspects of its meaning into a coherent summary (King, 1994, p26).

3.3 Presentation of Findings

The layout of this study is intended to present a logical progression through the research findings. In chapter 4, media ownership regulation in the UK is traced from its historic position, through the 1994-95 review process and into the 1996 legislation. Chapter 5 introduces the European policy dimension. Chapter 6 establishes an analytical framework for the relationship between configuration and performance in the UK media sector. The following chapters (7 and 8) present and analyse findings in respect of this relationship, focusing first on monomedia and then cross-media expansion. Drawing on these findings, and taking into account other non-economic concerns for media ownership policy, Chapter 9 sets out to assess the likely impact of recent changes in UK media ownership legislation. Conclusions are presented in Chapter 10.

A persistent challenge has been to include an appropriate level of detail without obscuring the most significant findings. To some extent, this problem has been tackled in the "editing" process discussed above. In addition, important findings are drawn out and highlighted at certain intervals within the study, as well as in the concluding chapter.

Some final points on the presentation and integration of quantitative findings (in chapters 6, 7 and 8) may assist their readability. The general approach taken has been to try and include the most significant quantitative findings in the clearest way possible, and to provide an accessible discursive account of these in accompanying text. As Babbie correctly suggests, "whenever we ask the 'figures to speak for themselves', they tend to remain mute" (1992, A8).

The first inclusion (figure 6.5) is a tabular representation of all the data concerning market share and operating profit margins by company in each relevant sector of activity (i.e. denoting structure as well as size), and over time. This comprises a complete set of cross-tabulated data, both for the purposes of reference, and as an overview for the reader

of the recent historic relationship between configuration and performance. A preliminary analysis highlights and explains the most significant information in this table.

In subsequent chapters, this data is subjected to further analysis - firstly, in terms of the correlation between size and performance (Chapter 7) and, secondly, in terms of patterns of diagonal and vertical cross-ownership (Chapter 8). During each of these stages, additional graphic representations of the relevant quantitative data are introduced.

In Chapter 7, the correlation analysis between "size" and "performance" in each sector of activity is presented in scatter diagrams. A scatter diagram shows values for the independent variable on one axis (usually, the horizontal axis), and corresponding values for the dependent variable on the other (vertical) axis. It is a very useful vehicle in this case, since it "provides an overview of the data and enables us to draw preliminary conclusions about a possible relationship between the variables" (Anderson et al, 1990, p483). Based on the observed pattern of the data in a scatter diagram, and whether this could be described as linear and upward sloping (from left to right), a judgement may be formed about the strength of claims concerning the correlation between these two variables (Bryman & Cramer, 1990, pp167-8).

Each scatter diagram represents an initial focus for a more detailed probing and analytical interpretation, drawing on findings from company interviews concerning the economics of monomedia expansion in each sector of activity. Findings from a statistical computation of the correlation coefficient in each sector - which "measures both the strength and the direction of the relationship between a pair of variables" (Bryman & Cramer, 1990, pp 162-3) - are also incorporated throughout the analysis.

Since these scatter diagrams include a depiction of the operating performance for all members of the sample group active in each sector of activity, they are introduced as a focus (in Chapter 8) in the analysis of cross-sectoral ownership patterns, with labelling to

distinguish diversified from non-diversified firms. To isolate the influence on performance of a particular pattern of cross-sectoral ownership, irrespective of "size", a ranked bar chart of operating profitability in a particular sector is presented in some cases.

The scope of this investigation into recent changes in UK media ownership policy is broad and has called for some overlap between research techniques commonly associated with economics and with sociology. The use of a broad multidisciplinary approach has enabled this study to negotiate themes which have their roots in political science and policy studies as well as, more obviously, economics or sociology. The next chapter will review the historic development of UK media ownership policy, focusing especially on recent regulatory changes. Together with the review of European media ownership policy which is carried out in chapter 5, this sets the scene for a closer examination (in chapters 6, 7 and 8) of the importance of specifically economic factors in re-regulation of media ownership. The intention behind this structure is to progressively expand upon the themes which are relevant to recent UK policy changes so that, ultimately (in chapter 9), the recent shift in policy which is identified in chapter 4 will be opened up for a comprehensive analysis.

Chapter 4

UK Media Ownership Policy

4.1 Evolution of Media Ownership Regulation in the UK

> 'Undue concentration or abuses of market power are normally addressed under competition legislation ... General competition legislation is mainly concerned with securing economic objectives, although it can also encompass other non-economic objectives. However, wider objectives are important as far as the media are concerned. A free and diverse media are an indispensable part of the democratic process. They provide the multiplicity of voices and opinions that informs the public, influences opinion, and engenders political debate. They promote the culture of dissent which any healthy democracy must have. In so doing, they contribute to the cultural fabric of the nation and help define our sense of identity and purpose. If one voice becomes too powerful, this process is placed in jeopardy and democracy is damaged. Special media ownership rules, which exist in all major media markets, are needed therefore to provide the safeguards necessary to maintain diversity and plurality.'
>
> (DNH, 1995a, p3).

The above extract from the 1995 Green Paper on Media Ownership explains the need, as perceived by the UK Government, for special additional rules aimed specifically at restricting levels of media and cross-media ownership. This need has been recognised in UK law for some time, and public concerns about the adverse effects of excessive concentrations of media ownership can be traced back to the first Royal Commission on the Press.[28] As it happens, the 1947-49 Commission concluded that levels of media concentration, although high at that time, were not a threat to the public interest. Its findings, according to Ralph Negrine, "have been heavily criticised ever since" (1994, p62). Nonetheless, specific legislation aimed at curbing the development of media empires was soon to follow.

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[28] Royal Commission on the Press, Cmnd 7700, HMSO, 1949.

A series of additional public enquiries (the "Royal Commissions") into the conduct and structure of the UK newspaper industry gave on-going prominence to, amongst other issues, the problem of excessive concentrations of press ownership.[29] As a consequence of concerns about monopolisation of the press, the 1973 Fair Trading Act[30] introduced into statute a special procedure whereby transfers of ownership of newspapers would require the prior consent of the Secretary of State for Trade and Industry. Under certain circumstances, such transfers must be referred to the competition authorities - the Monopolies and Mergers Commission (MMC) - in order for all relevant public interest implications to be examined.

In addition to these rules concerning newspaper mergers, special provisions on ownership of commercial (television and radio) broadcasting licences, and on cross-ownership between broadcasting and the newspaper sector, have been set out in successive pieces of broadcasting legislation. For the most part, the ownership provisions in broadcasting legislation are designed simply to place an upper limit on the amount of radio or television broadcasting licences or the level of cross-media ownership anybody may have. In addition, the 1990 Broadcasting Act served to encourage some vertical disaggregation of ownership between television broadcasting and television programme production. This was achieved, following an earlier recommendation of the Peacock Committee[31], by imposing on terrestrial broadcasters a compulsory "independent" access quota - i.e. the obligation to source at least 25% of transmitted output from programme-makers who are "independent" (not owned by broadcasters).

[29] The Royal Commissions are discussed at length in Seymour-Ure (1992).
[30] Sections 57-62
[31] The Peacock Committee took the view that the traditional vertically-integrated structure of the UK television industry (i.e. the fact that broadcasters tended not to separate their programme production from their broadcasting activities) was not only a source of inefficiency but was also obstructing the development of a healthy 'independent' production sector. The Committee's findings, set out in the Report of the Committee on Financing the BBC (Peacock, 1986), include the suggestion that this problem be addressed by enforcing broadcasters to commission a certain minimum proportion (or 'quota') of their programming from outside or 'independent' programme producers. Peacock's recommendations were highly influential and the ensuing Broadcasting Act 1990 included a compulsory independent access quota for both the BBC and ITV.

Thus, the main focus of special restrictions on media ownership in the UK has been confined to the newspaper, radio and television industries. Other sectors of the media, such as the film or magazine or book publishing industries, have not been encroached upon by any specific constraints other than the usual competition rules which apply to all sectors of industry. As shall be seen later in this study, a focus narrowly drawn on the traditional mass media - newspapers, television and radio - is a common feature amongst most special media ownership regulatory regimes in other countries, as well as the UK.

Prior to the review of UK media and cross-media ownership policy which began officially in January 1994, the main provisions concerning media ownership can be summarised as those contained in the following primary and secondary legislation.

1990 Broadcasting Act

The 1990 Act contains detailed restrictions[32] on the holding of licences in respect of ownership both across different media sectors and within one media sector. In general, EU operators are subject to exactly the same restrictions as UK companies, which can be summarised briefly as follows. Those deemed eligible for terrestrial television broadcasting licence ownership may own either:
(a) 2 regional C3 (ITV) licences, (but not both of the London licences)
(b) a national C3 (ITV) licence, or
(c) a C5 licence.
Ownership of a licence in one category would restrict ownership to a 20% investment in either of the other categories.

Schedule 2 of the Act sets out restrictions on those who are precluded from owning either a C3 (ITV) or C5 licence. Beyond those who are not "fit and proper", these are·

[32] Ownership provisions are in Section 5 and Schedule 2 to the 1990 Act.

Restricted to 5%: Non-EU nationals or companies; advertising agencies; and religious, political or charitable organisations.

Restricted to 20%: National newspaper proprietors (i.e. 20% initial investment, 5% subsequent); local newspaper proprietors (only in overlapping areas); national radio operators; local radio operators (only in overlapping areas); and satellite TV operators (including BSkyB).

The 1990 Act provided for a "moratorium" on takeovers of C3 (ITV) companies for the first year of operation of the new set of licences commencing in January 1993.

The 1990 Act (and secondary legislation) also included a framework for restricting ownership within the commercial radio sector. These rules are based on a market share approach whereby, in general, no single operator is allowed to have more than 15 per cent of the total "points" allocated to the commercial radio system as a whole.

The Broadcasting (Independent Productions) Order 1991

Under secondary legislation, the permitted holding of a television broadcaster in an "independent" production company, and vice versa, was set at 15%.

The 1973 Fair Trading Act

The Fair Trading Act contains two sets of merger rules; one applying to newspaper mergers and the other applying to all other types of mergers. Broadly, the latter serves to limit mergers which have anti-competitive effects that are contrary to the public interest. This test also applies to newspaper mergers but, in relation to newspapers, specific

account is taken of "all matters which appear in the circumstances to be relevant and, in particular, the need for accurate presentation of news and free expression of opinion".[33]

The 1973 Act sets out a procedure[34] whereby, in any instance of a transfer of ownership of a newspaper where the transfer would result in a single proprietor having combined control over daily circulations in excess of a given threshold, the prior consent of the Secretary of State for Trade is required. Before giving consent, the Secretary of State for Trade is obliged to refer such a transfer to the MMC in order for a test of the public interest implications to be carried out. As indicated above, the wording of the Act is somewhat vague with regard to the criteria for the public interest test and whether, say, the impact on diversity of editorial viewpoints would form a legitimate concern is not clear (Robertson & Nicol, 1992, p506).

An important feature of the Act is that, if the Secretary of State for Trade is satisfied that the newspaper being acquired in "not economic as a going concern", he or she may give consent for the transfer of ownership to go ahead *without* any referral to the MMC or any independent assessment. In the interests of sustaining the existence of titles which are or appear to be in financial difficulty, the Secretary of State may give unconditional consent for a proprietor to accumulate high levels of newspaper ownership. This apparent loophole is frequently held to blame for "concentrating a large amount of national newspaper power [in the UK] in one controversial pair of hands" (ibid., p503) - namely, those of Rupert Murdoch.[35]

An evident lack of effectiveness on the part of existing legislation in preventing excessive concentrations of, especially, national newspaper ownership was only one of several factors which inspired a major review of UK media ownership policy in 1994-95.[36] The

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[33] Section 59

[34] Relevant provisions are in Sections 57-62.

[35] The facts underlying the case of the takeover of Times Newspapers by News International in 1981 are analysed in detail in Robertson and Nicol (1992, p503-5).

[36] Levels of newspaper, television and radio ownership in the UK were set out in Annexe 2 to the 1995 Green Paper on Media Ownership and this data is replicated in an appendix to this study.

following sections trace the process which led firstly to the 1995 Green Paper on Media Ownership and finally to the 1996 Broadcasting Act.

4.2 The Cross Media Ownership Review 1994-95. [37]

Background to the Review

A thorough review of existing UK restrictions on media and cross-media ownership was first proposed in October 1993 by the Independent Television Commission (ITC) - the body responsible for regulating UK commercial broadcasters. The review was suggested in the context of a proposal from the ITC to extend the temporary "moratorium" on takeovers of regional C3 (ITV) companies which was established in the 1990 Broadcasting Act.[38] The Government did not accept this proposal but, instead, decided to amend secondary legislation which had previously prevented anyone from owning two "large" regional ITV licences. The decision to do away with the "penny farthing" principle[39] paved the way for a virtually instant transformation in C3 ownership configurations by January 1, 1994. As ITV began to consolidate,[40] the question of appropriate structures for the control of media ownership in the UK came to the forefront.

> We'd had the 1990 Broadcasting Act and the original Ownership Order [instituting the 'penny farthing' principle]. That was very quickly demonstrated

[37] Section 4.2 draws on an article previously published by the author (Doyle, 1995a).
[38]A one-year moratorium commencing (along with the new set of ITV licences) in January 1993 was intended to enable ITV companies to focus solely on their service obligations during the initial phase of the new 'C3' licences. A continuation of the moratorium beyond December 1993 would, the ITC hoped, sustain ITV's stability and its attention to programme services through the early transitional phase.
[39] The 1990 Broadcasting Act restricted ownership to no more than two C3 (ITV) licences and, in accompanying secondary legislation, a further stipulation prevented ownership of any more than one 'large' and one 'small' ITV regional licence. 'Small' licences are defined by the ITC as those attracting a share of less than 4% of ITV's collective net advertising revenue (NAR).
[40] Immediately following the Government's announcement to do away with the 'penny farthing' principle, Central ITV (ITV licence holder for the Midlands) was acquired by Carlton Television (holder of the London week-day licence); LWT (holder of the London week-end ITV licence) was subject to a hostile takeover by Granada Group (holder of the North-West licence) and Anglia (holder of the East of England licence) was acquired by MAI (holder of the South-East of England ITV licence).

> to be excessively restrictive in terms of what it allowed and excessively mechanistic too, in terms of the way it counted licences rather than assessing market share. That meant that pretty quickly, at the end of 1993, there was this immediate 'sticking plaster' of an Amending Order which removed the 'penny farthing' principle. And that was so demonstrably a piece of sticking plaster that Peter Brook [then Secretary of State for National Heritage] was forced to announce, at the same time as the Amending Order, that there would be a thorough going-over of the media ownership rules.
>
> (Paul Wright, DNH, 1997).

The debate surrounding the announcement that media ownership rules be reviewed instantly gave voice to industrial concerns, particularly from the newspaper sector, about the strategic position of the UK's existing organisations in a more competitive and international media marketplace. In line with the message being sent from industry to Government in many other countries, UK policy-makers were assailed by arguments that existing restrictions on media ownership had been overtaken by events in the media world of the 1990s (DNH, 1995a, p11).

A clear international tendency towards increased vertical expansion and concentration of media ownership around this time had also triggered the same policy question in other European countries such as France and Germany, as well as at the collective EU level and in the United States (MacLeod, 1996). Uncertainty prevailed as to whether national and international regulators would see fit to encourage or prevent their own indigenous media organisations from joining this trend. At every level, including that of the European Union (CEC, 1994d), debate was being driven by industrial calls for de-regulation which were at odds with traditional socio-political and cultural concerns about preserving pluralism.

The UK Cross-Media Ownership Review Committee was led by the Department of National Heritage (DNH)[41] and commenced work in January 1994. It took as its starting point the policy approach favoured by the then Minister for National Heritage, Peter Brook. Mr Brook was in favour of maintaining restraints to curb excessive concentrations of media ownership - an objective which had not being achieved entirely satisfactorily under existing legislation.

However, Mr Brook was succeeded in the role of Secretary of State for National Heritage at a relatively early stage during the Cross-Media Ownership Review. Different strands of ideology, even within the governing Conservative Party, meant that a change of Minister was to bring a crucial change in emphasis to the Review. Mr Brook's successor, Stephen Dorrell, introduced a significantly different approach:

> That exercise (a thorough going-over of media ownership rules) was conducted in the first half of 1994 and there was quite a lengthy report (by a group of officials, convened by the Cabinet Office, of which I was a member) to Ministers which was submitted just around the time Dorrell replaced Brook in the Summer of 1994 ... The input we had made in DNH was very much influenced by what we knew the Peter Brook position was likely to be, which was one of trying to hold the line strongly against excessive degrees of concentration and multiplications of ownership in different sectors .. [This position was based] .. on the argument that plurality and the importance of independent voices in the media ... was certainly as important a consideration as the argument that 'big was beautiful' and that we needed to have a concentration domestically in order to compete internationally. ... In comes Dorrell to receive this report, and takes a very much more free market view on all this. And, indeed, feels no sense of ownership of the official report which obviously pre-dated his time, and spends the next few months with us actually, in a sense, getting *away* from the official report that Ministers were supposed to be considering and devising his own scheme. Its very much the outlines of *that* [Dorrell approach] that you see in the 1995 Green Paper ...
>
> (Paul Wright, DNH, 1997).

[41] The Department of National Heritage has since (in July 1997) been re-named the Department of Culture, Media and Sport.

On top of negotiating a new and radically different Ministerial approach, the Cross-Media Ownership Review Committee was faced with some very conflicting arguments and policy positions which were emerging in public debate and, indeed, in the responses to the public consultation exercise (see below) announced by the DNH at the outset of the Review. Contrary to his predecessor, Mr Dorrell's "free market" approach tended to be in strong sympathy with the arguments and aspirations of large industrial players for a comprehensive liberalisation of existing media ownership rules. On the other hand, de-regulatory impulses could not easily be squared with the objective of preserving pluralism and, for many people, preserving diversity in the media was certainly no less worthwhile as a policy objective than it had been before.

In fact, the failure of existing legislation to prevent excessive concentrations of ownership was a recurrent theme in the public debate about media ownership policy. The accumulation of a very significant share of the UK media by one particular player - News International - was seen by some as, in itself, a prime justification for reviewing current ownership rules and, indeed, as an argument for strengthening their effectiveness.

However, another concern - supported more widely and by a much more politically influential constituency - was that existing rules posed a threat to the survival and development of commercially successful indigenous media firms. Ownership restrictions which are designed to promote domestic plurality also, it was argued, tend to militate against the maximisation of economies of scale and scope. Non-domestic organisations which *can* achieve such economies are better placed to expand into new markets and compete cost-effectively. So, according to several media organisations, in an expanded and internationalised economy, existing constraints on the size of UK industry participants represented a handicap which was undermining their competitive position.

Even so, liberalising impulses were also accompanied by risk. Any relaxation in UK cross-ownership restrictions which allowed the consolidation and rationalisation of

domestic media interests (and applied non-discriminatorily to EU organisations) would also bolster the prospective returns from UK market participation for non-domestic rivals. At a time when overseas expansion for UK media firms was bedevilled by wide disparities in media ownership restrictions across other EU Member States, any policy change which would provide non-reciprocal access to *increased* UK media ownership might appear ill-judged.

Not surprising perhaps, the Cross-Ownership Review Committee took a lengthy period - some 18 months - before arriving at any policy proposals. With much pressure for a UK policy change to allow enlarged media cross-holdings, and in the face of a growing number of mergers and strategic alliances at home and abroad, there was little will, in some political quarters, to take account of pluralism or diversity of media ownership as objectives. In fact, keeping pluralism on the policy agenda at all posed some notable challenges for the Review Committee:

> One thing we *did* do in that period was to actually bring Dorrell back a bit from his original position of very much being on-side with Heseltine and the others who saw no reason for specific media-based restrictions. His initial view was that competition law alone could do everything that was necessary.
> ... Bringing [Dorrell] back to a position of realising that, in fact, the media*were* a bit different; there were issues of agenda-setting and so on that *did* necessitate a different view. And, indeed, an appreciation that competition law was not all that it was cracked up to be, and one couldn't necessarily look for a lot of safeguards there... He really had quite a lot of learning to do about the particular position of the media ...
>
> (Paul Wright, DNH, 1997).

Moreover, "economic" arguments in favour of liberalisation proved increasingly difficult to resist, not least because of the political strength of the voices which were supporting this case.

Submissions to the DNH : Key positions in the UK debate

The Secretary of State's announcement of a Review Committee on Cross-Media Ownership, in January 1994, was accompanied by an invitation for all interested parties to submit their proposals on cross-media ownership restrictions. The submissions received by the DNH provide a useful insight to the various conflicting policy objectives which the review was charged with attempting to reconcile. An equally important consideration is the political strength of the various constituencies supporting each of the key positions in the debate.

The parties most clearly interested in the outcome of the review were UK media industry participants, especially large newspaper proprietors lobbying for greater flexibility, and their views were widely represented in evidence to the Committee. On the other hand, the public interest case for maintaining existing ownership restrictions to protect pluralism was generally put forward by smaller regional media operators, lobby groups and trades unions. Advertisers also supported diverse media ownership on an agenda of commercial self-interest.

A number of important players in the industry did not make written submissions (e.g. the BBC), and others did not make their submissions public (e.g. BSkyB, The Radio Authority). The main body of other submissions to the Committee can be summarised in the following key positions:

The case for a relaxation of current cross-ownership restrictions was led by newspaper proprietors including Pearson plc (which owns Thames Television and has since, also, formed an alliance with the BBC). Pearson argued that existing cross-ownership restrictions were out of step with the current media environment; they force investors to choose between delivery and production and prevent "natural" commercial alliances developing. The UK newspaper market is declining and, with new more profitable media

segments developing, Pearson and others wanted the flexibility to "grow and expand globally from a sound domestic base" (Pearson, 1994). The key to the future, it was argued, is the inter-relationship between media, electronics, computers and telecommunications. The race to globalised integrated media companies was on and, if a UK firm was to be among the top six or seven global companies expected to dominate the industry as a result of continued consolidation over the following five years, the UK Government must relax ownership rules.

More specifically, Pearson argued for the permitted level of investment by newspaper proprietors in C3 (ITV), C5 and national radio channels to be raised from the current 20% to 49%. Amongst its other proposals, the company favoured an increase in the permitted level of investment by a broadcaster in an "independent" producer, and vice versa, from 15% to 25%. The definition of broadcaster in this context should be amended to apply to UK only and not the rest of the world - in other words, UK independent producers should be allowed unrestricted ownership of non-domestic broadcasters. Also, Pearson proposed a single regulatory body for all media and a competition law -type test to identify concentrations against the public interest.

Pearson's argument for higher permitted levels of cross-ownership between broadcasters and independent producers was echoed in a submission from SelecTV plc, a 15% shareholder in ITV broadcaster Meridian (now 79% owned by United News & Media), and one of the few large and successful independent production companies in the UK. SelecTV also wanted the cross-ownership ceiling between independents and broadcasters raised from 15% to 25% and, with a view towards developing a secondary market in the UK for TV programmes (i.e. its back catalogue), it also proposed unlimited access to ownership of UK cable channels for independent producers.

Pearson's views were also echoed in evidence from the highly influential British Media Industry Group (BMIG) which comprising Associated Newspapers, the Guardian Media

Group and The Telegraph, as well as Pearson again. The BMIG suggested that UK cross-ownership restrictions need to be abolished to give publishers the right to diversify "into the new multinational and multimedia market" (BMIG, 1994). It acknowledged that newspapers are in long-term decline compared with the rest of the media and suggested that de-regulation of cross-media ownership rules was essential if Britain was to take advantage of the multi-media revolution.

The Newspaper Society (an association of regional and local newspapers) was similarly in favour of de-regulation and suggested that the review should end current restrictions on local and regional newspapers who want to operate broadcast stations in their own circulation areas.

A submission from LWT (now owned by Granada Group) proposed that existing regional cross-ownership rules between television, radio and newspapers should remain (LWT, 1994b). Access to cable and satellite ownership should be regulated with a separation between ownership of cable distribution and programming, and with strict rules on ownership of conditional access systems. Also, because C3's advertising revenue will be dwarfed by satellite subscription funding in due course, existing limits on C3's ownership of satellite channels should be ended. Cross-ownership rules between broadcasters and independent production companies should also be relaxed.
In determining when undue concentration of media or cross-media ownership occurs, LWT argued that account should be taken both of audience/ readership reach and of shares of revenue. In a highly complex set of market-places, a points system was needed (as in commercial radio) to prevent undesirable concentrations.

The theme of adopting a market share approach to the measurement of media ownership was taken up in the Independent Television Commission's evidence to the Committee. According to the ITC, "basing ownership restrictions on the holding of a particular number of licences without regard to their economic significance is no longer consistent

with developments in commercial television" (ITC, 1994). The market share approach creates problems in defining percentage shareholdings in a transparent way, but is better suited to the new multi-channel environment. The ITC acknowledged the continuing need for cross-ownership restrictions to maintain editorial diversity, but was broadly in favour of some relaxation and correction of current rules.

Firstly, it pointed out that existing restrictions and recent amendments thereof, which allowed a single operator to hold any two regional C3 licences (except both London licences), had only served to emphasise disparities in the economic strength of C3 (ITV) regional companies. To give smaller licensees the same opportunity to participate in larger groups, the ITC proposed that a measure of say, 25% of total advertising revenue should be set in new legislation as a ceiling to which any holding of regional C3 services would be restricted (except that both London licences should still not be common ownership).

The Commission also favoured some widening in the scope for C3 investment in a "new and risky" C5; instead of the existing limit of 20%, it proposed that C3 licensees should be allowed to take up to but not a controlling interest in C5. It also suggested that the 50% ceiling on C3's collective shareholding in ITN, for which it could see no solid justification, be abolished but the 20% individual limit should remain.

On cross-media rules, the ITC proposed that limitations between terrestrial broadcasters and the press were too restrictive at present, and would tend to become more so as terrestrial broadcasters lose share to satellite and cable. As part of its review, the Government ought to define the point, in terms of audience or revenue share, when cross-ownership restrictions applying to terrestrial broadcasters (who, at that time, were limited to 20% holdings in national newspapers) might also apply to cable and satellite. According to the Commission, "for broadcasters operating competitive services in the same market a convergence of ownership rules must be appropriate". As an appropriate

first step towards equality of treatment, it favoured permitting national newspapers and broadcasters to own holdings up to, but not including, control of the other.

On the issue of pluralism, the ITC suggested that "the more obvious dangers in cross holding can be avoided" provided that the public interest requirements of accuracy and due impartiality and the prevention of editorialising by licensed broadcasters continued to apply. On the other hand, it went on to say that "the possibility of undesirable dominance through agenda setting, as distinct from matters of accuracy and due impartiality, remains an issue which should continue to be addressed by retaining specific limitations on ownership".

In contrast with lines of economic argument submitted by industry participants, evidence from the Centre for Communication and Information Studies (CCIS) at the University of Westminster opened by making the point that "existing cross-media ownership restrictions in the UK are primarily political rather than economic in aim". These restrictions are concerned with ensuring pluralism and, for such plurality to exist, media players must be economically viable. However, the public interest case for current restrictions should not be abandoned unless there is clear evidence that current ownership structures are economically unsustainable.
Such evidence, according to the CCIS, was not to be found. The impact of globalization and convergence had been greatly exaggerated - many media products were still largely confined to their own national or regional markets and cross-media synergy was "largely a myth", so it was not clear that the multi-media conglomerate is the optimum model (Garnham & Porter, 1994). The arrival of broadband digital networks delivering a range of multi-media services, which would require quite different regulatory structures, was still some 20 years away. Meanwhile, the competitive threat to a fragmented C3 had also been exaggerated, and regulations on the operation of the ITV network and the independent quota (which separate programme production and marketing resources) are a

more important barrier to UK participation in global markets than cross-ownership restrictions.

The CCIS proposed, therefore, that existing restrictions on cross-media ownership be maintained. Much of the pressure for this review had arisen, in fact, from the anomaly of News International's dominant position in the UK newspaper and satellite television markets. But rather than removing cross-ownership rules to create a level playing field, ownership of satellite broadcasting should be brought within existing restrictions. Also, the CCIS argued that the UK should seek the development of common cross-media restrictions within the EU and, until that has been achieved, should protect UK broadcasting companies by extending current restrictions to cover cross-ownership within the EU.

The Campaign for Press and Broadcasting Freedom (CPBF; a campaign group for "a diverse, democratic and accountable media") was also sceptical about the hype surrounding multimedia and convergence and it argued that wider considerations of the role of media in a democratic society should be at the centre of any balanced review of media ownership. CPBF's submission emphasised the importance of protecting diversity of opinion and the potentially adverse consequences of allowing inordinate media power to accumulate in the hands of single individuals or organisations.

CPBF suggested that "market forces will not lead to diversity of opinion and expression; Governments have to ensure a regulatory framework to encourage that" (Williams, 1994). It argued for tighter restrictions on cross-media ownership including the principle of "one owner, one outlet" to cover national newspapers, national radio stations, satellite television and C3 (ITV).

Similarly, the National Viewers and Listeners Association was concerned with providing "proper consumer safeguards" and it argued that a relaxation in existing cross-ownership rules would not be in consumers' interests.

The only publicly available written submission from a commercial media company which was primarily concerned with maintaining rather than relaxing cross-ownership restrictions to safeguard pluralism, was that of Ulster TV plc. UTV expressed concern that, with the emphasis the Committee was likely to give to its assessment of the desirability of encouraging UK media interests to play a more active part in national and international markets, the importance of ensuring controls of cross-media ownership at regional level might be overlooked.

The Institute of Practitioners in Advertising (IPA), which represents the major part of the UK advertising agency business, was also in favour of a plurality in media outlets. The concern expressed in its evidence is not with ensuring plurality and diversity of information for the public, but with ensuring open competition and freedom of choice for advertisers to place their advertisements cost effectively in appropriate media.

A number of trades unions submitted evidence to the Committee on Cross-Ownership, all of whom expressed concern with the need for strict rules to maintain diverse UK media ownership and pluralism. The National Union of Journalists (NUJ) pointed out that pressure for existing restrictions to be lifted had come principally from the self-serving arguments of newspaper groups who wished to move into newer and potentially more profitable electronic media, but 'case studies' of Rupert Murdoch and Silvio Berlusconi demonstrate the dangers of excessive media concentration. The NUJ suggested that "without national, pan-European and transnational regulation, there is a real danger that tomorrow's information super highway will be hogged by a small bunch of media juggernauts who will bear down on smaller competitors, who challenge their pre-eminent position" (NUJ, 1994). Therefore, existing cross-ownership restrictions should not only be maintained but extended to cable and satellite television. Foreign ownership of UK broadcast media should be subject to tighter restrictions.

According to the Broadcasting, Entertainment, Cinematograph and Theatre Union (BECTU), the weakness of some of the arguments for deregulation as the strategy for surviving in "the multimedia market" was their excessive reliance on commercial rather than broader cultural considerations. Concerns with the need for diversity, representativeness and freedom of expression in the media and for a plurality of views and interests to be expressed should not be ignored. "An understandable concern to provide and protect UK commercial interests in media hardware and technology need not and should not be a reason for undermining a commitment to pluralism in programming" (BECTU, 1994). BECTU recommended that, in the short term, existing cross-ownership restrictions should be maintained, except for amendments to ensure that News International is made subject to the same regulations as other companies. Until the development of European policy in this area becomes clearer, it would be unwise for the UK to significantly relax ownership restrictions.

Reconciling Conflicting Policy Objectives: An International Dilemma

Weighing up the key positions which were represented to the DNH during the course of the Cross-Media Ownership Review, it is clear that considerable pressure was mounted for amendments which would allow UK media companies to expand their domestic positions as they see fit. Arguments in favour of a relaxation in existing ownership rules were in keeping with the free market approach favoured by the then Conservative Government and the Secretary of State for National Heritage, Mr Dorrell. But liberalising influences had to be measured against sacrificing plurality and diversity in the media. If pluralism meant anything as a social policy objective, it would be difficult to justify doing away with curbs on excessive domestic media concentrations simply in order to generate undesirable concentrations of UK media power at the international level.

Precisely the same dilemma - a conflict between pro-liberalisation industrial arguments and concerns to preserve pluralism - has been facing media ownership policy-makers in many other European countries and at the collective level of the European Union.[42] For the European Commission, following on from its Green Paper (CEC, 1992) on Media Pluralism and Concentration in the Internal Market, an initial consultation exercise (the results of which were published in a follow-up Communication (CEC, 1994d) and discussed later in this study) revealed exactly the same battle lines within the European policy debate on media ownership.

Some of the strongest voices in the European debate have been, as in the UK, those of media organisations who want to be allowed to grow large enough to compete effectively with major integrated rivals from other Member States and elsewhere. It is not always clear whether their exhortations are aimed at equalising restrictions across Europe in the interests of fair and equal competition, or simply at liberalising their own domestic ownership rules to give indigenous operators some kind of a head start. At the level of each individual state, arguments in favour of a more liberal ownership regime are often expressed in terms of the need to match the competitiveness of European media rivals. Similarly, at the European level, greater flexibility is argued for on the basis that the European audio-visual industry encounters great external competition from the American and Japanese industries.

At every level, there are strong and understandable sensitivities about the need to sustain an economically viable "indigenous" media industry, and the fear of losing competitiveness to foreign rivals has been deployed extensively and judiciously by companies with a clear commercial self-interest in expansion.

Like the European Commission, the UK Cross-Ownership Review Committee was expected somehow to perform a balancing act between the various interests and policy

[42] The European media ownership policy dimension is discussed in detail in chapter 5.

objectives which would be affected by whatever stance it were to adopt on media ownership. Unlike the Commission, which has yet to find any acceptable resolution between the conflicting aims and arguments, the UK Cross-Ownership Review Committee duly delivered its policy proposals in the Summer of 1995.

For UK policy-makers, the political influence of certain media owners played a crucial role in determining how the conflict between "pro" and "anti" liberalisation arguments was resolved.[43] The British Media Industry Group (BMIG) - a lobby organised by most national newspaper publishers, but excluding News International and Mirror Group Newspapers - was particularly influential (Snoddy 1995a; 1995b). It would seem that, above all else, the Government was keen to secure this group's approval for its policy recommendations. The Head of the Review Committee acknowledges the importance of the BMIG:

> .. I think undoubtedly the campaign that the BMIG waged was extremely persuasive, and it obviously suited Ministers *politically* to be able to accommodate them. ... The BMIG was clearly a self-interested case, undoubtedly... What can I say? These were political decisions at root..
>
> (Paul Wright, DNH, 1997).

Consequently, the aspirations of this particular constituency are heavily imprinted on the proposals set forth by the Cross-Ownership Review Committee in the 1995 Green Paper on Media Ownership (DNH, 1995a).

4.3 The 1995 Green Paper on Media Ownership (Cm 2872).[44]

The Secretary of State for National Heritage announced the Government's new framework for regulating media ownership in the UK in May 1995. These ideas,

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[43] The manner in which the DNH sought to produce a set of proposals likely to be acceptable to most media owners is analysed in some depth in chapter 9 (Section 9.1).

[44] Section 4.3 draws on an article previously published by the author (Doyle,1995c).

presented in a Green Paper (DNH, 1995a), were broadly well-received, not only by media industry participants and regulators but also by opposition political parties. The fact that Rupert Murdoch seemed to be the only outraged critic of the new proposals just added credibility to their unlikely achievement: on the one hand, a curb on any expansion into terrestrial television by the UK's largest press organisations (News International and Mirror Group Newspapers) to back up assurances of the Government's commitment to media pluralism; on the other hand, a general relaxation of existing cross-media ownership rules to provide other leading media players with the flexibility they argued was essential for their future commercial success.

How did these proposals manage to serve both the public interest in diverse ownership and the industry's commercial interest in consolidation? This was achieved by establishing new limits on media and cross-media ownership which, although officially higher than before, also provided an unambiguous benchmark for identifying any excessive concentrations which had taken root already within the previously "tighter" rules. Such concentrations would now be partially arrested although not, it seems, required to move back within the newly prescribed ceilings. So, although the 1995 proposals struck an overdue blow for pluralism by preventing any expansion into terrestrial television on the part of, say, News International they also, by contrast, paved the way officially for the UK media to be dominated by a reduced number of suppliers in future.

The new proposals

Broadly speaking, the suggestions contained in the Green Paper involved two stages. In the long term, the Government wanted to sweep away the complexities of the existing media ownership regime and replace it with a new approach based on a company's share of what was adjudged to constitute the "total" UK media market. As technological and

other changes blur the traditional boundaries between various sectors of the media and their products, an approach which recognised and placed a common upper limit on any media operators' collective media power, seemed to offer a more coherent basis for ensuring pluralism. The Government invited views on how it might implement such an approach in the longer term. In the meantime, a number of proposals to adjust and loosen up specific aspects of the existing media ownership regime would be enacted either immediately or else during the next parliamentary session.

Plans for immediate action were concerned, firstly, with a relaxation of the rules on ownership of commercial radio licences. Under the new proposals, the points system[45] for radio would remain and (as before) no company would be allowed to control licences covering more than 15 per cent of the commercial market, but the number of local radio licences which one company may own was to be increased from 20 to 35 and restrictions on some licence categories were to be removed. These relatively modest adjustments were enacted through secondary legislation[46] and brought about a flurry of corporate activity in the radio sector, involving companies such as Metro, Capital and Chrysalis.

Another of the Government's early actions was to raise the equity ceiling between "independent" television programme producers and broadcasters from the existing 15 per cent up to 25 per cent.[47] This signalled an interesting reversal of the position previously adopted by the Government when, following the 1986 Peacock Report, it was considered that vertically-integrated broadcasting companies were stifling the growth of a strong independent programme-making industry in the UK. As mentioned in section 4.1 above, in the late 1980s, the objective of cultivating a healthy independent production sector had inspired a policy of forcing a separation between the functions of broadcasting and

[45] Ownership of commercial radio is governed by a system whereby each licence is allocated points according to the size of the population served by that licence. No company is allowed to have more than 15 per cent of the total number of points in the radio licensing system.
[46] The Broadcasting (Restriction on Holding of Licences) (Amendment) Order 1995 (SI 1995/1924) came into force on July 21 1995.
[47] The Broadcasting (Independent Productions) (Amendment) Order 1995 (SI 1995/1925) also came into effect on July 21 1995.

programme-making at the BBC and ITV. Now, it seemed, this objective was to be pursued by encouraging higher levels of cross-investment and a stronger integration between these functions again. Whether those producers who, under the enactment of the new proposals, benefited from more significant cross-ownership with a broadcaster could still be truly regarded as "independent" is another matter. In fact, many might argue that a policy to encourage better terms of trade from broadcasters rather than higher equity ceilings would enhance the financial well-being of the independent production sector more effectively.

As a concession to the newspaper industry, the Government also used immediate secondary legislation to double the circulation threshold (to 50,000 daily copies) for newspaper referrals to the Monopolies and Mergers Commission (MMC).[48]

The most significant of the Government's short-term proposals involved substantial amendments to the Broadcasting Act 1990 to relax monomedia and cross-media television and newspaper ownership rules. These were to be dealt with in primary legislation (a new Broadcasting Act) in the following 1995-96 parliamentary session. These changes would establish a shared upper limit on ownership for terrestrial and for cable and satellite commercial television operators alike at 15 per cent of the total UK television market, as measured by audience share figures which include the BBC (see market share data in appendices). Commercial television operators would be allowed to control up to a 15 per cent share of the total audience, regardless of which delivery method/s are involved or the number of channels owned, except that the existing stipulation that no company may own more than 2 ITV licences would remain unchanged. In other words, ITV companies were to be allowed to own cable and satellite operators and vice versa for the first time. As a safeguard, however, ownership of terrestrial television would be restricted for any cable or satellite company in which a

[48] The Fair Trading Act (Amendment) (Newspaper Mergers) Order 1995 (SI 1995/1351) came into effect on June 13 1995.

national newspaper operator controlling more than 20 per cent of national circulations holds more than a 20 per cent stake.

More generally, newspaper groups with less than a 20 per cent share of national circulations (i.e. in practice, all but News International and Mirror Group Newspapers) were to be allowed to control up to 15 per cent of the total television market and 15 per cent of the commercial radio market. These new rules were reciprocal so, likewise, television and radio operators may control up to a 20 per cent share of national newspaper circulations as well as up to 15 per cent of the total television market and 15 per cent of the commercial radio markets. To protect diversity at a regional level, newspaper operators with more than a 30 per cent share of circulations in any particular area would not be allowed to own regional television or radio licences in that same region.

Prior to the 1995 Green Paper on Media Ownership, newspaper groups, terrestrial television companies and national commercial radio operators had been subject to very tight restrictions on investment in any of each other's businesses, usually allowing for no more than minority cross-holdings. However, industrial lobby groups (in particular, the national newspaper lobby led BMIG) had argued that these restrictions were preventing them from taking advantage of technological convergence, and that they deterred investment and thwarted the development of major UK media players capable of competing internationally. In response, the Government's new proposals provided quite significant scope for expansion both within and across the various sectors of the media for virtually all UK newspaper, television and radio operators. They promised most newspaper operators freedom to diversify and derive revenues in the lucrative terrestrial television market and they offered ITV companies the opportunity to invest in cable, satellite, newspapers, radio and (to a greater extent) independent producers.

Not surprisingly then, the Green Paper was warmly welcomed by television operators such as Carlton, Granada and MAI, and by the large newspaper groups such as

Associated Newspapers, Pearson, the Guardian Media Group and The Telegraph who had been the principal activists in lobbying for a relaxation in media ownership rules.

Another apparent victory for the lobbying efforts of these newspaper groups who, collectively, comprise the British Media Industry Group (BMIG), was the Government's longer-term proposal of switching to a single media market share or, as BMIG had suggested, a "share of voice" approach as the basis for setting ownership restrictions in future (BMIG, 1995). Such an approach had also been advocated, in one form or another, by other companies such as LWT and by the Independent Television Commission (ITC, 1994), the commercial broadcasting industry's regulator.

Although few, other than the ITC[49] expressed dismay publicly, an anomalous note was struck by the proposal to continue to limit ITV ownership on the basis of the number of licences controlled rather than, in keeping with its general approach, on the basis of a specified market share. This decision seemed to reflect views expressed to the DNH that the merger activity which had followed on from the Government's previous relaxation of ITV ownership rules in December 1993, whilst creating a bonanza for some ITV shareholders, has not actually resulted in any more success for the UK television sector in international markets.

The total media market: A new approach

The general case in favour of switching to a market share approach was a strong one. Notwithstanding any pressures added by the emerging conditions of sectoral overlap in the media, there would anyway have been a strong argument for shifting the basis on which media ownership limits are set away from the number or type of "products"

[49] The ITC published its response to the Government's media ownership proposals on August 29, 1995 (ITC, 1995). It broadly welcomed the main thrust of the new approach set out in the Green Paper including, subject to appropriate public interest tests, the relaxation of cross-ownership rules between newspaper and television operators.

(newspaper title or TV channels) owned to a more accurate indicator of the extent of actual media influence across all sectors. After all, different newspaper titles, television channels and radio stations command very different levels of impact or control over public opinion. To maintain a diversity of media sources and influences, and scope for a plurality of viewpoints requires that all manifestations of media control be properly measured and taken account of. In practice, however, the task of weighing up the impacts of various media raised many difficulties.

An initial problem with switching to a "single" market approach was that, before any individual operator's share of the total media market can be measured, a universe for media influence (which products to include in the total market) has to be decided upon. Thus far, UK media ownership legislation had only been concerned with radio, television and newspapers. However, magazines, for instance, could also be regarded as influential media products. Likewise, a universe for media influence which is complete might take account of products such as mass market books, films and electronic information feeds. Extending the range of media governed by ownership restrictions would make the auditing of individual operators' holdings more complicated and, of course, it would not be welcomed by companies operating in these additional media sectors. But if the aim of the new approach was to move beyond crude estimates to a more effective measure of aggregate media influence, then the boundaries of media influence would need to be considered carefully.

Another problem with implementing a single media market approach was that of recognising differentials between the influence wielded by different types of media, i.e. judging whether newspapers should be regarded as more, equally or less powerful than television or radio or film, and vice versa. The Green Paper acknowledged this question of "whether the relative power of different media to influence the public's views and opinions should be reflected by ascribing weightings to them, and if so, the basis for such

weightings" (DNH, 1995a, p23). It suggested that more research would be needed to determine "an 'exchange rate' between media sectors" (ibid).

Whether or not the Green Paper wished to encourage research aimed at these problems was unclear, as the document went on to indicate the Government's preference for establishing an exchange rate "based on objective measurable factors" (e.g. advertising revenue or audience time). A preference for objective measurable factors was understandable, but no such factors seemed to be available which might correlate accurately with the degree of influence wielded by one type of media or media service, as opposed to another. Simple distinctions between different types of media would not constitute a sufficient basis for judging the extent of their respective powers to influence the public's views. The nature of the service being mediated - whether, say, light entertainment or serious news analysis - would also need to be taken into account. Furthermore, it was difficult to see how any exchange rate for the relative power of media, as experienced by the public, could be fully valid without reference to the subjective audience experiences it purported to give an account of.

With these issues in mind, the BMIG[50] had suggested that any company's "share of voice" should be calculated by measuring its share of newspaper circulation (national and regional), its share of television viewing (cable, satellite and terrestrial) and its share of radio listening (national and local), although radio listening should then be down-weighted by 50 per cent compared with newspaper circulation and television viewing to reflect its "perceived lower impact on diversity of view issues". An appealing aspect of this suggestion was that, in practice, such a calculation can be undertaken with much greater ease than any more complex model of relative impacts would involve. A problem is that simplicity seemed to be the primary justification for the weightings nominated.

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[50] The British Media Industry Group, comprising Associated Newspapers, Pearson, Guardian Media Group and The Telegraph, set out their proposals for a new methodology for measuring and controlling media ownership in a submission to the DNH in February 1995 (BMIG, 1995).

Further Consultation and Amendments

At the same time as giving ground to most media players requests for flexibility, the Government did not submit to suggestions that media ownership be deregulated and governed by competition legislation alone. Notwithstanding new technological and market developments, the need for diversified domestic ownership to be preserved through special media ownership rules was restated and underlined in the Green Paper (DNH, 1995a, p3). However, the new proposals included no suggestion for action in respect of voices which had already become extremely powerful: no proposals were put forward to set an upper limit on monomedia ownership in the newspaper sector - an omission which seemed to reflect political sensitivities, above all else (see Section 9.1 below).

The Government's stated aims - to protect pluralism while, also, setting a framework which allows commercial media operators to take advantage of market opportunities - were set out again in a further Green Paper on Digital Terrestrial Broadcasting published in August 1995 (DNH, 1995b). Under new proposals, six blocks of frequencies or "multiplexes", each capable of transmitting at least three high-quality terrestrial digital television channels reaching 60 - 90 percent of the UK population, would be awarded by the ITC in an open competition in a couple of years time. In keeping with the proposed new regulatory arrangements for television ownership prescribed in the earlier Green Paper on Media Ownership, digital broadcasters would be allowed to own any number of digital channels (although not accounting for more than 25 percent of digital terrestrial frequencies) subject to a ceiling on total TV market share of 15 per cent. Multiplex ownership would be restricted to two per company.

Growing concerns in the UK and, also at the European Commission, about the issue of how "gatekeepers" - primarily, owners of encryption technology for pay television ("conditional access" providers) and, also, "multiplex operators" for digital TV - were to

be regulated were reflected in both of these Green Papers. The Media Ownership document indicated that those controlling access to encryption technologies and to satellites would be closely monitored by the UK and European competition authorities to ensure that arrangements to supply access to rivals are not anti-competitive. The Digital Terrestrial TV document went on to propose that providers of encryption or subscription management systems for these new digital services would have to be licensed by the telecommunications regulator (OFTEL) and overseen by the ITC.

Through the Green Paper on Media Ownership, the Government invited a further round of public consultation on the means by which media concentration might be measured under its new "longer-term" approach. It also asked for views on who the regulator should be to govern media ownership - whether the ITC, the OFT or some other, perhaps new, agency - and what role that body should play. The Green Paper envisaged that the regulator would be responsible for implementing a "public interest" test on acquisitions which exceed the common thresholds on media ownership. For the moment, the Government suggested that these thresholds might be fixed at 10 percent of the total UK media market for any single operator, or 20 percent of the media market in Scotland, Wales, Northern Ireland and the English regions, or 20 percent of any one media sector (DNH, 1995a, p24).

Staking a claim to expand its role as the ownership regulator for commercial broadcasting the ITC, in its response, urged the Government to re-consider the proposal put forward in the Green Paper on Digital Terrestrial TV and, instead, to award full responsibility for regulating conditional access and subscriber management arrangements to the ITC (ITC, 1995). The Commission maintained that such regulation relates primarily to broadcasting, and so it should handled by the ITC rather than OFTEL. However, public responses to this issue were divided[51] and the Government opted

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[51] A 'Summary of Responses to 'Media Ownership: The Government's Proposals (Cm 2872)' was published by the DNH in December 1995.

instead to give responsibility for supervision of conditional access providers to the authorities with more experience of competition issues surrounding communications infrastructures; the OFT and, latterly, OFTEL.

Nonetheless, the ITC and the Radio Authority were to continue playing a central role in the implementation of media ownership policy. The 1995 Broadcasting Bill gave these bodies responsibility for applying a new public interest test (PIT) designed to give some special consideration to the general impact - including on pluralism - of mergers between broadcasters and newspapers.[52]

More broadly, the consultation following the Media Ownership Green Paper attracted some 70 responses, most of which came from media industry participants who were broadly in support of the liberalising measures proposed in the Green Paper. However, the main issue raised for consultation was *not* the key short-term proposal to de-regulate television ownership and cross-ownership between terrestrial television and newspapers but, rather, the longer-term proposal to switch to a single media market approach. Consequently, the most important outcome of the consultation exercise was the realisation that, for most people, a longer-term transfer to single media market approach, complete with "exchange rates", seemed unworkable:

> The consultation exercise had a decisive influence, in particular, in making up our minds that we were not trying to go, in one leap, towards a new integrated media ownership system with internal rates of exchange, or whatever other mechanism, to create a monolithic system of controls. It became clear from the consultation exercise that we were unlikely to achieve a sufficient consensus on that, and that there was still the feeling amongst participants and the public at large that there were still distinct media markets which still required distinct regulation. That was the principal input from the consultation exercise.
>
> (Paul Bolt, DNH, 1997).

[52] Provisions concerning the public interest test are set out in Schedule 2 (Section 11) of the 1995 Broadcasting Bill.

In addition, the DNH had commissioned a study on the longer-term "reforms" from the National Economic Research Associates which was published in August 1995. This study (Marks et al, 1995) examined the definition of control of a media enterprise, market measurement within each sector, and how exchange rates might be used to aggregate market share across various media sectors. Rather than playing a part in informing the actual policy formulation process itself, the NERA study was primarily intended to establish suitable alternatives for the implementation of the longer-term "single market" approach much favoured by the Minister for National Heritage, Mr Dorrell:

> That NERA report was commissioned in order to, as it were, validate what the Government had by then decided that it wanted to do ...
>
> (Paul Wright, DNH, 1997).

However, in view of the many dissenting views gathered during the public consultation about whether and how a "single market" approach might work, the DNH had little choice other than to abandon these longer term proposals altogether. Thus, the key proposals which were carried through, relatively unscathed, from the Green Paper to the 1995 Broadcasting Bill (and ensuing legislation) were those relating to the short-term *only*; principally, the de-regulation of television ownership and the de-regulation of cross-ownership between broadcast and newspaper operators.[53]

In effect, dropping the longer term proposals for a switch to a share of the "total" media market approach meant a further de-regulatory concession ahead of the 1995 Broadcasting Bill. The Green Paper had proposed an overall upper limit on ownership of 10% of the total media market for any single supplier. Since monomedia restrictions for radio and television were to be set at some 15% each, and since there was no proposal to introduce any upper ceiling on monomedia ownership in the newspaper sector, the omission of this overall limit of 10% from the 1995 Broadcasting Bill (and the

[53] The relevant provisions in the Broadcasting Bill 1995 are contained in Clause 62 and Schedule 2.

subsequent Act) meant that any single supplier could now, through cross-sectoral holdings, own well in excess of 10% of the total media market.

The second key policy change which took place between the Green Paper proposals of May 1995 and the publication of the Broadcasting Bill in December 1995 was another de-regulatory concession. In response to arguments from the major ITV companies that a further round of consolidation of ownership would help them to hold their own in the domestic and international marketplace, the Government decided to abolish the remaining 2-licence limit over ITV ownership (with the proviso that the two London licences may not be held in common ownership). Thus, ITV licence-holders would be subject to exactly the same upper constraint on ownership as, say, a cable or satellite television provider - i.e. 15% of total television audiences, including the BBC:

> The most important change between the Green Paper and the Bill was the removal of any kind of numerical restriction on the number of C3 [ITV] licences which you could own ... You can imagine who were the people urging that ... The C3 companies are a substantial influence with us ... not least because to some extent we see their fate as bound up with our aim of continuing quality, worthwhile TV...
>
> (Paul Bolt, DNH, 1997).

Whatever the perceived longer-term public benefits of allowing further consolidation within ITV, the immediate beneficiaries of this announcement were shareholders in some of the ITV companies who enjoyed "sharp rises" in share prices on the expectation "that it would unleash a bidding war for ITV companies". [54] Likewise, the share price of, for example, newspaper group United News & Media rose sharply with the publication of the Bill on hopes, which have subsequently proved to be correct, that de-regulation of cross-ownership between television and newspapers would help "find a buyer for the newspaper".[55]

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54 Citations from Lex Comment in Financial Times (1995b, p18). Additional coverage of the likelihood of television takeovers was provided by Raymond Snoddy (Snoddy, 1995c, p18).
55 Market Report in Financial Times (1995c, p13).

A number of other relatively minor amendments - especially in relation to cross-ownership at the local level - were also conceded between the Green Paper and the legislation finally enacted in the 1996 Broadcasting Act. Whilst press coverage of the passage of the Broadcasting Bill tended to focus attention on such popular themes as the protection of terrestrial television rights to key sporting rights[56], only one further development was to place in question the overall thrust of the Government's new media ownership policy. The exclusion of News International and Mirror Group Newspapers, under the 20% cross-ownership limit on national newspaper proprietors' expansion into terrestrial television, emerged in the final phase of the Bill as a highly contentious issue.

The controversy came to the fore when, during the Committee stages of the Broadcasting Bill in May 1996, two Government back-bench MPs put down an amendment which would remove the 20% upper limit on newspaper ownership for cross-media expansion (Snoddy, 1996a, p7). One of these MPs, Peter Atkinson, explained in the *Times* (owned by News International) his reasons for opposing the 20% upper cross-ownership limit in the Broadcasting Bill:

> 'On principle this is wrong. Success should be rewarded, not punished. On principle, News International and Rupert Murdoch are entitled to better treatment from a Conservative Government'
>
> (Peter Atkinson, May 22, 1996).[57]

At the same time, the (Labour supporting) Mirror Group was also constrained by the 20% upper cross-ownership limit. It was lobbying for either an increase in the barrier to 25% (which would release Mirror Group, but not News International, from the restriction) or else for the complete abolition of the 20% ban (Snoddy, 1996b, p10). In an interesting mismatch between means and ends, political allegiances between Mirror and the Labour

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[56] A House of Lords proposed amendment to the provisions in the 1990 Broadcasting Act concerning the 'list' of key sporting fixtures to which universal (i.e. terrestrial) access is guaranteed became one of the most highly publicised aspects of the Broadcasting Bill and, for example, warranted specific editorial comment in the Financial Times (1995a, p15).
[57] Atkinson, 1996 (p23).

party meant that many opposition MPs were expressing support for the drive, led by "free-market" thinking Conservative MPs, to do away with any upper limit on cross-media ownership.

According to Paul Bolt at the DNH, whose task it was to steer the Broadcasting Bill through its Parliamentary stages and to navigate such crises, the only political party which steadfastly adhered to the principle of preserving diverse media ownership was the Liberal Democrats. However, other events around this time were to intervene and, finally, to sway sectional interests in both the main political parties into supporting the Government and defeating the proposed amendment to do away with the 20% cross-ownership limit. In particular, the tone of coverage of the World Cup in the *Mirror* in June 1996 was apparently a decisive factor in re-engaging concerns about standards in broadcasting and the dangers of excessive cross-ownership between television and the press.[58]

> ... It became clear that this was not the climate in which to have an unholy alliance between the Labour front bench and the extreme right of the Tory party.
>
> (Paul Bolt, DNH, 1997).

Thus, save for the two major amendments discussed above, the proposals which had been set out in the 1995 Green Paper on Media Ownership survived largely intact to form the basis of the provisions which were written into statute in the 1996 Broadcasting Act. The key media ownership policy changes which this legislation brought about are summarised in the following section.

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[58] The circumstances surrounding the defeat of this crucial amendment are analysed in further detail, in the context of assessing the success of the 1996 Broadcasting Act in establishing 'effective and equitable constraints on any single owner's media power' in chapter 9 (Section 9.1.(b)).

4.4 The 1996 Broadcasting Act

The 1996 Act contains detailed amendments to the provisions in the 1990 Broadcasting Act on the holding of licences in respect of ownership both across different media sectors (i.e. radio, television and newspapers) and within each broadcasting sector (i.e. radio and television only). The new Act also introduces a regulatory framework for all aspects of digital terrestrial broadcasting. The most important changes to media ownership policy introduced in the 1996 Act can be summarised briefly as follows:

Higher Ownership in the Television Sector

The 1996 Act removes the previous 2-licence limit on ownership of C3 (ITV) and replaces it with an overall ceiling on monomedia ownership for all television broadcasters, regardless of delivery method or number of licences held. The new common upper ceiling on television ownership has been set at a 15% share of the UK audience time, with BBC audiences to be included for the purposes of calculating the total UK television audience.[59]

Thus, a television company may now own virtually any combination of the following, up to the point where its share of the national television audience reaches 15%:

- regional and national terrestrial licences
- satellite television services
- cable television services

The only remaining restrictions, alongside the 15% of total audience share limit, apply to common ownership of certain terrestrial licences. These are that no single provider may own both of the London C3 (ITV) licences and, also, no single provider may own both a

[59] 1996 Broadcasting Act, Para 2, Part III, Schedule 2.

national C3 (ITV) and C5 licence.[60] The ITC is empowered to revoke a television licence in circumstances where the 15% upper audience limit is breached.

In addition, by way of mitigating possible adverse effects of consolidation of ownership within C3 (ITV), the 1996 Act includes stronger measures than existed under the 1990 Act to protect the regional character of ITV.[61] The ITC is empowered to impose new conditions on an ITV licensee where it considers that a change of ownership may prejudice the quality of its programming or regional production.

The 1996 Act also introduced the general framework for digital broadcasting in the UK. As far as television ownership is concerned, there are no special restrictions on operating digital television multiplexes and any company may hold up to 3 television multiplex licences.[62] Television companies are also free to own digital terrestrial television services, subject to the overall 15% total television audience limit, albeit that ownership of digital services is also subject to a separate "points" system whereby no single broadcaster may account for more than 25 percent of digital terrestrial frequencies.[63] In addition, the Secretary of State may restrict common ownership in areas where television services overlap significantly.

Greater Cross-Ownership between Newspapers, Television and Radio

The 1996 Act allows, for the first time, significant levels of cross-ownership between newspaper groups, radio stations and terrestrial television companies, at both the national and regional levels.

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[60] 1996 Act, Para 4, Part III, Schedule 2.
[61] Contained in Sections 78 and 79 of the Act
[62] Para 5, Part III, Schedule 2.
[63] Para 7, Part III, Schedule 2.

Prior to 1996, newspaper groups, radio companies and terrestrial television broadcasters were only allowed to have minority (20%) investment stakes in each other's activities. The new Act sweeps away these restrictions and allows a single provider to own any combination of the following (but subject to the exceptions set out below):

- up to 15% of the radio sector (excluding BBC audiences); but no more than 1 national radio licence[64], and
- up to 15% of the television sector (including BBC audiences); but not more than 1 national C3 (ITV) or C5 licence, and
- up to 20% of national daily newspaper circulations

The 1996 Act stipulates that no single provider may, at any time, exceed the upper thresholds for monomedia ownership of television or commercial radio which are set out above. In addition, it limits cross-ownership between national commercial radio and national C3 (ITV) or C5 broadcasting licences.[65]

On the other hand, monomedia ownership of newspapers is not touched upon in the 1996 Act and remains a subject for competition law. The new 20% upper ceiling on newspaper ownership only applies in the case of cross-media expansion. In other words, ownership of more than 20% of national daily newspaper circulations will only disallow a proprietor from cross-owning terrestrial television and/or commercial radio licences, and vice versa.[66] As was the case under the 1990 Act, cross-ownership restrictions do not apply between newspapers and cable or satellite broadcasters.

At the local or regional level, cross-ownership between terrestrial television and radio licences covering the same transmission areas remains prohibited[67], but cross-ownership between local newspapers and broadcasters is substantially de-regulated under the 1996

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[64] Para 11, Part III, Schedule 2.
[65] Para 15, Part III, Schedule 2.
[66] Para 4, Part IV, Schedule 2 - This is the controversial clause which excludes both News International and Mirror Group Newspapers from expansion into terrestrial television.
[67] Para 15, Part III, Schedule 2.

Act. Local newspaper proprietors may now own regional terrestrial television licences, although a circulation share of more than 20% in the target's transmission area will prevent cross-ownership.[68] Similarly, a market share in excess of 50% of the target's transmission area will rule out cross-ownership of local radio services (and vice versa), unless at least one other such radio service is also operating in the same locality.[69]

At the same time as allowing higher levels of cross-media ownership, the 1996 Act also introduces a new measure - the so-called "public interest" test (PIT) - which gives regulators discretionary power to block undesirable mergers, if this can be justified in the public interest.[70] In the case of any merger or takeover between newspaper proprietors and terrestrial television or radio broadcasters, whether at the national or regional level, the relevant broadcasting authority (i.e. either the ITC or the RA) is required to carry out a PIT, taking into account plurality and diversity, any economic benefits arising from the deal, and its effect on the proper operation of the newspaper and broadcasting markets. The relevant authority will give its consent unless it finds reason to expect that a proposed takeover or merger would be likely to operate against the public interest.

The regulatory changes introduced by the 1996 Broadcasting Act clearly represent a sweeping shift in UK media ownership policy. The restrictions which had prevailed, up until the 1994-95 Review of Cross-Media Ownership, were undoubtedly open to criticism, especially regarding their lack of effectiveness in curtailing the dominance of one particular media owner - News International (Hitchens, 1995). Yet, rather than opening up any possibility of strengthening safeguards for pluralism, the proposals offered by the 1994-95 Review Committee (DNH, 1995a) steered the re-design of policy inexorably in the opposite direction.

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[68] Para 4, Part IV, Schedule 2.

[69] Para 12, Part III, Schedule 2

[70] Paras 9-13, Part IV, Schedule 2.

The explanation for the relaxation of media and cross-media ownership rules lies in the "economic" arguments submitted to the DNH by many large UK media firms and, also, in the Government's receptiveness to these arguments. The following chapter examines how the conflict between such pro-liberalisation industrial arguments and concerns to preserve pluralism has played itself out in the European policy-making arena.

Chapter 5

EU Media Ownership Policy

5.1 Overview of Media Ownership Regulations in Europe.

In common with the UK, most other member states of the European Union (EU) are agreed on the need for special restrictions on ownership of the media, over and above any safeguards provided through domestic or EU competition law. Therefore, most other EU member states have statutory rules which, in the interests of promoting pluralism, impose specific restrictions on the development of media or cross-media concentrations of ownership.[71]

It is difficult to summarise the nature of media ownership restrictions for the whole of the European Union, because these have evolved separately under the jurisdiction of each member state and in accordance with the characteristics of each countries' media markets. Not only do upper thresholds on media and cross-media ownership vary widely from one member state to the next, but even the broad approach towards regulation of media ownership tends to differ. For example, while some countries (e.g. UK, France and Germany) have opted for mechanistic upper limits on ownership, others (e.g. Sweden) favour a public interest test approach, allowing each instance of concentrated ownership to be considered and dealt with on a case-by-case basis. Upper ceilings on ownership represent the most widely adopted approach, but the basis for measurement of ownership tends to vary. In Germany and the UK, the basis for calculation of media market share is audiences. By contrast, the benchmark adopted in Italy is shares of media revenue.

[71] Brief descriptions of the media ownership regulations within different European countries are set out in Lange & Van Loon, 1991; CEC, 1992 and CE, July 1996.

One of the key issues reflected in differences between the media ownership rules adopted by each European member state is disparities in market sizes (Doyle, 1997a, p7). Within any free-market economy, the level of resources available for media provision will be constrained principally by the size and wealth of that economy, and the propensity of its inhabitants to consume media. The relationship between the size or wealth of a given market and the level of resources which may be tied up in supplying its media seems inescapable, irrespective of which sources of funding are involved. Support for the media through direct payments will be constrained by overall levels of consumer expenditure (itself, a function of the wealth of the economy). The availability of advertising support is also closely related to levels of consumer expenditure or economic wealth in a given market. Even where state intervention supports an artificially high level of indigenous media supply, the level of such support will be a function of the overall wealth of the economy, and competing "welfare" claims for public expenditure.

The existence of this relationship between the size or wealth of a market and the level of resources which may be tied up in supplying its media has important implications for regulation of media ownership. Whereas, from a point of view of pluralism, it may be desirable that ownership of the media in *all* markets be spread amongst a large number of separate and autonomous suppliers, the fact remains that large markets have far greater resources with which to support diverse media provision than smaller ones. In the context of Europe, it would be unrealistic to expect that a country as small as Luxembourg could support as many indigenous broadcasters and newspaper publishers as, say, France or Germany. Consequently, disparities in the regulation of concentrations of media ownership in different EU member states tend to reflect individual market circumstances, or divergences in the resources available to support diverse media ownership.

The one thing which various domestic media ownership regimes within the EU seem to have in common is their exposure to increasing de-regulatory pressure since the early

1990s. This pressure reflects a competitive impetus on the part of dominant domestic suppliers to participate in an ever-increasing international trend towards concentrations of media and cross-media ownership (MacLeod, 1996; Schlesinger and Doyle, 1995).

Of course, the impetus to build large media groupings is nothing new. Recent decades have witnessed the development of a number of national and transnational European conglomerates such as News International, Bertelsmann, Hachette and Fininvest (Barnard et al, 1996), all seeking to take advantage of natural economies of scale in the media. However, in the last few years, many of the traditional boundaries which separated the various sub-sectors of the media and which protected them from external rivalry have - as a result of, among other things, new technology and the European single market - begun to blur (Congdon et al, 1995, p4; Styles et al, 1996, p8). As these market boundaries and barriers fade, economies of scale and scope in the media have become more feasible and more attractive than ever. Although patterns of media output and consumption in Europe remain predominantly national (rather than pan-European), the perception of an ever-growing number of "windows" or distributive outlets for media products - of which any national EU market now represents only a portion - appears to have taken hold and is intensifying competition for control over both media distribution and media product. In turn, this has fuelled an increasing tendency towards enlarged, transnational vertically and diagonally integrated media organisations.

The de-regulation of anti-concentration provisions in the United States in 1996[72] has facilitated this international trend, and many European member states have followed suit. In Germany, a new Broadcasting Treaty signed by the Laender in August-September 1996 has relaxed previous restrictions on ownership of broadcasting companies (CE, 1997, p43). Likewise, France introduced relaxations on concentrations on ownership in the television and the radio sectors in 1994 (ibid, pp40-41). But the UK has led the way, as far as de-regulation within the EU is concerned, with the provisions introduced in the

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[72] Through the (US) Telecommunications Act, passed in February 1996.

1996 Broadcasting Act (see Section 4.4 above) which radically de-regulate previous restrictions on broadcasting and on cross-media ownership.

What exists in Europe at present, then, is a patchwork of different media ownership regulations which have been determined at member state level in order to accommodate the circumstances and characteristics of domestic media provision in each country. This situation has led to concerns, some of which reflect the possibility that regulatory disparities obstruct cross-border investment in European media, and others of which surround the threat to pluralism posed by the development of national and transnational European media conglomerates such as News International, Bertelsmann, Hachette or Fininvest. Inevitably, such concerns have brought media ownership regulation onto the pan-European policy agenda.

5.2 Media Ownership within the context of European Union law: A Question of Competence?

The legal framework of the European Union is determined principally by the 1957 Treaty of Rome, and by amendments subsequently agreed in the 1986 Single European Act and the 1992 Treaty on European Union or "Maastricht" Treaty (Weatherill and Beaumont, 1995, pp 1-41). The EU, operating through the auspices of the European Commission, may take action to create or harmonise European laws only if and when a remit for such action has been established through these Treaties.

The general effect of the Single European Act and the Maastricht Treaty has been to adjust the institutional structure of the Community and to progressively expand its formal competencies beyond those agreed in the initial Treaty of Rome. Even so, there is little direct reference to the media, or to policies for the media, in any of these Treaties.

Instead, European media policy - especially audiovisual policy - tends to be founded on broad EU objectives or more general Articles within the Treaties applied in the specific context of the media sector. For example, the 1989 EC Directive "Television Without Frontiers", which was mainly concerned with establishing a single borderless market for any European television service, reflected aims set out in 1957 Treaty of Rome, such as the free exchange of services between member states.[73]

The competence of the European Commission to initiate policies concerning pluralism and media ownership is far from certain. The EU's general rules on competition[74] apply to the media as any other economic sector but, while serving to restrict dominant market positions or anti-competitive behaviour, these are not specifically designed to promote pluralism (Iosifides, 1996, p24). The Maastricht Treaty[75] introduced competence for Community intervention in pursuit of cultural objectives, but this is limited to support measures and it explicitly excludes the possibility of harmonisation of legislation (Weatherill and Beaumont, 1995, p477). So, although concerns about national and transnational media concentrations have been on the "pan-European" policy agenda for some time (Beltrame, 1996a, p2), it seems that the European Commission does not have any clear remit to promote pluralism and diversity within the media.

Instead, the promotion of pluralism has traditionally been undertaken at member state level. But because each member state has established a different set of domestic media ownership regulations to safeguard pluralism, an alternative justification may be called upon in favour of Community intervention. The EU's wider objectives involve eliminating possible obstructions to the single internal European market, i.e. obstructions to the free movement of goods, persons, services and capital.[76] Divergences in national media ownership legislation could, it is argued, serve to obstruct the internal market, by

[73] Articles 59-66

[74] Contained in Articles 85-94 of the European Union Treaty and the 1989 Merger Control Regulation.

[75] Article 128.

[76] Free movement of capital is governed by Articles 67-73 of the Treaty of Rome, and Articles 73b and 73g of the Treaty on European Union.

impeding cross-border investment in European media (Beltrame, 1996a, p3). So, quite separately from the issue of pluralism, this "internal market" argument can be seen as providing the Commission with competence to tackle regulation of media ownership throughout the member states.

But even were there no "internal market" argument in favour of harmonising European media ownership restrictions, the more fundamental principle of "freedom of expression" has long been regarded by another (less powerful) collective European policy-making institution - the Council of Europe - as justifying concern about European media concentrations and pluralism. The Council's interest in pluralism is based on Article 10 of the Convention for the Protection of Human Rights and Fundamental Freedoms (which all EU member states are signatories to) and has led to various Recommendations and Resolutions being put forward since 1967.[77] In 1989, the Council set up a working group was to take stock of developments affecting political and cultural pluralism, and to formulate proposals for any necessary action. On the basis of the conclusions of this working group's report (Lange & Van Loon, 1991), a special sub-committee of Experts on Media Concentrations and Pluralism (MM-CM) was established in 1992, whose remit has been to monitor the development of media concentrations in Europe with a view towards promulgating further measures to protect and promote pluralism, as appropriate (CE, 1997, pp4-5).

The European Parliament has also taken a close interest in media concentrations and, at various stages (e.g. in the February 1990 "Resolution on Media Takeovers and Mergers"[78]), has called on the Commission to bring forward proposals aimed at harmonising restrictions on media ownership and guaranteeing pluralism throughout Europe. According to Beltrame (1996a, p4), the main protagonists for more effective measures to protect pluralism, both within Parliament at the Commission, are Italian

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[77] The Council of Europe's Recommendations and Resolutions are not legally binding instruments but, rather, they are declarations of intent or proposals for such declarations, which require additional forms of endorsement or ratification before becoming enforceable.

[78] *OJ* No. C 68/137-138.

MEPs who are particularly concerned about the situation in their own country and especially the position of Fininvest. Moreover, Parliament's concerns have persistently been expressed in terms of the need for pluralism, and without any acknowledgement of limitations over the EU's competence in this area (ibid.).

For its own part, the Commission took the first major step towards a pan-European policy approach to media ownership with the publication of a Green Paper on Pluralism and Concentrations (CEC, 1992). This document emerged as a response to the concerns expressed by Parliament about the need to safeguard pluralism but, at the same time, the Green paper emphasised that the main justification for European-level intervention would be completion of the single market (an area where the Commission clearly has competence) rather than pluralism (which, at least officially, is supposed to be a matter for member states). This dichotomy, according to Hitchens (1994, p587), "produces a tension which pervades the whole of the Green Paper".

The 1992 Green Paper reviewed existing levels on media concentration in Europe and suggested three possible policy options: firstly, no action at the pan-European level; secondly, action to improve levels of transparency, or; thirdly, positive intervention - via a Regulation or a Directive - to harmonise media ownership rules throughout the member states. But, five years on from the publication of the 1992 Green Paper, agreement has yet to be reached on which of these options would best serve the needs of the European Union. The failure to move forward decisively on one or other of these options may be attributed, in large measure, to the range of conflicting opinions within Europe about what the aims and the substance of a collective policy on media ownership ought to be.

5.3 Competing Policy Objectives: A Dilemma for the Commission

The path towards a harmonised approach to media ownership policy has become progressively more tortuous since the publication of the 1992 Green Paper, because of diverging ideas about which goals such a policy ought to strive towards.

In part, this reflects the fundamental question of whether the Commission has any right to pursue policies aimed at safeguarding pluralism (Beltrame, 1996a; Hitchens, 1994). Parliament appears to believe so, and has pressed for action to address the many worrying examples of concentrations which can readily be observed in national and transnational European media markets today (Humphreys, 1997, pp5-7). The Council of Europe also evidently believes that pluralism is integral to the principle of freedom of speech and, as such, should be protected under the European legal order (Lange & Van Loon, 1991, p26). However, the 1992 Green Paper concluded that EU intervention in media ownership legislation may be justified only on the basis of securing the proper functioning of the internal market and *not* on the basis of protection of pluralism (CEC, 1992, p99).

Because concerns about competition and promoting the single market are different from concerns about pluralism, the implied aims for harmonising media ownership restrictions under these different approaches will immediately diverge (Iosifides, 1996, p24). Safeguarding pluralism implies a need for European-wide restrictions which would eliminate undesirable concentrations of media power, whereas promoting competition implies equalisation of ownership restrictions purely by reference to the economic needs of industry. Some mergers which do not threaten competition might pose a threat to plurality. Since media pluralism is a special concern in its own right, "reliance on a competitive environment to foster pluralism may be to adopt a too simplistic approach" (Hitchens, 1994, p591).

From the outset, the Commission's approach to harmonisation of media ownership has been characterised by uncertainty about aims and means. Rifts are apparent even within the Commission, and, according to Beltrame (1996a, p4), these particularly reflect rivalry between DGIV, which is responsible for competition, and DGXV, which is responsible for the Internal Market. Since, in 1993, DGXV took charge of advancing a pan-European media ownership policy, the Commission has been attempting "to inscribe Parliament's quest for pluralism in the logic of the Internal Market" (ibid, p4).

But contention about the appropriate legal basis for intervention has not been the only obstacle thrown into the Commission's path (Harcourt, 1996). The 1992 Green Paper set in motion a prolonged period of public consultation concerning which of the options set out at its conclusion would represent the best course of action. The responses to this consultation have served to introduce an additional layer of complexity and contention to the issue of what objectives a harmonised European media ownership policy regime ought to be pursuing (Kaitatzi-Whitlock, 1996).

Contributions to the pan-European Media Ownership Policy Debate

During the Commission's preliminary consultation, opinions were received from the Economic and Social Committee (ESC) and from the European Parliament, both of which came out in favour of Option III - i.e. action to harmonise national restrictions on ownership. The Fayot/Schinzel report (EP, 1994) on pluralism and media concentration was voted on at the European Parliament on January 20, 1994 and received a majority of votes in favour (112 votes for to 60 against). This report urged the Commission to address the expansion of media conglomerates across European borders and cross-media ownership by introducing, as soon as possible, a new directive on media ownership. Likewise, in September 1993, the ESC called for a directive and for the establishment of

an independent committee to monitor media concentrations and ensure compliance with the directive.

But, as well as these calls for more effective harmonised restrictions aimed at safeguarding pluralism, the Commission has been faced with a number of contradictory arguments favouring the introduction of a more liberalised pan-European policy regime. The views of individual European media firms themselves have made a significant contribution to the latter position. Representations to the Commission have also been made by industry federations and from specially commissioned reports such as that of the High Level or "Bangemann" Group (Bangemann, 1994). Individual Member States themselves have tended to be rather non-committal, at least initially, with formal positions taken up only after the interests of domestic industry groups could be established. This, perhaps, has been one of the most telling signals to emerge from the European "debate".

The results of the initial consultation phase after the 1992 Green Paper were reported almost two years later in a Follow-Up Communication (CEC, 1994d). This document represents an initial stock-taking exercise and much of it is concerned with reporting the views of Parliament, various committees and the written comments of some 45 individual media operators (predominantly from Germany, Italy and the UK) and of 25 media trade associations or federations who took part in the consultation exercise.

Positions are divided. Not surprisingly perhaps, it was Parliament, the ESC, journalists' federations and trade unions rather than industry who emphasised the protection of pluralism as a primary objective for Community action on media ownership rules. The Commission is in sympathy and asserts that "the single market cannot be put into practice at the expense of pluralism" (CEC, 1994d, p7).

Industry participants also supported the need for action, but on a quite different and a divergent agenda. The Commission summarises the industry's views thus: "the current national rules on media ownership must change, in particular so as to cope with globalization and the impact of new technologies. On the other hand, the question of the level - national or European - at which change must occur is the subject of vague or divided positions" (ibid, p13). Many media firms have regarded the current patchwork of media ownership rules across Europe as an impediment to investment - a position which, interestingly enough, the Commission also endorses - and they call for action to smooth the wide inconsistencies and disparities between current national media ownership rules.

The UK broadcaster ITV, for instance, has lobbied extensively about a situation whereby, under domestic UK media ownership legislation, all EU operators have had equal rights of access to ownership of UK terrestrial broadcasting licences whereas, in other EU member states, levels of access to ownership of broadcasting have tended to be much more tightly restricted (Beltrame, 1996a, p5). The domestic UK ceilings on ITV ownership and on cross-media ownership have meant that ITV companies were (until very recently) obliged to remain relatively small and vulnerable to takeover while, at the same time, overseas expansion has been obstructed by a complicated maze of non-reciprocal media ownership rules across Europe. Therefore, according to ITV, it has been difficult for UK broadcasters to achieve the critical mass needed to enhance their competitive position internationally and to take advantage of whatever additional economies are promised by new technology and the single market.

Similar concerns have been expressed by operators in other countries. Italian media group L'Espresso, for example, agrees that disparities between national rules distort the allocation of investments across Europe .. "car pénalisent les pays dans lesquelles les régimes juridiques concernant la propriété des médias sont plus rigides" (Editoriale L'Espresso, 1993, p4).

Whether the goal which has motivated these expressions of concern about regulatory disparities is, simply, open and equal transnational competition within Europe might well be questioned. All such calls for change seem to favour liberalisation and the fear of losing competitiveness to "foreign" rivals has been deployed extensively and judiciously by companies (with a clear commercial self-interest in expansion) not only at the European level but also, particularly, at EU member state level. If, for example, ITV's arguments have done little to speed up the pace of policy-making at the European Commission, they appear to have made a desirable impact on domestic regulators who, through the 1996 Broadcasting Act, have conceded a major increase in the upper ceilings for monomedia ownership in the UK television sector. Likewise, industrial calls for de-regulation in other member states such as Italy, France and Germany have successfully emphasised the need to match the competitiveness of other European media rivals (MacLeod, 1996).

A persistent theme in industry submissions to the Commission has been the effect of new technology and associated not-to-be-missed opportunities. UK media and publishing group Pearson suggested that "Community action is required now to ensure that emerging forms of broadcasting are not distorted in their infancy". Harmonisation, according to Pearson, should "take the form of a liberalisation of the current regulatory environment - introducing the lightest regulatory regime consistent with maintaining the aim of diversity of media ownership" (Pearson plc, 1993, p1).

The Federation of Associations of Periodical Publishers which represents the interests of European magazine publishers has also argued that "publishers should not be disadvantaged (by media or cross-ownership rules) from taking a full and in many cases a leading role in the development of multi-media trends in technology" (FAEP, 1993, p3).

The European Publishers Council - a group of 27 leading newspaper and magazine publishers with major and diverse interests in Europe (including Reed Elsevier, Axel

Springer, VNU and CLT) - has expressed its case in stronger language. Referring to the Fayot/Schinzel Motion, which emphasised an immediate need for measures to limit media concentrations on a European scale and which received majority backing in Parliament in January 1994, the EPC warned that the Resolution would "cripple the competitive ability of media companies in Europe" (EPC, 1994 p1). Sir Frank Rogers, Chairman of the EPC said that the Resolution was "framed for another era" and "is dangerous because it ignores evidence that recent developments in global information, communications and media technology require a far-sighted approach, rather than a restrictive one". Europe, he suggests, "could be left on a side road while American and Japanese media companies are freed to dominate the new global economies" (ibid.).

In summary then, the results of the initial public consultation exercise (outlined in the Follow-Up Communication (CEC, 1994d)) revealed widespread agreement about the need in principle for action to harmonise European media ownership legislation (Option III). But, while some groups (especially, the European Parliament) believed that the purpose of a harmonised regime should be to crack down on undesirable concentrations of media power which represent a threat to pluralism within Europe, others (especially, industry participants in the larger member states) took the opposite view; that harmonisation should aim to provide a more liberal media ownership regime, conducive to greater cross-border investment.

Such divergences of opinion between important interest groups have made it difficult for the Commission to move ahead towards any European-wide media ownership initiative. Conflicting policy objectives were highlighted when, for example. the 1994 Communication spoke of "facilitat(ing) the exercise of freedom of establishment for media companies and the free movement of media services in the Union, while maintaining pluralism in the face of certain concentrations" (CEC, 1994d, p6). Contradictory policy agendas have also been apparent in the contrast between objectives simultaneously being pursued in other Directorates of the Commission. While the drive

towards a European "Information Society" has been characterised by the theme of "liberalisation" (espoused by Commissioner Bangemann of DGXIII and others[79]), this does not sit altogether comfortably with the wish to protect indigenous cultures and to accommodate safeguards for pluralism, expressed by DGXV.

So, rather than proceeding directly from the 1994 Communication to formal proposals for a draft Directive, DGXV instead embarked on a second round of consultation and it circulated two specially commissioned studies - one looking at the criterion of actual audience as a way to measure media concentrations (GAH, 1994) and the other at the definition of a "media controller" (Mounier & Robillard, 1994). Responses to this second round of consultation appear to reaffirm the lack of consensus between opposing ideological positions as to the aims for a harmonised European media ownership policy (CEC, 1997c).[80] Of the 50 or so submissions received by DGXV, 10 were from member states; two of which were firmly opposed to a Community initiative (the UK and Germany) and the remainder of which (including France and Austria) were either undecided or lukewarm about the need for harmonisation. Again, the European Parliament and the Economic and Social Committee confirmed their support for harmonisation aimed at safeguarding pluralism. But, again, the majority of responses to the Commission came from large media firms expressing the view that harmonisation ought to provide a more liberal media ownership regime, conducive to greater cross-border investment.

In addition, the Commission has been faced with practical problems associated with the enormous discrepancies in national market sizes across Europe. An absolute ceiling on media ownership capable of preventing undesirable concentrations in smaller countries would clearly place a very tight leash on media companies operating in large markets. On the other hand, if thresholds are set by reference to a certain proportion or percentage

[79] See Bangemann, 1994 and the Commission's subsequent "Action Plan for the Information Society" (CEC, 1994c).

[80] Annex 1 to the *Explanatory Memorandum* (CEC, 1997c) provides a summary of responses to the second round of consultation following the Communication of October 1994.

of national audiences (say, at 10% of the national media market), then operators in large member states will be allowed to grow considerably larger than rivals in smaller countries.

Such difficulties appear to have deterred most European member states from firmly supporting the need for a harmonised media ownership regime, and others (especially, the UK) have felt compelled to speak out in favour of the principle of subsidiarity (i.e. Option I in the Green Paper of 1992). The UK's latest submission to DGXV (DNH, 1996c) points out that, even on the grounds of promoting the Internal Market, there is little to be gained from harmonising media ownership rules, since the *main* obstructions to cross-border expansion by European media companies are cultural and linguistic barriers, *not* disparities in national regulations. This point is echoed by many industry players who are opposed to any involvement by the Commission in the determination of media ownership rules for Europe (Tucker, 1997).

But, quite apart from the potential for the *status quo* to disrupt the Commission's wider objectives of completing the Internal Market, a range of other arguments may be articulated in favour of action on media ownership at the European rather than the national level. The most compelling of these might be that dominant media operators in Europe wield such significant political power in their domestic markets as to impede national regulators from making pluralism the key priority for media ownership policy (Humphreys, 1997, p9).

The current international trend towards de-regulation of traditional constraints on media and cross-media ownership at the domestic level has largely been driven by industrial concerns (Schlesinger & Doyle, 1995; MacLeod, 1996; Humphreys 1997). The commercial legitimacy of such concerns may be unquestionable, but their predominance in national debates about media ownership policy and their success in bringing about change at the national level has resulted in less protection for pluralism within European

member states. Clearly, pan-European policy-makers cannot overlook the needs of industry. But, because of the diversity of national interests represented at the European level, there is less opportunity for any individual media supplier to superimpose its own requirements on the policy formulation process.

Against a background of increasing concerns about the competitiveness of domestic industries, the system of allegiances between national political parties and media industry participants, evident in many member states, has made it virtually impossible for national regulators in the large European markets to buck the general trend towards de-regulation.[81] Industrial participants in these markets are amongst the most vociferous opponents of a pan-European policy aimed at protecting pluralism (or, as some would have it, unnecessary "Brussels bureaucracy"), and it is difficult to escape the conclusion that this reflects the dilution of their influence at the pan-European level.

5.4 Towards an EC Directive on Media Ownership [82]

Proposed Draft Directive on "Pluralism and Media Concentration in the Internal Market" (July 1996).

Despite the many obstacles to progress on a pan-European media ownership policy, DGXV managed to take a step forward in Autumn 1996 by circulating the first draft of a possible EC Directive on Media Pluralism (DNH, 1996a).

The Commission's proposals involved a 30% upper limit on monomedia ownership for radio and television broadcasters in their own transmission areas.[83] In addition, the draft

[81] Several "Examples of relaxation of national legislation in the field of media concentrations" which have occurred since 1994 are set out in CE, 1997 (pp40-2).
[82] Section 5.4 draws on an article by the author recently published in electronic form (Doyle,1997b).
[83] DNH, 1996a (Article 3, Sub-sections 1-2).

Directive suggested an upper limit for total media ownership - i.e. ownership of television, radio and/or newspapers - of 10% of the market in which a supplier is operating.[84] All market shares would be based on audience measures - i.e. calculated as a proportion of total television viewing, radio listenership or newspaper readership within the area in question - with consumption of each single type of media (television, radio or newspapers) divided by one-third for the purposes of assessing a supplier's overall share of the total market.[85] The proposed derogations would allow member states to exclude public service broadcasters from these upper limits, if they so wish.[86]

The definition of precise upper limits for media ownership has moved the policy debate onto a more practical footing. Inevitably, it has also been the site for major controversies about what level of diverse ownership is appropriate for different market sizes. The approach taken in the draft Directive has been to set the same fixed limits which would apply in any member state and either at the local, regional or national level, depending on which constitutes the appropriate market for the media supplier in question. From a point of view of achieving equality of pluralism for all European media consumers, this approach seems highly effective. But the problem is that it disregards the fact that different market sizes - whether national of sub-national - can support different levels of diverse ownership.

In principle, the imposition of a 30% upper limit on monomedia radio, television or newspaper ownership plus a 10% upper limit on total media ownership, does not seem unreasonable. If pluralism is to exist, then a minimum of four suppliers each in the radio, television and newspaper sectors or ten different suppliers in the market as a whole may seem like an appropriate requirement. In practice, however, because of different rules and differing levels of resources available for media provision in different countries, some of the member states of Europe would already fall foul of these rules, even in terms

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[84] ibid, (Article 3, Sub-section 3).
[85] ibid, (Article 1, (k),(l),(m) and (n)).
[86] ibid, (Article 5, Sub-section 2).

of diversity of ownership at the *national* level. For example, Finland has only two national broadcasters, each with a market share in excess of 30% (Barnard et al, 1996). Since these caps on audience share apply "in the zone of broadcast" rather than at the level of "national" markets, the number of observable transgressions multiplies as the focus shifts down to smaller regional and local levels.

Analysed in the context of member states' existing restrictions on media ownership, the effect of the draft Directive would be, in some cases, to allow for higher levels of concentration (especially at the national level in larger markets) and, in other cases, (especially in smaller countries and at the sub-national level) to insist on greater diversity of ownership. This does not imply that the limits proposed by DGXV are inappropriate to the task of establishing and protecting minimum levels of pluralism, in equal measure, for all citizens of the EU. Nor could it be said that these proposals fail to tackle the divergence in national rules which poses a possible obstruction to the Internal Market. But whether member states want, and can afford to resource, equal levels of diversity of ownership - at the sub-national as well as national level - is another matter.

Opponents of a European-level policy initiative on media ownership have been quick to emphasise the distinction between the objective of safeguarding pluralism and that of completing the Internal Market, and to question which of these objectives DGXV's proposals are really aimed at:

> You have to keep saying to them [the Commission], where is the problem? And they say 'single market' - they need to tidy up disparities. But they are *not* looking at it as a single market; they are talking about pluralism and diversity and saying they have competence in this area. Then, it's not a single market issue. Is it about tidying up the rules to increase cross-border sales or about preventing one person from owning too much? These are two completely different things. And they have tried to address both in one single document and they have fallen over themselves really, really badly.
> The Commission has fallen into the trap of re-regulating instead of de-regulating. In the UK, (in spite of many content regulations), we are quite liberal in terms of

media ownership, market share, foreign ownership and all that sort of thing, which I am in favour of. I think we need huge injections of foreign media ownership at every level throughout Europe in order to change an awful lot of stuff we've got going ...
The Commission's latest proposals cuts your ownership into three - radio, TV and print - as though these were the only things that matter, and that seemed out of date. Also, small publishers would be penalised if they own TV (as is the case in Portugal). These proposals have gone back again to the Commission now and one of the options is that European legislation isn't necessary. I don't think they'll get away with that option because Parliament will make sure it *is* necessary: they love the idea of sitting around discussing how Rupert Murdoch is going to rule the waves. All we've got is half a German TV station, 2 radio stations in Holland, 4 UK newspaper titles and 40% of BSkyB. Compare this with Bertelsmann who owns half the German media and a third of Spain...
A lot of people campaigning for this [European legislation] are doing so because they are unhappy with their own domestic regulations and have sought to change it via Europe. But it always fails - you can't expect Brussels to come up with the perfect domestic situation ...
At the moment, the unfair competition rules (e.g. in Germany, where nobody can own more than 30% of a company) in Europe need to be sorted out at the *national* level. European intervention should wait. Where is the threat coming from? No-one is concerned with the threat coming from Microsoft .. on-line newspapers etc. They are only concerned with the traditional media...

(Jane Reed, News International, 1997).

The Commission's account of reactions to the proposals - set out in a "Communication of Mr Monti in agreement with Mr Bangemann and Mr Oreja"(CEC, 1997a, p2-3) - suggests that whatever support for a Directive there is, is based on 'the Internal Market approach', rather than pluralism *per se*. And the Commission's response to objections raised (in particular, from the UK[87] and Germany) has been to promise a more flexible approach to

[87] See DNH, 1996b. The anti-Directive lobby in the UK is led by ITV network. Each of the ITV companies' audience shares exceeds 30% in its own region. As discussed in Chapter 4, it is not a companies' share of the audience in its own transmission area which counts under UK legislation, but its share of the total national UK audience.

the upper ceilings suggested in the September 1996 draft, indicating that the 30% thresholds could be varied if national circumstances so demanded.[88]

But the Commission's negotiating position on upper ceilings is constrained by Parliament's consistent support for robust measures to counteract concentrations.[89] The greater the discretionary power left to member states in setting their own upper limits on media and cross-media ownership, the less effective any new Directive will be either in quelling Parliament's concerns or, indeed, in encouraging cross-border investment within the Internal Market.

Responses to the draft Directive have signalled some other predictably contentious issues, e.g. whether a one-third weighting for radio, television and newspapers properly reflects the level of influence of these different media[90]; or whether market shares should be based on audiences (as in the UK and Germany) or revenues (as in Italy). More fundamentally however, the issue of variations in the commercially feasible number of suppliers within different markets in the EU remains a powerful stumbling-block. It is not clear how member states or the Community at large would find the economic means to redress shortfalls in diversity of ownership in some sub-national or smaller national markets.

If agreement were established that diversity of media provision is equally desirable for all citizens of the EU, and at the levels proposed by DGXV in its recent draft proposals, then a much more comprehensive system of cross-subsidisation for the European media would be required than has been seen hitherto[91] to ensure that, for example, smaller countries like Luxembourg could afford to comply. A strengthened infrastructure of media provision in sub-national and minority language markets and in smaller countries

[88] In line with the approach taken under German law, DGXV is proposing that where breaches of the 30% threshold are accepted, then alternative measures to secure 'internal' pluralism (e.g. the establishment of independent committees to supervise editorial freedom) should be implemented.
[89] See, for example, EP, 1994.
[90] DNH, 1996c (Para 22).
[91] Under schemes such as MEDIA II (CEC, 1995b).

certainly seems highly desirable from the point of view of cultural and political pluralism. But, as things stand, the Commission has clearly and repeatedly acknowledged that "the objective of safeguarding pluralism is not *per se* a Community objective" (CEC, 1997c[92]).

Since a new Directive apparently must have, as its legal basis, the proper functioning of the Internal Market, there can be no question of incorporating cross-subsidies to protect pluralism in smaller markets. Thus, a common set of ownership restrictions can only work if, in practice, some other way of accommodating the circumstances of smaller markets is created.

Proposed Draft Directive on "Media Ownership in the Internal Market" (February 1997).

A revised set of proposals put forward by DGXV in Spring 1997 (CEC, 1997b) has introduced two small but significant modifications. Firstly, the title of the proposed Directive has been changed from "Concentrations and Pluralism" to "Media Ownership" in the Internal Market. This signals a decisive move to deflect the focus away from pluralism (where the Commission's competence would be in question) towards the aim of removing obstacles to the Internal Market.

Secondly, a "flexibility clause" has been introduced.[93] This adds, to the proposed derogations, the flexibility for individual member states to exclude any broadcaster they wish from the (unchanged) upper limits, provided that the broadcaster in question is not simultaneously infringing these upper thresholds in more than one member state and, also, provided that other "appropriate measures" are used to secure pluralism. "Appropriate measures" might include establishing, within any organisation which

92 Part II, Section 1.
93 CEC (1997b) Article 5 (3).

breaches the limits, "windows for independent programme suppliers" or a "representative programming committee".[94]

The effect of these modifications is to withdraw from the original ambition of imposing a fixed minimum level of diversity of ownership for all European markets. Instead, member states can decide for themselves (at least for the time being[95]) whether or not the ownership thresholds set out in the Directive should apply to organisations operating within their own national territories. For the foreseeable future, there would be no absolute requirement for member states to enforce the upper thresholds set out in the Directive, but the new measures would prevent any member state from adopting *more* restrictive domestic media ownership rules (which, arguably, could obstruct cross-border investments or distort competition).[96]

In effect then, as the switch of title suggests, the Directive is no longer about guaranteeing an equal right to pluralism (as represented by diversity of media ownership) for all EU citizens, irrespective which European markets they live in. Although, in theory, the proposed Directive introduces a uniform set of media ownership restriction throughout the EU, it is clear that, in practice, the "flexibility clause" would allow member states to maintain whatever upper restrictions on ownership are affordable - either economically or politically - in their own territories.

Such back-tracking is intended to boost support for the proposed Directive, but it makes it difficult to see how a harmonised approach would serve to appease long-standing concerns (especially, at the European Parliament) about national and transnational concentrations of media ownership in Europe. At the same time, this "legalistic subterfuge" appears to have done little to quell opposition to the whole idea of any pan-

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[94] CEC (1997a) Part II, Section 1.
[95] Mr Monti's Communication (CEC, 1997a, Part II, Section 1) suggests that this derogation would be temporary for 10 years from the adoption of the Directive, although smaller countries may be able to apply for an extension..
[96] CEC (1997a) Part III, Section 1.

European policy initiative (Gabara, 1997). The problem remains that *regional* media suppliers (e.g. UK broadcasters ITV), whose local market share exceeds 30% but whose share of the national market is so small as to pose little or no apparent threat to pluralism, are to be caught out by the rules in exactly the same way as genuine "media moguls" who pose a significant threat to pluralism; i.e. *national* media suppliers whose market share exceeds 30% (e.g. Fininvest in Italy, or TF1 in France, or News International in the UK). But if member states use the "flexibility clause" to exempt domestic operators from the proposed upper thresholds, then the new Directive will be meaningless. For some commentators, the legal uncertainty which the exemption clause would create "would be worse than not having a common Directive at all. In the absence of an EU law, potential investors at least have the certainty that the national legislation applies" (Gabara, 1997).

Debate about the revised EU initiative had to be postponed in March "in the face of ferocious lobbying against it" (Tucker, 1997). The European Publishers Council has again publicly espoused its view that a pan-European media ownership initiative is unnecessary and would only hinder the development of European media companies (McEvoy, 1997; Tucker, 1997). ITV has also expressed strong concern about how the UK's regional television system could be jeopardised under the new draft Directive, unless a "cast-iron guarantee" of exemption were given to regional broadcasters like ITV (ITVA, 1997).

If the approach to be taken is a flexible one, then it seems reasonable to question whether this should be determined from the pan-European level, given that member states themselves are better placed than the Commission to take account of and directly legislate for the particular characteristics of their own markets.[97] But, even if it involved a non-uniform approach, a pan-European policy could convey some important benefits over and above the *status quo*, especially if it were based on a "tiered" approach (according to market size) rather than a "flexible" approach.

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[97] DNH (1996c), Para 2.

A "tiered" approach - i.e. stipulating specific thresholds for markets of different sizes - would remove much of the uncertainty (for cross-border investment) associated with widely divergent national systems of media ownership restrictions.

Secondly, it would address the problem that dominant national suppliers can exert undue influence at member state level over the political mechanism for curbing their own growth. For example, it seems anomalous that, in a national market as large as the UK, a single newspaper owner may be allowed to control a market share in excess of 30%. But, since this situation has actually arisen in the UK, it appears that the political mechanism at the national level is unable to do anything about it.[98] Similarly, the German case has been used to illustrate "how large multimedia companies exert a degree of structural power over politicians and regulators" (Humphreys, 1997, pp 12-3). And Italy provides such a notorious example of the lobbying power of media interests, that many commentators have identified this as the personal inspiration guiding Commissioner Mario Monti's[99] attempts to proceed with a pan-European media ownership Directive (Beltrame, 1996a; Tucker, 1997).

Tiered ownership thresholds determined at the European rather than national level would help to overcome this problem, albeit only because the machinery for policy-making at the pan-European level is, arguably, less accountable to voters (Schlesinger, 1997, p14) and is less susceptible to the influence of dominant national media players. This is not to overlook the fact that large European media players can form themselves into powerful collective lobbying groups. The European Publishers Council (EPC) provides a clear example of such a group. Nonetheless, whereas the political influence of large media groups appears to have reduced re-regulation of media ownership rules in various EU member states to "little more than 'symbolic politics'" (Humphreys, 1997, p18), the transnational EU forum perhaps offers some limited hope of diluting and thus transcending the influence of powerful industry groups.

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[98] See Chapter 9 (Section 9.1(b)) below.
[99] EU Commissioner of Italian nationality, currently responsible for the Internal Market (DGXV).

Thirdly, a tiered approach would take account of the practical problem posed by divergences in the resources available for media provision in markets of different sizes.

But a tiered approach highlights an alternative issue which neither the Commission nor Parliament may wish to embrace; namely, that inequalities in levels of media provision in the EU have corresponding socio-political and cultural implications. If the Commission were to officially acknowledge that media ownership rules must differ because the resources available for media provision are unevenly spread across EU media markets, then it would also be forced to acknowledge that, under its jurisdiction, all EU citizens cannot have equal rights to pluralism, because some cannot afford it.

Since this represents a rather uncomfortable position, the only solution seems to be to stick with the principle of uniform media ownership rules (and equal entitlement to pluralism), notwithstanding the fact that - as acknowledged by the "flexibility clause" - uniform ownership rules are unworkable in practice.

However, a flexible approach means that the opportunity for the Commission to insist on certain minimum levels of diversity of ownership, at least in large markets (e.g. Italy or the UK) which can afford to support it, will be lost. And whether a Directive which includes the "flexibility clause" will be approved by Parliament, which has repeatedly expressed its wish for strict rules which effectively clamp down on excessive concentrations, is an open question. Conversely, industrial concerns about the certainty and duration of the "flexibility clause" have meant that many large media players (e.g. ITVA) continue to lobby against the introduction of any EC Directive.

If, as seems increasingly likely, DGXV is unable to build a supporting consensus around its revised proposals for a new Directive, then the initiative may have to be abandoned altogether. Whether it goes ahead or not, the prevailing "patchwork" of regulations determined at member state level - and, increasingly, determined in response to industrial

or economic concerns - seems certain to continue into the next millennium, since a new Directive would only come into force some three years following its official ratification.

What emerges clearly is that, at the EU as well as at the domestic UK level, the perceived economic opportunity costs of safeguarding pluralism represent a decisive and seemingly irresistible argument against instituting effective constraints on media ownership. The negative industrial implications of such constraints have been repeatedly hammered home to the Commission by large media players, in much the same terms as these same interest groups have campaigned successfully for de-regulation at member state level. Thus, the following chapters will assess more closely the arguments put forward by industry which support a relaxation of media ownership restrictions.

Chapter 6

A Model, for the Media, of Economic Performance as a function of Configuration

It has been argued in the submissions put forward by large media firms to both the DNH Cross-Media Ownership Review Committee and to the European Commission (discussed in chapters 4 and 5 respectively) that the economic performance and prospects for media companies are closely dependent on the prevailing framework of media ownership regulations. Many firms express a conviction that restrictions on strategies of horizontal, vertical and diagonal expansion are likely to significantly impair their economic and financial performance and to reduce the competitiveness of indigenous media players in international markets. It has been argued that, because of technological and other market changes, media firms need to enlarge and to expand into complementary business activities in order to secure their economic survival. The main purpose of this chapter is to develop a theoretical framework within which the validity of such economic arguments favouring de-regulation of media ownership may be tested.

The first sections of this chapter (6.2 to 6.5) consider earlier economic research which may usefully be drawn upon in the design of such a framework. Although no previously established model is ideally suited to the task of testing the claims outlined above, earlier theorising in the fields of industrial organisation and of media economics has yielded some practical starting points. The relevance of the "structure->conduct->performance" paradigm (Tirole, 1988) is examined below, together with more recent work by Hendriks (1995) which focuses on the performance of media in particular. Building on and modifying these earlier approaches, this chapter sets out to develop a model dedicated specifically to the relationship between media or cross-media ownership restrictions and the economic performance of media firms. This framework provides a focus for the remainder of this study in which empirical research into the economics of monomedia

and cross-media expansion is presented and analysed[100] and the likely economic impact of recent changes in UK media ownership policy is assessed.[101]

The concluding sections of the chapter (6.6 to 6.7) implement this model and bring forward some of the main empirical findings elucidated throughout chapters 7 and 8 in order to explicitly test the above industrial arguments favouring de-regulation of media ownership.

6.1. Constructing a Model: Introduction

As discussed in Chapter 2 (sections 2.5 and 2.6), the theoretical case in favour of improved economic efficiency for firms who, under circumstances of unregulated ownership, are able to maximise economies of scale and scope tends to be well supported in mainstream industrial economics (George, Joll & Lynk, 1991; Martin, 1993) and, also, in literature concerned with the economics of the media. Highly concentrated media firms who can spread production costs across wider product and geographic markets will benefit from natural economies of scale in the media (Alexander et al, 1993, pp64-5). In addition, "the potential for stitching together media businesses to create a fully integrated corporation - from making the product to selling it in more and more markets to controlling the very outlets from which customers buy or rent - offers the vertically integrated corporation significant economic advantages" (ibid, p65).

Notwithstanding the potential efficiency gains which motivate firms to acquire market dominance, the detrimental effects on competition which may accompany excessive concentration represent a powerful countervailing concern for industrial policy making (Martin, 1993, pp314-34; Moschandreas, 1994, p481-500). Moreover, ownership of the media has long been considered a matter of special public policy concern because of the

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100 In Chapters 7 and 8.

101 In Chapter 9 (Sections 9.2 and 9.3).

socio-political and cultural case for media diversity. Hence, in the UK as elsewhere, such economic opportunity costs (i.e. efficiency losses) as might be associated with restricting ownership of the media have tended to be written off as a necessary price of preserving the greater public interest in media pluralism.

What is at issue here is not the conventional wisdom that firms who can capitalise on natural economies of scale and scope in the media will enjoy a better economic performance than those who cannot. Such a proposition is virtually indisputable but, taken to its logical conclusion, would justify a policy of allowing a single provider to supply all our media. Even were the means available to an omniscient planner to regulate the output of such an entity in perfect accordance with societal needs and concerns, such a situation hardly seems desirable.

The question which this research aims to address is whether, in view of the technological and other market changes affecting media firms in the 1990s, there is now a new and compelling economic case in favour of relaxing media and cross-media ownership restrictions. In the absence of detailed empirical evidence to support the industry's central argument that its economic performance is threatened by prevailing media ownership restrictions, such a proposition can only be deemed to be an assertion. The purpose of this research is to test this specific assertion. The means by which it will be tested is by empirically examining the extent to which the recent performance of a diverse range of media firms either supports or refutes this proposition.

By analysing the performance of a sample of leading UK media firms engaged in varied corporate strategies (in terms of monomedia and cross-media expansion), this study will test the relationship between, on the one hand, the size and vertical or diagonal structure of media organisations and, on the other, their economic or financial "efficiency". This will provide a basis for analysing the likely impact of media and cross-media ownership

restrictions (which, in turn, act as a restraint on firms' corporate strategies) on the economic performance of the sector.

6.2 The "structure -> conduct -> performance" (SCP) paradigm

Industrial organisation theory provides a broad framework for analysing the links between the structure of an industry and its performance: namely, the "structure -> conduct -> performance" (SCP) paradigm. According to this, "market structure (the number of sellers in the market, their degree of product differentiation, the cost structure, the degree of vertical integration with suppliers and so on) determines conduct (which consists of price, research and development, investment, advertising and so forth), and conduct yields market performance (efficiency, ratio of price to marginal cost, product variety, innovation rate, profits, and distribution)" (Tirole, 1988, p1). The essence of SCP is that an industry's performance is determined by the conduct of the firms within it, and that firm conduct is determined by various market structure variables. Thus, policy-makers can influence the performance of an industry such as the media either by intervening in the structure of the market (e.g. by implementing entry barriers, or ownership restraints) or by directly influencing the conduct of firms (say, by stipulating product quality requirements).

The SCP approach generally treats factors affecting structure (e.g. technology) as exogenous to the market under study whereas conduct or performance variables are treated as endogenous. In reality however, the conduct of firms or the performance of an industry can, in turn, have a determining influence over its own structure and this represents a major criticism of the SCP paradigm (Wirth and Bloch, 1995, pp17-18). It can be difficult to distinguish exogenous from (jointly) endogenous factors and to establish the direction of causal relations so, according to Tirole "the links (or absence of

links) between variables must .. be interpreted as correlations or "descriptive statistics", not as causal relationships" (Tirole 1988, p2).

Doubts about the sophistication of the SCP model have been underlined both by empirical research and by further more recent developments in industrial theorising. The results of empirical work aimed at testing the strength of the relationship between the structure and the performance of various industrial sectors have been somewhat mixed (George, Joll & Lynk, 1991, p100-1; Moschandreas, 1994, p47). A great many have shown a strong and consistent relationship between, say, concentration levels and profits, but others have suggested that such a link is weak or does not exist. The theory of contestability pioneered by Galbraith in the 1980s has also cast some doubt over the causal links between an industry's structure and performance, by pointing out that "when markets are perfectly contestable, their performance, in the long run, is the same as the performance of perfectly competitive markets, whatever the number of firms in the industry" (Moschandreas, 1994, p47).[102] In spite of these problems, the volume of evidence suggesting some association between structure and performance has led to the conclusion that such a link does actually exist. But, as Tirole suggests, "the existence of an association between these two variables is not, however, proof of causation" (ibid, p48).

The assertion that the economic performance of media firms is dependent on or caused by their structure (which, in turn, is governed by media ownership rules) appears to be widely supported by leading media firms. Whether this assertion can be conclusively proven or disproven within the loose framework of SCP analysis seems doubtful. Bearing in mind the limitations discussed above, whatever correlation is revealed between the structure and performance of media firms, the direction of causality cannot be identified with absolute certainty and, indeed, both structure and performance may well be affected

[102] In other words, even if a market is served by one supplier alone, the potential (if the market is 'contestable') for another rival firm to enter and compete acts as a discipline on the behaviour of the established supplier.

by additional exogenous variables. Nonetheless, an analysis of the association between the performance of the media and specific structural variables (i.e. market concentration and the extent of vertical, horizontal and diagonal integration) should help to illuminate the nature of the current relationship between these two variables.

A standard SCP analysis involves, as a first step, examining the structure of an industry then, secondly, analysing the behaviour of firms within that industry and then, finally, judging the implications of this economic structure and conduct in terms of the industry's performance. As part of the first step, it would be necessary to establish what category of structure the industry falls into (i.e. monopoly, oligopoly, monopolistic competition or perfect competition). However, each of the main sub-sectors of the media operates within a different structure. For example, cable television tends to operate within local monopolies, terrestrial television operators might be seen as oligopolists and the structure of magazine publishing is closer to monopolistic competition. Hence, straightforward SCP analysis is not suited to a multi or cross-sectoral approach. Using an SCP approach, any analysis of the media industry would inevitably be narrowly constrained to one particular product or sector.

In this study, the focus for investigation is firms operating within and across the media industry as a whole. The purpose of the exercise is to assess the extent to which constraints over the size and vertical or diagonal structure of media firms may impair their economic performance. A single sector approach would enable an assessment of concentration as a function of economic performance, but would not make allowance for the impact of vertical or diagonal integration. Hence, the general approach for this analysis will be to examine the links between the configuration of media *firms* (i.e. the size and structure of media firms) and their performance, as opposed to the structure of the *industry* , albeit that the economics of concentrated ownership for each particular sub-sector are also considered in some detail.

Another problem, as mentioned above, is that the SCP paradigm does not take account of additional variables affecting structure and performance. Because of exogenous factors (e.g. technology) which have a dynamic and varying influence over both the structure and the performance of media firms but which are virtually impossible to incorporate into a workable model for a multi-case comparative analysis, any evidence revealed about recent performance trends for media firms cannot conclusively be linked to structural variables alone. Thus, the SCP paradigm is not ideally suited for the purpose at hand.

6.3 Hendriks' Model

Patrick Hendriks has attempted to overcome this limitation in the model he proposes for analysing how the media industry is organised (Hendriks, 1995). Hendriks suggests a framework within which not only the market situation and strategic behaviour of media firms, but also external forces (e.g. technology) and public policies are identified as factors which contribute to the performance of the media industry. Thus, Hendriks has provided a more complete and coherent theoretical system for analysing the performance of the media than the earlier SCP paradigm.

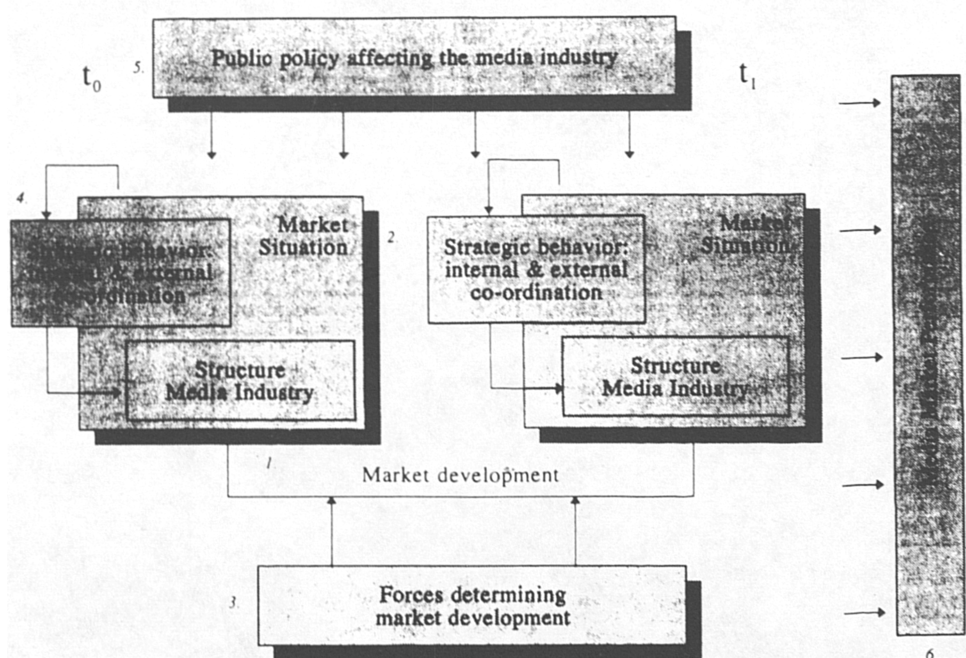

Figure 6.1: Hendriks' Analytical Framework (Hendriks 1995, p63)

Whilst this model is more comprehensive and finely attuned to the circumstances of the media it is also, by Hendriks' own admission, almost impossible to operationalise and only intended to provide "a platform from which theory building and testing can take place" (Hendriks, 1995, p67). His framework incorporates elements of dynamic market theories so that each of the various factors are depicted as "forming a complex of actions and reactions on different levels, at different points in time" (ibid, p63). Hendriks does "not attempt to posit cause-consequence associations or try to assess the relations between dependent and independent concepts" (ibid, p67), but leaves it up to future research to establish how the different elements in his framework are linked to each other. Thus, it is an heuristic model which identifies, simply on the basis of *a priori* plausibility, a set of possible relations between those factors likely to have an impact on the performance of the media industry.

The following research is primarily concerned with one of the factors affecting performance which is identified by Hendriks; namely, the structure of the media, in terms of concentration and of the extent of horizontal, vertical and diagonal integration. But all of the other factors in his framework also have a bearing on the performance of the media so, in a complete analysis, they should also bc taken into consideration. On the other hand, adapting and implementing a model which explains the relationships between all factors affecting the performance of media firms is too ambitious for any single project. Therefore, although Hendriks' framework represents a useful overarching context for this research, the specific model which will be implemented must be more narrowly focused on the particular question which this study aims to address: namely, is the economic performance of the media threatened by prevailing media ownership restrictions?

The central organising concept for the present study is that of the "configuration" of commercial media firms in terms of market size and vertical, diagonal or horizontally integrated structures. At any point in time, the configuration of a media firm arises from

the strategic decisions it takes about how to organise and develop its activities within and across the markets which are open for it to participate in. Such decisions are influenced by a range of commercial considerations, for example, (of particular significance) opportunities or threats posed by changes in technology. But the scope for firms to participate within and across media markets may be constrained by public policy - by media and cross-media ownership restrictions.

It is argued that greater flexibility is required in media and cross-media ownership restrictions in order to allow firms to extend their market size and to expand vertically, horizontally or diagonally. The rationale underlying this argument is that certain media firm configurations give rise to an improved economic performance. The key issue which this study aims to test is the correlation between an assortment of configurations, in the above sense, and economic performance. This will enable the relationship between media and cross-media ownership restrictions (allowable configurations) and the economic performance of media firms to be assessed.

Thus, the following provides a preliminary analytical framework for this investigation.

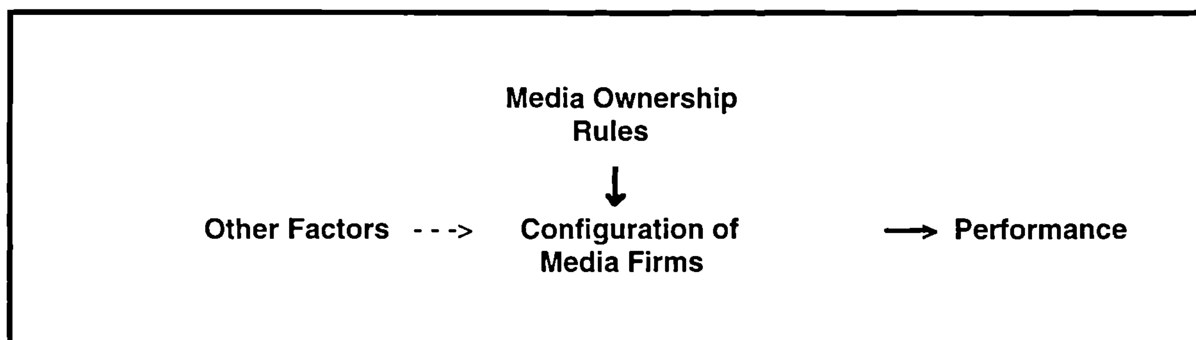

Figure 6.2: Legislation > Configurations > Performance.

The relationship between exogenous factors and the configuration of media firms is depicted as a broken line because, although such factors (e.g. particular market niches, superior managerial ability) exert an important influence on the strategic goals and performances of media firms, the primary focus for the following quantitative analysis is

the correlation between a media firm's configuration and its performance. Nonetheless, such factors are a driving force in the reconfiguration of media firms over time, and their significance will therefore also be acknowledged, as appropriate. Qualitative information concerning the impact of exogenous factors on the strategies and performance of each media firm under investigation will be gathered and will contribute to the interpretation of quantitative findings concerning the relationship between media firms' configuration and performance.

6.4 Media Firm Configurations

The activities of "media" firms may encompass a broad variety of functions (e.g. production, distribution, retailing), products (e.g. radio, television, newspapers) and markets (e.g. local, national, international) or may be focused on one function in one product market alone. Some media firms have a stronger presence in certain product areas or territories than others, and some are also diversified into other business areas beyond the conventional parameters of media activity.

The focus in this study is the performance of UK-based media companies operating within or across the main sub-sectors of the mass media; namely, television, radio and newspapers. These three sectors of activity are those where UK media and cross-media ownership restrictions apply. However, leading firms within and across these sectors may also be engaged in complementary media activities (e.g. magazine or book publishing) or, within any single media sector, in a diversity of functions (e.g. television programme production as well as broadcasting). A UK-based media firm's business activities may also spread horizontally into international markets.

For the purposes of this analysis then, the term "configuration" represents both the structure (or cross-sectoral spread) of a media firm's activities and its size. Its size refers

to the extent of its market power, or market share, within the particular spheres where it is operating. Thus, the performance within any sector of each of the media firms under investigation will be assessed as a function of its market share and of its vertical or diagonal structure.

6.5 Performance measurement

Another general criticism of the SCP approach is that the concept of an industry's performance is "multidimensional" and therefore "very difficult to define and measure" (Wirth and Bloch, 1995, p18). In any organisation, different constituencies - for example, shareholders, senior management, employees or customers ("the public") - may have different ideas about what the organisation's goals are, or should be. This is particularly true of the media sector where, as with other industries involved in cultural provision, some (though not all) constituencies may regard social and cultural criteria as uppermost in judgements about performance and output.

The concept of economic performance is difficult to define, but is generally associated with the idea of allocative efficiency. Conventional microeconomic theory would have it that all commercial firms seek to maximise profits (albeit that, as discussed in section 2.5 above, this hypothesis is challenged by managerial theories of the firm). If allocative efficiency were judged by reference to the conventional objectives of the firm alone then, all other things being equal, whether a commercial media firm's economic performance is optimal would simply depend on whether any reallocation of its resources would result in higher profitability. But the concept of allocative efficiency embraces a wider frame of concerns than the objectives of the firm, and raises questions such as "Does the industry provide the products we want? Does it innovate new technologies rapidly enough? Are we satisfied with its achievements?" (Alexander et al, 1993, p47). Many economists have taken the view that, ultimately, consumer welfare must provide the benchmark (Blair and

Kaserman, 1983, p6). In other words, the optimal economic performance is the one which maximises consumer welfare.

The basic problem with judging the economic performance of media firms, or any other firms involved in the cultural industries (e.g. arts providers), lies in measuring the welfare effects of their output. Prices paid by consumers for such output do not provide a suitable proxy for utility since expressions of consumer demand cannot necessarily be equated with aggregate welfare effects and, in broadcasting, distorted payment mechanisms prevail. Economists specialising in media, such as Alan Peacock (1989, p4), have long been forced to acknowledge that no mechanism exists for translating subjective consumer welfare effects directly into a format suitable for quantitative analysis. Thus, a "second-best" approach to measuring the economic performance of media becomes inevitable.

The purpose of developing this model is to try and quantify economic benefits arising from strategies of horizontal, vertical or diagonal integration in the media. The economic benefits accruing to media firms (as are typically measured by profitability, return on capital etc.) provide a workable focus for a quantitative analysis. This must, however, be seen as a narrow approach to the measurement of economic performance, since the broader concept of allocative efficiency incorporates not only gains for media firms but also societal welfare at large.

Even setting aside the problems of judging media output and welfare effects, the task of establishing an appropriate performance measure remains bedevilled by what Wirth and Bloch (1995) describe as the "multidimensional" nature of performance. Most economists using the SCP approach have tended to regard profitability as the most appropriate performance variable (Martin, 1993, p198; Moschandreas, 1994, p47). Once again, however, Hendriks has proposed an all embracing model designed especially for the media (figure 6.3 below).

Hendriks distinguishes between what he calls the economic dimensions of media performance (depicted as 'efficiency', 'equity' and 'innovativeness') and the socio-cultural dimensions (depicted as 'freedom' and' diversity'). Within these categories, a number of factors may have a bearing on what is described as 'media market performance'.

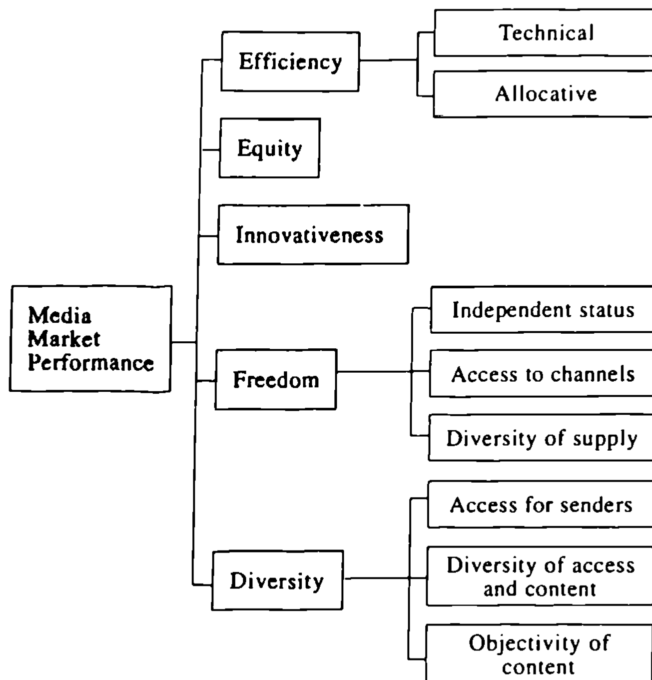

Figure 6.3: Hendriks' Second Model (Hendriks, 1995, p66)

In spite of the range of considerations Hendriks nominates, this still cannot be seen as a complete model since several other additional concepts - for example, societal cohesiveness or cultural defence - might also be regarded as worthy of inclusion within any comprehensive evaluation of the performance of media. Nonetheless, focusing purely on *economic* performance measures prescribed by Hendriks, the main concerns are with technical and 'allocative' efficiency, equity in the distribution of income between producers and consumers and innovativeness.[103] However, these concepts are not explained in any depth and it is very difficult to see how some of these might be measured.

[103] An overall evaluation of both economic and socio-cultural implications of media ownership configurations is carried out in chapter 9.

Wirth and Bloch identify "firm profitability (i.e. the extent to which market firms earn normal returns in the long run), production and allocative efficiency (i.e. the extent to which firms are not wasting scarce resources and the extent to which firms are producing the "right" quantity, quality and mix of goods to maximise consumer welfare) and the extent to which firms contribute to stable full employment and to an equitable distribution of income" as the key performance variables for the industrial organisation economist (Wirth and Bloch, 1995, p17).

Allocative "efficiency" is clearly central to the notion of a good economic performance but efficiency can only be judged by reference to objectives. As discussed above, the objective of maximising consumer welfare (however consistent or inconsistent with profit maximisation) is, in theory, an ideal benchmark for evaluating the performance of media firms. Some broad indications about the welfare effects of the performance of UK media firms may be derived from the qualitative judgements made by the regulatory authorities responsible for each sub-sector (e.g. the ITC Performance Review, published annually). But, since such judgements arise within the domain of regulation as opposed to consumption, they cannot be regarded as an accurate indicator of effects on viewer /listener /reader welfare. In short, no systematic data is available nor, it seems, can be constructed, which would enable these effects to be quantified. In practice then, because it is impossible to accurately quantify variations in consumer welfare arising from different patterns of resource allocation, such a benchmark for performance measurement becomes unfeasible.

Some approximation of effectiveness in delivering consumer utility can be inferred from audience or readership figures, or even from media revenue generation. The resources employed in creating such consumption or revenue also need to be taken account of. This guides us back towards profitability as the most appropriate measure of performance. Once again however, any discrepancy between earnings growth and

consumer welfare performance detracts from the completeness and accuracy of an economic evaluation on this basis.

Having acknowledged this limitation, this quantitative analysis will rely on one of the most widely used and recognised accounting measures of economic performance: operating profit margins (Moschandreas, 1994, p47). This provides a measure of the level of profitability of a firm, expressed in terms of its operating turnover. In theory, profitability could alternatively be measured by price-marginal cost margins, but lack of available data on marginal costs poses a major impediment to adopting such an approach for this study, as for many other previous ones (George, Joll & Lynk, 1991, p285; Martin, 1993, p198). Yet another option for calculating profitability would be as the rate of return on some measure of capital (e.g. assets employed), but this approach is beset by the difficulty of widespread variations in accounting practices as regards valuation of capital or assets (George, Joll & Lynk, 1991, p285). Applying operating profit margins as the measure, results for a selection of UK media firms with different configurations can be compared and analysed with reliability and ease. Thus, this will provide a suitable basis for examining the relationship between, on the one hand, the market share and structure of a media firm and, on the other, its ability to generate earnings or a return from its business.

Operating profitability will not, of course, provide a complete set of data for analysing the relative economic performance of these firms since, ideally, the welfare effects associated with the output of media firms should also be taken into account. Because it is not feasible to create a performance measure which incorporates such welfare effects, the more complete conception of allocative efficiency in the context of media simply cannot be operationalised. Any solution to the long-standing problem of how to derive systematic data so as to incorporate welfare effects into a quantitative model lies beyond the reach of this study, but it represents a very useful area for future research.

The necessity to judge economic performance by reference to the operating performance of the firm, as opposed to the impact of its output on societal welfare, is a significant limitation dictated by methodological considerations. Even so, the economic performance of media firms as reflected by levels of operating profitability is clearly of considerable interest to society at large (as well as to media managements, employees and shareholders) since, above all, profitability is a crucial determinant of the level of resources which will be attracted into the industry (Lipsey, 1989, p176) and made available for media provision, with accompanying welfare implications. As a key indicator of the sustainability of commercial media enterprises, profitability also provides a useful focus for analysis of some of the specific claims referred to earlier, which this research has set out to test.

Thus, notwithstanding the acknowledged limitations of the model proposed here, the information it will reveal concerning the relationship between the configurations of media firms and their economic or financial performance over time will provide some important evidence upon which the case for liberalising media ownership rules (i.e. constraints over the configurations of media firms) can be tested. In addition to the quantitative data collected to operationalise this analytical model, the integration of extensive qualitative evidence gathered from each firm will add considerable depth and detail to the forthcoming examination of the nature of the association between the configuration and performance of UK media organisations. Qualitative evidence will facilitate identification and analysis of precisely which factors contribute to the relationship between the configuration and operating profitability of media firms. Examination of such factors as explain this relationship may allow for further analysis of the distinction between advantages largely favouring the commercial interests of the individual firm (e.g. profit enhancement through the exercise of a dominant market position) and those which represent a benefit for the economy and society at large (e.g. profit enhancement through more efficient use of resources).

The following provides an outline of the model which will be applied, where performance (y) and configuration (x) are postulated as dependent and independent variables respectively:

Year	Configuration(x)	Performance (y)
---	% Mkt Share by Sector A B C D E*	% Pft Margin by Sector A B C D E*
Firm 1		
Firm 2		
etc ..		

* Letters A to E represent media activities as follows: A = Television Broadcasting; B = Television Production; C = Radio Broadcasting; D = National Newspaper Publishing; E = Regional Newspaper Publishing.

Figure 6.4: Configuration (x) and Performance (y); y = f(x).

6.6 Application to UK Media Sector

Drawing on data for a sample of UK media firms, the following broad picture emerges as to the relationship between the "configuration" and the "performance".[104]

		CONFIGURATION (x) UK Mkt Share by Sector (%)					PERFORMANCE(y) Operating Pft margin by Sector (%)				
		A	B	C	D	E	A	B	C	D	E
EMAP	31/3/94			1		3			13		9
	31/3/95			8					23		9
	31/3/96			15					31		
	31/3/97			15					33		
Grampian	1/3/94	0.9	0.3				17	15			
	28/2/95	0.8	0.3	0			21	15	-106		
	29/2/96	0.8	0.3	0			27	15	-65		
	28/2/97	0.8	0.3				28	15	-45		
Granada	30/9/92	5	5				20	11			
	2/10/93	5	6				33	11			
	30/9/94	7	7				39	12			
	30/9/95	7	9				43	14			
	28/9/96	6	9				46	15			
Guardian	2/4/93		1		2			2		-4	9
	2/4/94		1		3	5		2		-6	10
	2/4/95		1		3			4		-3	12
	2/4/96		1		3			4		-5	5
	2/4/97		1					6		-7	14
MGN	2/1/94				26					24	
	1/1/95				26					25	
	31/12/95	0.1			27		-495			23	
	31/12/96	0.1			26		-142			20	
News Intl	30/6/93	1			36		16			21	
	30/6/94	3			36		31			13	
	30/6/95	4			37		32			16	
	30/6/96	4.5			38		31			16	
Pearson	31/12/93		3			6		17		11	7
	31/12/94		5		1			21		14	11
	31/12/95		6		2			28		10	15
	31/12/96		8		2			22		12	26
STV	31/12/93	3	4				16	5			
	31/12/94	3	3				15	6			
	31/12/95	3	2				24	11			
	31/12/96	2	2			7	27	11			13
UN&M	31/12/94	6			14	7				10	18
	31/12/95	6	2		14		35	2		6	16
	31/12/96	5	2		13		37	13		2	16

Labels: **A** = TV Broadcasting; **B** = TV Production; **C** = Radio; **D** = National Newspapers; **E** = Regional Newspapers.

Figure 6.5: Historic Configuration and Performance for the UK Media Sample

[104] Selection of the sample group and construction of data is explained in chapter 3 (ss 3.1 and 3.2).

In general, the larger players in each sub-sector of activity appear capable of achieving higher operating margins than smaller players. The relationship between size and performance is positive for each sector, but it is not always a perfectly linear one. Focusing on the data for 1996, the correlation co-efficient for the television broadcasting (A) and national newspaper (D) sectors may be calculated as 0.876 and 0.663 respectively.[105] Clearly, then, some factors other than market share also have a bearing on the performance of individual media organisations.

Nevertheless, scale economies or other economic efficiencies appear to be prevalent within television (A) and radio broadcasting (C) and also seem to be available for large players within newspaper publishing (D). The existence of a link between the profitability and the market share (or positions of dominance) of individual firms confirms the conclusions offered by industrial economics theory (George, Joll & Lynk, 1991, p302). But further empirical evidence will be required to identify the precise causes of this link for the group of firms under investigation here. In chapter 7, the above quantitative data is analysed in conjunction with additional qualitative evidence - gathered through interviews with the sample group - so as to identify more closely and unravel the benefits or dis-benefits of enlargement for UK television, radio and newspaper firms. Notwithstanding the above empirical evidence of increased profitability for firms with a large market in these sectors of the media, even small-scale operators are evidently achieving extremely healthy levels of profitability.

With regard to vertical integration, there is evidence that television production companies who are vertically integrated with broadcasting companies (sectors A+B) achieve a

[105] The correlation coefficient is a mathematical measure of the strength of the relationship between two variables, calculated on the basis of the average standard deviation between these variables. Its value always falls somewhere between -1 and +1 and, the further the value is away from zero, the stronger the correlation between the two variables. A co-efficient of 0.876 is therefore indicative of a fairly strong correlation, while 0.663 suggests a more modest, but nonetheless a positive correlation.

steadier (although not necessarily better) economic performance than those who are "independent". A number of theoretical explanations may account for this trend, including the notion advanced by Coase (1937) and developed by Williamson (1975, 1993) that where inter-firm transactions in the marketplace are characterised by uncertainty, an incentive for vertical integration will be the opportunity to reduce risk - a "transaction cost". Again, a fuller analysis of the above quantitative evidence together with detailed qualitative evidence (carried out in chapter 8, section 8.1 below) will enable the nature of the empirical relationship between vertical integration and economic performance in the television industry to be examined more closely.

With regard to diagonal integration, there is no immediate evidence that cross-ownership between radio and television (A+C) confers any of the "economies of multiformity" suggested by Albarran and Dimmick (1996, p43). In addition, there is little or no empirical evidence that cross-ownership between television and national newspaper publishing activities (A+D) results in improved profitability for such diagonally-integrated enterprises. A more rigorous assessment of these findings, taking account of extensive additional qualitative evidence, is carried out in chapter 8 (section 8.2).

Thus, the following two chapters set out to provide a detailed analytical interpretation of the above quantitative data drawing also on qualitative evidence gathered in face-to-face interviews with senior personnel at each of the organisations included in the sample group. The focus for Chapter 7 is the relationship between "size" and performance, whereas chapter 8 examines more closely the effect of cross-sectoral "structure" on performance.

Before probing each of these key aspects of the relationship between "configuration" and economic "performance" in further depth, the next section collects together and brings forward the main findings from the investigation and explicitly relates these to the claims this research has set out to test.

6.7 Is the "economic" case for de-regulating media ownership a valid one?

The quantitative data set out above and the qualitative findings discussed in the following chapters combine to provide strong evidence in support of the claim that, for a firm operating in either the UK television, radio or national newspaper sector, greater size (or increased market share) will confer important economic benefits. This is because economies of scale and of scope are an inherent and "natural" feature within television broadcasting, radio broadcasting and newspaper publishing. In addition, economies of large-scale production are available in the programme making industry.

While cost sharing between owners of rival (television, newspaper or radio) products is, in some cases, quite feasible *without* common ownership, the key to full exploitation of all available economies in any single sub-sector of the media appears to be consolidated ownership.

Nonetheless, quantitative evidence concerning the sample group across time also indicates that even smaller players are achieving relatively high operating profits. In 1996, there is only one instance - that of the Guardian Media Group's national newspaper division - of a negative operating performance, and even this isolated case can be explained by exceptional circumstances.[106] The economic performance of smaller television broadcasters is particularly strong relative to other sectors. Thus, the historic operating profit performance figures for this sample group over recent years would refute any claim that media ownership restrictions prior to 1996 have resulted in economic underperformance within or across the industry.

As regards whether there is a better case in the late 1990s than in the past, for allowing high monomedia ownership ceilings, there is no evidence that the sorts of economic gains

[106] As discussed in section 7.3 below, the primary objective for Guardian Media Group's national newspaper division is not profit-maximisation, but "to secure the financial and editorial independence" of its titles in perpetuity (Schlesinger, 1994, p16).

available now from monomedia expansion are any greater now than before. According to evidence supplied by this sample group, broadcasting and the press are still overwhelmingly "domestic" rather than international product markets. New technology may have altered production techniques in the newspaper and broadcasting industries but, rather than introducing economies, this has simply substituted the inputs through which "natural" economies can be reaped. None of main benefits and advantages of size identified by firms active in the newspaper, television and radio industries (e.g. cost-efficiencies, negotiating power, reduced input prices etc.) appear to be in any way attributable to developments in the 1990s.

Thus, on the basis of the evidence gathered in this study, arguments in favour of high *mono*media ownership ceilings, when based on economic efficiency criteria, appear to be generally well-founded. On the other hand, *there is little or no evidence that previous monomedia restrictions represented a threat to the economic viability of the industry and no evidence that the late 1990s has introduced significant additional or "new" gains.*

The evidence collected here refutes the proposition that technological and other market developments affecting UK media firms in the 1990s provide a new and compelling case in favour of relaxing either monomedia *or* cross-media ownership restriction. Economies of scale and of scope have always been a "natural" feature of the media and the fact of their existence, under changing technological and market circumstances, does not constitute a new development.

The main thrust of the argument in favour of de-regulating *cross*-media ownership is that technological developments ("convergence") have created new operational synergies between the newspaper and television industries. This argument is incorporated within the Government's proposals, of May 1995, for relaxing cross-media restrictions:

> 'Technological change and convergence provide the opportunity for newspapers, broadcasters and production companies to apply their traditional expertise in new and complementary areas ...
> Alliances between television and newspaper companies are a logical and natural product of the economic and technological dynamics of the industry and will allow a healthy interchange of skills and creativity for the benefit of the consumer ... The similarity of functions which newspapers and broadcasters undertake in terms of collecting, editing and disseminating information, news and entertainment, means that there are obvious and natural synergies between companies within each sector, and that it is in the interests of both the industry and the consumer to allow larger media companies to develop.'
>
> (DNH, 1995a, pp19-20).

The suggestion that common ownership of television and newspapers (A+D) creates specific cost-efficiencies or other tangible economic benefits is comprehensively refuted by the findings of this study. Several firms in the sample group are involved in both newspaper publishing and television and none have seen evidence of the "logical and natural" synergies alluded to above. The best economic case in favour of cross-ownership would appear to be the potential for as yet undeveloped markets for "multi"-media products to emerge - a much more tentative proposition.

The findings from this investigation indicate that *some* combinations of cross-media ownership will unambiguously provide synergies and cost-efficiencies (e.g. between print and electronic publishing). However, as far as economic efficiency is concerned, there is little evidence to support a case for diagonal integration between the traditional sectors of the media, especially television and newspapers.

The following chapter presents and provides a more detailed analysis of evidence (both quantitative and qualitative) concerning the relationship between the "size" or market share of UK media firms and their economic performance. In chapter 8, the focus will shift from "size" to "structure" so as to analyse in further depth the relationship between certain patterns of cross-sectoral ownership and economic performance.

Chapter 7

The Economics of Monomedia Expansion in UK Media

Drawing on the data concerning the configuration and performance of the sample group (see figure 6.5, p164) discussed above, and on qualitative evidence gathered in interviews with senior personnel at each of these firms, this chapter will analyse the economics of horizontal expansion in each of the main sub-sectors of the UK media industry; i.e. television broadcasting (section 7.1), television programme production (7.2), national newspaper publishing (7.3) and radio broadcasting (7.4). It sets out to assess the strength of the relationship between the size or market share of UK media firms and their economic performance in any given sector of activity, and also to explain the reasons *why* such a relationship might exist. The final section of this chapter (7.5) draws together and highlights the main findings uncovered in each of the preceding sections.

7.1 Television Broadcasting

The sample group includes six companies who are active in television broadcasting, Four of these control terrestrial regional ITV licences (Grampian Television, Granada Media Group, Scottish Television and United News & Media) and two (News International and Mirror Group) are involved in direct-to-home (DTH) satellite and cable television broadcasting respectively. The television broadcasting activities of one of the sample - Mirror Group, through its subsidiary, L!ve TV - are still at such an early stage in development that its audiences are too small to register.[107] The collective UK audience share of the remaining five companies was some 18% in 1996, ranging from a 6.2% total market share for Granada (which operates both the London weekend and the

[107] A television company's market share is measured, under the terms of the 1996 Broadcasting Act, by its share of the total UK television audience in the previous 12 months. In the 12 months to December 1996, L!ve TV's share of the total UK television audience was below 0.1%.

North-West of England ITV licences) down to a 0.7% share for Grampian Television (which operates the North of Scotland ITV licence). [108]

In order to compare the underlying association between market share and operating profitability for these companies, it is worth considering factors which could serve to distort this relationship. Notable among such factors is the level of compulsory Treasury payments[109] associated with any particular licence. These can vary significantly and, in order to reduce distortions, the operating profit figures set out here are expressed gross, or *before* variable compulsory ITV licence payments.[110] Other potentially distorting factors are, firstly, the "positive" service requirements[111] which attach to terrestrial but not satellite delivered services (which would inflate ITV's cost-base relative to that of, say, BSkyB) and, secondly, the Channel 4 "rebate"[112] (which provides ITV, but none of its rivals, with a slice of Channel 4's advertising income every year). It would be impossible to quantify and adjust for the former and thus, by way of crude compensation, both of these factors have been disregarded.

---

[108] Figures for the 12 months to December 1996 for all UK TV broadcasters with an audience share in excess of 0.1% are set out in an ITC Press Release (08/97) entitled "TV Audience Share Figures", 28 January 1997.

[109] In order to take account of variations between the revenue-generating potential of different regional ITV licences, a secondary tax (called the 'PQR' or Percentage of Qualifying Revenue) is levied on a progressive basis, whereby each ITV company pays according to its share of collective advertising and sponsorship income. In addition, the 1990 Broadcasting Act required applicants for the new set of ITV licences commencing in 1993 to submit a financial bid, payable to the Treasury annually, in return for the award of their licence. Variations in the sums bid by successful applicants have introduced wide discrepancies between the net profitability of each individual regional ITV company. Non-terrestrial broadcasters are generally exempt from such compulsory licence payments (although, in some cases, cable operating licences are awarded subject to a financial bid).

[110] Annual cash bids and compulsory PQR payments (as applicable) have been added back to reveal underlying trading profits from broadcasting for Grampian, Granada, STV and United News & Media.

[111] While all UK broadcasters, regardless of their delivery platform, are subject to common codes and regulations relating to taste, decency etc., only terrestrially delivered services (in this case, Anglia/ Meridian (owned by UN&M), Grampian, Granada/LWT, and STV) are subject to additional 'positive' requirements with regard to their content. These include, for example, the obligation to transmit religious and children's programming, to schedule certain types of programming during peaktime, to include a high proportion of original (as opposed to repeated) material in their schedules, and to source a minimum proportion of their transmitted output from independent programme-makers.

[112] Under a formula set out in the 1990 Broadcasting Act, C4 has been required to pay over to ITV half of any surplus (to a maximum of 2%) it earns over and above a 14% share of terrestrial net advertising revenue (NAR). This income - £87m in 1996 (ITC, 1997, p124) - is divided amongst the ITV companies, broadly on the basis of their own respective shares of ITV's NAR.

Additional variations exist between the cost and revenue structures associated with terrestrial as opposed to non-terrestrial delivery which would, *ceteris paribus*, influence the level of returns available to each at a given market share. Nonetheless, in examining the general relationship between the market share and the performance of UK television broadcasters, it is important to take into account newly emerging non-terrestrial broadcasters as well as the traditional terrestrial sector.

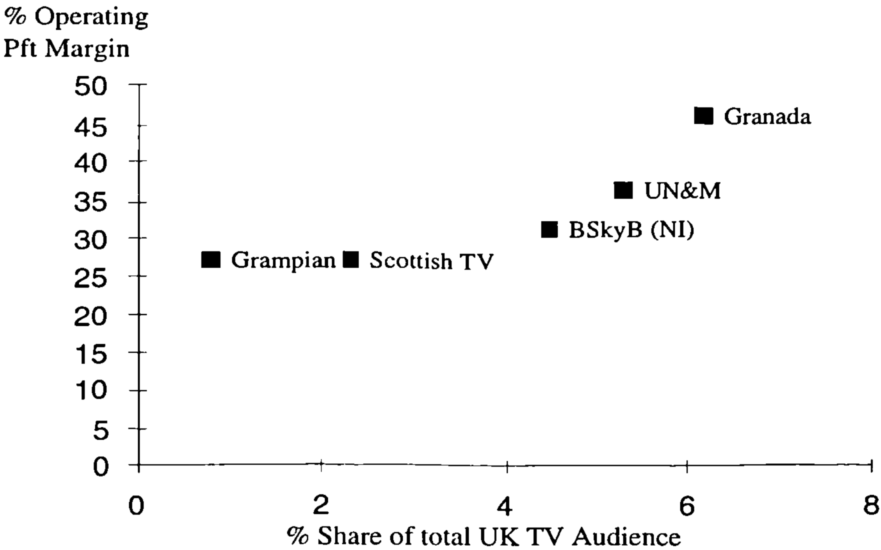

Figure 7.1: Market Share and Operating Profit Margins in Television Broadcasting in 1996.

Plotting the operating profit margins achieved in 1996 by these companies against their share of the market in a scatter diagram, a positive and fairly strong correlation emerges between size and performance, with the best performance achieved by the largest player in the sample - Granada. This relationship appears to hold true regardless of the method of delivery - whether terrestrial or satellite. Calculation of the correlation co-efficient for this sample group in 1996 yields a value of 0.876, confirming a strong and positive association between the variables.

Looking at the pattern of this association over time (see figure 6.5), a positive correlation is also confirmed by BSkyB's improvement in margins as its audience share increased in the mid-1990s. But it is challenged by the fact that, during the same period, there has

been no corresponding diminution in the operating margins achieved by terrestrial broadcasters as their respective audience shares have been gradually eroded. Furthermore, the smallest of these broadcasters - Grampian Television - has recently been achieving margins similar to its larger ITV counterpart, Scottish Television.

Therefore, while the quantitative evidence tends to indicate a generally positive relationship between size and performance, it is apparent that factors other than sheer size, market "clout" or share of the total audience can have an impact on the economic performance of a television broadcasting company.

It is easy to see why, in theory, broadcasters with a larger audience share can and *should* achieve a better profits performance than smaller broadcasters. Broadcasters with a large audience have potential to earn more (advertising or subscription) revenue than those with smaller audiences. But, at the same time, marginal transmission costs are virtually non-existent and, in theory, the cost of providing a given television service is the same for any broadcaster regardless of how many viewers receive it (Alexander et al, 1993; Collins et al, 1988). Since economies of scale are strongly present, it is only to be expected that large firms will be more profitable than smaller ones (George, Joll & Lynk, 1981, p89; Martin, 1993, p21)

Bearing this in mind, one would expect to witness a very stark contrast between the operating profitability of, say, Granada Media Group, with its 6.2% share of the total UK audience which earned the company some £360m in advertising revenue in 1996 and, on the other hand, Grampian Television with a mere 0.7% share of UK audiences which attracted only around £18m of advertising in the same year. In reality, however, the ITV network system has a somewhat *equalising* influence over the divergent economic circumstances of its large and small participants. This is achieved through a set of arrangements for cost sharing and cross-subsidisation within certain of ITV's activities, particularly its network schedule costs and also transmission costs. These arrangements

support the smaller licensees and, if they did not exist, there would certainly be a far greater disparity between the profitability of large and small ITV licensees than is exhibited above.[113]

The sharing of costs within the ITV network provides an indication of how co-operation between broadcasters can be exercised to secure collective benefits including, in particular, economies of scale on programming costs. Of course, this is facilitated by ITV's federal structure, whereby each licensee is serving a *separate* regional audience. In other words, ITV licensees would not necessarily perceive themselves as rivals, albeit that they must compete directly with each other to attract an appropriate share of collective advertising revenue. Thus, the ITV "partnership" of regional licensees is able to benefit in various ways from being able to share costs and resources and negotiate as a single entity. Even so, it would appear from the trend towards consolidation within ITV in recent years - i.e. of takeovers or mergers which result in a single company having control of 2 or more regional ITV licences[114] - that collective ownership would confer additional economies and advantages of scale not otherwise available under a co-operative (but fragmented ownership) structure.

In order to understand how and where potential advantages and economies of scale in the UK television broadcasting industry arise, it is helpful to disaggregate the activity into three of its main component functions. The business of television broadcasting includes: revenue gathering (whether through the sale of commercial airtime or management of viewer subscriptions); assembling the service into a package (acquiring programmes and constructing the schedule etc.); and distribution (or transmission) (Owen & Wildman,

[113] The principle of 'universality' has been central to ITV since its inception in the 1950's - i.e. that viewers in all parts of the UK should receive the same quality (technical and otherwise) of service, regardless of disparities in economic wealth between the ITV regions. In order to achieve universality, the cost of ITV's networked programmes and its transmission costs are apportioned between regional ITV licensees according to their 'ability to pay' - broadly, in line with shares of NAR - and larger licensees are required to pay at a significantly higher rate than others.

[114] Corporate activity in the ITV sector since November 1993 has resulted in considerable concentration of ownership, with Granada now operating both the London weekend and the North-West of England licences, Carlton Group operating the London weekday, the Central and the South-West of England licences and MAI (UN&M) operating both the East and the South-East of England licences.

1992). All of these functions can, at least to some extent, be shared amongst groups of broadcast services and, in the UK, many already are, especially within ITV. In spite of the potential economies and advantages available through such co-operation, there is considerable sensitivity about the terms on which such functions are shared, especially where the broadcasters in question perceive themselves as rivals. Thus, in some cases, shared ownership emerges as the key to higher levels of co-operation with accompanying economic benefits.

Revenue Gathering

Looking first, at the revenue advantages which may accrue to large broadcasters, it seems self-evident that advertisers will pay commercial broadcasters for airtime according to the size of the viewing audience delivered (Picard, 1989). However, it is not merely the quantity of a broadcaster's audience which will influence its perceived value for advertisers, but also its demographic breakdown and its *location*. Disparities exist between the average cost per thousand (CPT) rates - the cost paid by advertisers in return for their message reaching 1,000 viewers - in different ITV regions, with a strong premium in favour of audiences in London and the South-East of England. Hence, for example, the South and South-East licensee - Meridian (owned by United News & Media) - collects 11% of ITV's advertising revenue although it has only some 9% of UK television homes, whereas Scottish Television collects only 5% while it broadcasts to over 6% of UK homes.[115]

Nonetheless, *size* itself also plays some part in CPT rates. For example, in its early days BSkyB was

[115] Figures for the number of television homes in each ITV transmission area are published annually in the BARB Establishment Survey. The ITC and the ITV companies themselves provide data concerning their the breakdown of ITV advertising revenue by licensee

> initially selling its airtime at a heavy discount to ITV. [But] That discount has been reduced [as audiences have grown] which shows that there are advantages in having critical mass.
>
> (Jane Reed, News International, 1997).

The same applies for the newly launched fifth terrestrial channel - Channel 5 - which, at present, is selling its airtime at an average discount of 40% to the CPT rates charged by ITV and would only be able to narrow this discount as and when its audience penetration reaches more significant levels. United News and Media is the largest (29%) shareholder in C5, and its Finance Director confirms the axiom:

> If you've got a mass-medium delivering a bulk audience *then* you get a premium for it ...
>
> (Charles Stern, United News and Media, 1997).

Thus, as conventional economic wisdom would suggest, the ability to exercise greater control over price is one of the key incentives for enlargement and the accumulation of greater market power (Martin, 1993, p68). Having a sufficient *critical mass* to attract major advertisers is the imperative which has encouraged all of the regional ITV licensees to restructure and group together their airtime sales operations in recent years. There are now only three airtime sales houses - Laser, Carlton and TSMS[116] who, between them, sell all commercial airtime on behalf of ITV. By contrast, there were five major ITV airtime sales houses in 1993 and, prior to 1991, virtually all of the fifteen ITV companies sold their own airtime separately. However, the advantages of participation in a joint airtime sales operation are now perceived as crucial:

> Size is certainly an advantage. That is why we moved from having our own sales house first to TVMM and then to TSMS. Especially with national advertisers based in London, who provide some 85% of our income, you need to have 'clout'.

---

[116] Laser Sales sold approximately 33% of ITV's collective advertising in 1996 representing Granada and LWT, Yorkshire and Tyne Tees, and Border. Carlton UK sold around 32%, representing both Carlton and Central. TSMS (owned by UN&M) sold around 35%, representing both Anglia and Meridian as well as Channel TV, Grampian, HTV, Scottish TV, Ulster TV and Westcountry TV.

> The major advertisers and agencies deal firstly with the bigger people and then move onto the smaller ones; if they haven't gotten a very good deal with the larger players then they have less money to spend on the smaller ones.
> Grampian represents just 2% of UK homes. On the other hand TSMS represents 8 ITV companies and can sell all 8 to the major advertisers. They don't always want to *buy* all 8, but you're in a much better negotiating position because you're looked after by a bigger player. So, from an airtime-sales house point of view rather than a company ownership point of view, it is good to be in a big group. Demographics hardly matter; its just getting onto an advertisers schedule *at all.*
> The most noticeable thing that happened to us when we went into TSMS is that our brand count[117] rose substantially. Prior to this, [some] people didn't bother to come to Grampian, *even if they had distribution in the area*; they [the advertising agencies] were under cost pressures themselves and didn't have the resources to negotiate over 2% of the [ITV] market.
>
> (Donald Waters, Grampian Television, 1997).

The view that critical mass is important in attracting and negotiating with advertisers is echoed by Scottish Television, another customer of TSMS. Gus Macdonald acknowledges that, because of growing competition from alternative (non-ITV) providers of commercial airtime, there has been a shift in negotiating power away from the ITV companies. Whereas advertisers might fear the possibility of "conditional selling" (i.e. bundling of commercial airtime slots across several ITV regions) - a practice outlawed under competition regulations - in reality, conditional buying (i.e. subject to certain discounts) by powerful advertisers is a much stronger issue.

> CPTs have quite a lot to do with size although the real power in television lies in the *buying* points [as opposed to selling points]... In large measure, the large advertisers (such as Proctor & Gamble) aggregated together into big buying points like Zenith are all-powerful, so you can't bully them a lot... [But] if you are part of a selling block, it's a big advantage. The agencies are under enormous cost pressure and they won't plod around ... they want 'one-stop-shopping'.
>
> (Gus Macdonald, Scottish Television, 1997).

[117] The 'brand count' refers to the number of different products being advertised.

For those broadcasters who, because of the size and location of their own transmission regions, already have considerable "clout" with major advertisers, the advantages of selling airtime in partnership with other companies may take on a different focus (i.e. *cost-efficiencies)*, albeit that the "market power" benefits of additional critical mass are still acknowledged.

> There are obvious economies of scale in terms of back-up. Laser has one computer system, a relatively small finance team which runs the whole operation ... Sales and all the administration that goes alongside - all that is streamlined. In terms of dealing with advertisers, it depends on what configuration you end up with. A lot of advertisers find it quite helpful to be able to buy Granada, LWT, Yorkshire and Tyne Tees all in one go... When Channel 4 took over selling its own airtime independently from ITV, it set up around 6 UK regions - nobody thought of replicating the 15-region structure of ITV... Bigger chunks are more attractive to advertisers, so there is an advantage there.
>
> (Janet Walker, Granada Media Group, 1997).

Such advantages - both in terms of reduced operating costs and the potential for increased revenue - are not lost on ITV's rivals, yet few of the new entrants to the UK commercial television industry have shown interest in joining forces with an established ITV joint airtime sales house.

> There is no advantage [for L!ve TV] in getting into an airtime sales house run by ITV because they are not interested in small fry like us ...
> They just don't know how to operate in a competitive environment ..
>
> (David Montgomery, Mirror Group, 1997).

Hostility to the concept of joining an established airtime sales operations is not entirely surprising. Notwithstanding the theoretical benefits of increased market power (George, Joll & Lynk, 1991, p91), especially for small newcomers, an inevitable deterrent is the potential for a conflict of interest between "rival" clients providing a very similar product (or television audience). Since the ITV licensees serve different geographical regions, the products they sell through collective airtime sales houses are complementary rather than substitutes for each other. On the other hand, non-ITV providers of local or national UK

television audiences are directly competing for the same advertising revenue which ITV licensees are dependent on, individually and jointly.

Thus, the advantages associated with sharing airtime sales activities are confined either to those broadcasters who are large in their own right (i.e. who have control over one or more services collectively comprising a large market share) or else to others who are able to establish co-operative links with complementary television audience providers. For some broadcasters, the potential to create such partnerships may be minimal or non-existent.

Economies of scale within revenue gathering are not confined simply to airtime sales. For satellite broadcaster BSkyB, direct payments from viewers form an increasingly large proportion of its total income and the company has made a priority of ensuring high levels of customer care for subscribers. Even so:

> Subscription management comes cheaper as audiences grow... We have been taking on additional staff at our Subscriber Management Service operation in Livingstone - it's up to around 3,000 now - but meanwhile subscriber penetration has been growing exponentially.
>
> (Jane Reed, News International, 1997).

Subscriber management costs are falling as a proportion of Direct-To-Home (DTH) subscriber income and represented only 12.9% in the 12 months to June 1996 (BSkyB, 1996, p65) as compared with 14.9% of DTH income back in 1994.

Assembling the Service

The key function within television broadcasting is assembling a schedule of programmes ready for transmission. The level of costs associated with this function can vary enormously from one broadcast service to the next, depending on the nature of its content. Programming costs - the main expense involved - depend largely on the genres

(or strands) and sources (i.e. whether an original commission or acquired "second-hand") deployed. Other overheads typically include finance, administration, personnel and, especially for new broadcasters, marketing. Whatever the total cost of the service, the more viewers it can be divided between, the more cost-effective it becomes.

Economies of scale are usually perceived as a strong feature of the television broadcasting industry because, in general, marginal transmission costs are very low or even zero, and therefore marginal returns per additional viewer are extremely high. In other sectors of economic activity (e.g. manufacturing), economies of scale are generally associated with diminishing marginal costs as *production* expands (Moschandreas, 1994, p142). In the broadcasting industry, the costs involved in assembling a given service are relatively inflexible so, in fact, economies of scale are to do with diminishing (per viewer) costs as *consumption* increases. As it is higher levels of consumption which confer economies of scale, it clearly follows that broadcasters with a large audience share should be able to outperform their smaller rivals, in economic terms.

In practice, much depends on expenditure commitments. For terrestrial UK broadcasters, overall content is normally subject to a variety of licence requirements aimed at encouraging quality, range and diversity. Cable and satellite television broadcasters in the UK have considerably more freedom over the nature of the services they provide and, as a consequence, many have lower operating cost bases than terrestrial broadcasters. Variations in the operating cost levels to which broadcasters are committed also, to some extent, reflect their current revenue-generating potential (i.e. what they can afford): terrestrial broadcasters have collective access to 99% of UK homes whereas, because of the slow build-up of cable and the relatively early stage in development of DTH satellite, only some 25% of UK homes have access to non-terrestrial services.

Any expansion in the available audience for a given television service provides an opportunity to achieve economies of scale (Alexander et Al, 1993, pp64-5). For many

broadcasters, however, their potential audience is constrained by the geographical boundaries of the transmission area for which they have been awarded a licence. In the UK, this is true for each of the regional ITV licensees and, also, for cable operators who are awarded small local franchises (which must, at some expense, be laid with fibre-optic cable before audiences can be reached). Satellite broadcasters, on the other hand, technically have potential access to the whole of the UK and therefore, as and when the penetration of DTH satellite receiving equipment increases, would achieve concomitant revenue benefits at low marginal cost.

The boundaries of transmission reach need not, however, set an absolute limit on the potential for consumption of a given television service. Firstly, it may be possible to expand audiences by acquiring additional broadcasting licences. Also, it may be possible to form a network and share the same (or large portions of the same) programme service with broadcasters addressing other audiences. In addition, it is possible to share the cost of elements of a programme service, whether through the purchase of "second-hand" programmes, or the onward sale of originally commissioned programmes after transmission, or through shared ("syndicated") programme acquisitions with one or more other broadcasters. All of these strategies for exploiting natural economies of scale in broadcasting can be seen in action in the UK television industry, and the economic performance of any individual broadcaster is heavily influenced by the extent to which it is availing itself of these economies.

The structure of ITV lends itself easily to the strategy of *networking* (Owen & Wildman, 1992) a single jointly-funded schedule of programmes throughout its regions. Clearly, this allows each regional licensee to transmit a much more expensive service to its viewers than it could afford if it were not part of the network. The advantage of maintaining a regional structure (as opposed to collapsing the system into one single broadcaster) is that viewers receive, alongside the collective network schedule, a certain proportion of programmes made within and for that specific region. The nature of the

regional programming requirements associated with each ITV region are written into the terms of the individual licence when awarded, so that such provision is obligatory. Thus, ITV viewers across the network receive a service which consists largely of the same central ITV schedule of programmes but interspersed with some elements - ranging from 4% to 14% of available hours (ITC, 1997, p12) - made specifically for that region or its sub-regions.

Notwithstanding ITV's traditionally fragmented ownership structure, the network system enables participants to capitalise fully on the potential for sharing programme costs while also retaining the obligatory individual regional component in their schedules. This partnership has resulted in considerable financial success for all of its participants[118], albeit that some appear to do better than others:

> Operating margins in broadcasting are meaningless... [In ITV] There are zero marginal costs with everything except networked programmes... There is no reason why, say, Granada's regional output or other costs should be any more expensive than STV's. They have exactly the same fixed costs... But Granada gets twice as much advertising revenue as STV.
>
> (Gus Macdonald, Scottish Television, 1997).

So, in spite of fairly heavy cross-subsidisation of network and (some) transmission costs between the ITV licensees, all the remaining costs associated with operating a regional ITV service (particularly, local programme costs and back-office functions such as finance) must be borne, at more or less equal expense, by each regional licensee. Larger licensees can spread these remaining costs between more viewers. Thus, in spite of the network, large licences are inherently more profitable than small ones.

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[118] The individual financial bids made by successful applicants in return for the award of each of the current set of ITC licences varies considerably (from, at the upper end, some £43m per annum by Carlton TV to, at the lower end, £2000 per annum by Scottish Television and Central ITV) and, while this has a material impact on each licensees pre-tax profit performance, it does not affect the underlying *operating* profitability of the licence. The pre-tax profit performance of some individual ITV licences (especially, Yorkshire TV, Tyne Tees and national breakfast-time broadcaster GMTV) has been severely impaired as a consequence of the high financial tenders each has committed itself to. Nevertheless, even after other compulsory licence payments are taken into account, all of the current set of ITV licences exhibit high levels of operating profitability compared with most other sectors of industry.

> For instance, there is a definite cost advantage to larger players on local programme costs. These are the same whatever the audience size - we [at Grampian] could double or treble the regional programme budget without necessarily *improving* the output.
>
> (Donald Waters, Grampian Television, 1997).

Some, but not all, of the additional scale economies available "naturally" to large licensees can, it would seem, be achieved through consolidated ownership of more than one ITV licence:

> The main costs that can be cut out in a merger situation within ITV are central services departments. These can be expensive: finance, IT [Information Technology], personnel, public affairs and head office administration. Also, transmission; everyone has their own transmission suites... [Another area is] streamlining of programming, *if* that can be achieved - but the ITC polices licences pretty strongly. Benefits of this sort might be possible if the regions involved are contiguous, such as Anglia and Meridian, but otherwise not. [119]
>
> (Gus Macdonald, Scottish Television, 1997).

Donald Waters is emphatic about the distinction between cost reductions which might threaten the regional character of the service received by viewers and those which do not:

> The overlapping costs which could be reduced would be to do with in-house transmission and administration - services like accounts, press relations and personnel can be centralised or consolidated without affecting the on-screen picture... But *not* regional programmes! Legislation under the 1990 Act was 'iffy' in this regard... Smart accountants and lawyers could drive a horse and cart through it... The new Act contains much stronger clauses... [120] These tighten up the protection of regionalism: now, whatever happens to ownership, programmes have to produced in the area by locals; editorial control *has to* remain in the area.
>
> (Donald Waters, Grampian Television, 1997).

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[119] Following the period up to May 1997 which is covered in this research, STV has instigated a takeover bid for Grampian TV, owner of the licence which is contiguous (in the North of Scotland) to its own.
[120] The measures referred to are contained in Sections 78 and 79 of the Broadcasting Act 1996.

One of the first companies to capitalise on a relaxation of the rules concerning ITV ownership in 1993 was Granada Group, when it successfully launched a hostile bid for LWT.[121] Both the North-West of England licence (operated by Granada) and the London weekend licence (operated by LWT) were already "large"[122] and, accordingly, lucrative licences prior to the takeover which left them in common ownership in December 1993. Nonetheless, consolidation has paved the way for further benefits:

> For large players, there are no economies of scale in what we call 'industry costs' (those divided up according to NAR share); i.e. the cost of running the ITV network centre, the cost of the ITC, the cost of the networked programme schedule and the cost of NTL transmission contracts. The only advantage there of being a large player is in having the impetus and incentive [as a large net contributor] to *tackle* some of these costs...
> Then there is the cost of running of various Departments, such as Finance and Presentation, Planning and Promotion but these are not huge...
> Then there are regional programmes - the trouble is [with seeking to share costs] that the ITC is very hot on this issue of co-productions. Granada and LWT are not contiguous so we *have* to run two separate news centres ... it's not easy to get [extra] economies of scale in regional programming.
> ... [Costs that were cut out when Granada merged with LWT were], firstly, in Finance; we set up one payroll operation in Manchester, and that definitely helped. Also, that was when Laser was set up, so we had one airtime sales operation. Also BRITE came into being [a joint venture with YTTV set up in 1995] so we have one operation to oversee secondary programme sales. Corporate Affairs became a cross-company operation; only some overlapping activities could be cut out (e.g. lobbying the government)... IT was another area - not initially, but we now have common computer systems... And capital equipment; for example, LWT shares Granada's Telecine machine[123]... But there

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[121] The 1990 Broadcasting Act had provided a moratorium on takeovers of ITV licence holders for the first year of operation of the new set of licences (which commenced on January 1 1993), and it restricted ITV ownership to a maximum of one 'large' plus one 'small' licence (the so-called 'penny-farthing' principle). However, in November 1993, the announcement by the Secretary of State for National Heritage of a limited relaxation of the rules - effectively, removing the penny-farthing principle so that two 'large' licences could be owned by a single operator - paved the way immediately for anumber of ITV takeovers, including Granada's takeover of LWT.

[122] According to the terminology used by the ITC, a 'large' licence is one which attracts a share of ITV net advertising revenue (NAR) in excess of 4%, whereas 'small' licences earn less than 4% of NAR. Granada and LWT are both amongst the top revenue-earning licences within ITV. In 1993, their respective shares of ITV NAR were 11% and 12%.

[123] A Telecine machine is used to transfer programmes which arrive on film onto video tape suitable for transmission.

> is a limit to how much you can share overlapping facilities because, in London (not nearly as much in Manchester) you've got third party use of these... You've still got to have [separate] cameras and cameramen in studios although, for example, editing (and post production) machines can now be networked and actually used by remote access.
>
> (Janet Walker, Granada Media Group, 1997).

Of the several benefits and initiatives attributed to Granada's merger with LWT, it is worth distinguishing those which are strictly contingent on the change in television ownership from those which might have been attainable through alternative strategies. For example, it is not unusual for separately-owned broadcasters to form agreements to share functions such as airtime sales and overseas programme sales, and many do.

> We have TSMS, which sells not only for Meridian and Anglia, but also for HTV and STV, so *that* strength is pulled together anyway. Whether or not we owned them both [Meridian and Anglia], as long as they are sold together through the same sales house I suppose the strength is there.
>
> (Charles Stern, United News and Media, 1997).

Similarly, there seems to be little impediment to broadcasters arranging to share expensive post production facilities which, in any event, are available for rental from independent facilities houses. In other words, it is open to question whether, for all the activities involved in television broadcasting, the conditions of cost minimisation are best achieved by internal transacting (Coase, 1937; Williamson, 1975) as opposed to market transacting or inter-firm contracts.

On the other hand, the scope for cost-efficiencies through integration of (and reduced duplication of resources within) administrative functions such as finance and corporate affairs seems limited to enterprises which are held in common ownership . Even so, such back-office functions are neither peculiar to the television broadcasting industry nor particularly specialised for taking place within it. It may be that similar (or at least some)

savings could be achieved by an ITV licensee through sharing administrative functions such as finance, personnel and IT with a company in common ownership which is *not* another television broadcaster. In short, it may be argued that many of the efficiencies achieved by Granada since its merger with LWT might also have been attainable, through alternative strategies, by the holder of just one ITV licence.

The economies which can be achieved through sharing programme costs across a *network* are as attractive to industry newcomers as to established broadcasters. For instance, Mirror Group, through its cable television broadcasting subsidiary L!ve TV is aiming to provide a networked service with a local flavour in all the main cities of the UK.

> We have a national strand of programming ('L!ve TV National') which is then customised at the city level and will ultimately be absorbed altogether at the city level into, for example, Birmingham L!ve, Manchester L!ve, Edinburgh L!ve etc... So, L!ve TV National' will ultimately be eroded; it will provide only a primetime segment; the rest of the time it will be a local television channel.
>
> (David Montgomery, Mirror Group, 1997).

L!ve TV's collective audience at present is lower than that of even the smallest regional ITV licensees. Its programming ambitions have to be achieved out of an annual budget of around £10m (as compared with total annual programme costs within ITV of some £810m (ITC, 1997, p12)) and its determination to make a success of its low cost broadcasting service is accompanied by a spirited philosophy:

> We are bringing into television advertisers who could not pay the rates demanded by ITV, which is run by a monopolistic Mafia who have no talent in the competitive world at all but who have screwed the advertisers for 30 years, with government connivance. We're providing access to TV for advertisers who want to use that potent medium. We are not a public service - we're intending to make money out of it. We are there first and doing it effectively and in a way ITV would never have done because the people who work in ITV have no sense of proportion, which we *have* to have. It is absolute nonsense that ITV is efficiently

> run. We can make television for £1,000 an hour, and most of it is watchable! ..
> Some of it is very good.
>
> (David Montgomery, Mirror Group, 1997).

The accusation of a lack "sense of proportion" at ITV may well refer to the discrepancy between L!ve TV's £1,000 per hour programming costs and the £161,000 average peaktime cost per hour (ITC, 1997, p12) for ITV network programmes. But, by the same token, the audiences and revenues for ITV's programme service are exponentially higher for ITV than for L!ve TV. At this early stage in the (UK) career of low cost television, it is difficult to say how much these stark disparities reflect a lack of audience appeal for £1,000 per hour programming or, perhaps, some complacency about programme costs - "X-inefficiency" (George, Joll & Lynk, 1991, p322; Moschandreas, 1994, p312) - on the part of broadcasters with a dominant advertising revenue share. On the face of it, there is little real evidence of the latter:

> If you look at what is happening within ITV, there is huge pressure from the broadcasters on the Network Centre to reduce network budget increases. The cost of sports rights is increasing (e.g. Formula 1 racing), as is the cost of acquired material due to competition from Channel 5, cable etc. The budget for original commissions is becoming smaller and smaller...
>
> (Janet Walker, Granada Media Group, 1997).

At least part of the explanation for the disparity between average programme costs on different television services lies in the current UK regulatory environment. Compulsory fulfilment of "public service" type programme requirements by terrestrial licensees involves expenditure which is not required of their non-terrestrial rivals.

Since UK television broadcasting licences come with different service specifications (some with high built-in operating costs and others without), it seems legitimate to regard them as quite different propositions. This is the approach taken by Granada Media Group with regard to its recent expansion into satellite broadcasting via "GSkyB" which, it says,

allows little scope for cost sharing with its ITV businesses, but it does create potential for cross-fertilisation of new expertise:

> The programme services we are offering on GSB - e.g. 'Men and Motors' which is made in Manchester and 'Talk TV' in London - are *very* low cost formats... They have been set up as separate stand-alone businesses [from Granada/LWT] because the nature of the product is quite different... The main business [at Granada/LWT] is making stand alone pieces [programmes], whereas these are churning out channels - it is a much more continuous business. In getting to the very low cost per hour that they *have* to get to (i.e. £2-3,000), they have started looking at very different production techniques. For example, 'Talk TV' makes six hours of original programming every day, most of it interviews - not anything too complicated. We have experimented with, instead of using conventional TV cameramen, bringing in students from media schools and training them up to do it. It is good experience for them and it has worked quite well.
>
> So, it's not really a case of deriving joint economies of scale [between GSB and LWT/Granada]. You *get* economies of scale [at GSB] because you're making a hell of a lot of television so the cost per hour can be low. It's more a case of, if we can do this for GSkyB (and if you look at 'Talk TV', it doesn't look bad) how much of this can we export to the more conventional traditional programme-making? Are there any lessons?
>
> (Janet Walker, Granada Media Group, 1997).

Distribution

In some senses, the economic advantages and the disadvantages of ITV's federal structure are best exemplified by its arrangements for transmission. For each ITV contractor, there are two sets of costs associated with transmission. Firstly, there is the cost of the practical external work involved in sustaining ITV's transmission coverage to viewers across the country (infrastructure maintenance, etc.) - a service which is carried on ITV's behalf, under contract, by transmission operator National Transcommunications Limited (NTL). Additionally, there are the "in-house" costs of transmitting or actually putting onto the airwaves each regional service (e.g. inserting and co-ordinating advertising breaks).

The first of these functions is treated by ITV as what Janet Walker describes as an "industry cost". In other words, it is centralised and payment is apportioned on the basis of a formula which reflects respective shares of collective advertising revenue. Without such a collective arrangement, transmission would be more expensive for ITV as a whole and particularly for some of its poorer participants. The North of Scotland, for instance, is one of the largest and most difficult (in terms of topography) transmission regions in the system, but also has one of the lowest population (/audience) shares. By contrast, two of ITV's most profitable licences - London weekend and London weekday - share the same (smaller) transmission area. ITV's arrangement for sharing transmission costs facilitates economies on the part of a single collective service provider (in this case, NTL) which are reflected in the overall cost to ITV of it transmission lines. It also allows for significant cross-subsidisation between lucrative and less lucrative ITV licences.

The second of these activities - in-house transmission - is not organised centrally and, as with other functions replicated in each ITV region, involves a higher per-viewer cost for smaller licensees. However, moves towards securing collective economies seem to be underway:

> We receive a discount, through ITVA [the ITV Association] on 'network' transmission costs, which reflects the concept of 'universality'. On the other hand, 'in-house' transmission costs are a lot dearer, because we're on air 24 hours a day, 7 days a week and we need the same number of transmission staff, the same transmission suites, the same number of back-up engineering people [as other ITV licensees] ... preparing commercial breaks, preparing the schedule itself - and these costs are *exactly* the same whether you are the largest or the smallest. So there would be economies of scale for larger companies. And a number of companies now share this cost e.g. HTV does Westcountry's transmission and Granada does Border's.
>
> There is a suggestion that one company ... does transmission for the full ITV network. All around the network, there are transmission suites and transmission controllers sitting doing virtually the same thing: putting different commercial breaks into an almost standard transmission pattern. So, in theory, if we standardised our break patterns (*not* our schedule) it could all be done from one source, using pulses to send in regional variations. There is no reason why it

shouldn't work, and the proposal has been going around for two years now ... I think it will come, with time.

(Donald Waters, Grampian Television, 1997).

Clearly, then, further collective savings could be available to the ITV licensees through integration and sharing of what are now "in-house" transmission activities. But, in spite of the economic incentive, this opportunity has not been seized.

> Everyone [in ITV] is saying 'Can't we have one transmission centre and can't it be mine?' It's the classic ITV situation where everyone can see that basically it's a good idea but nobody wants someone else to win so everybody ends up losing. There have been a million and one proposals for sharing transmission, and now it has gotten even more complicated with the prospect of digital broadcasting.
>
> (Janet Walker, Granada Media Group, 1997).

This demonstrates how the "classic ITV situation" of internal rivalry (about the terms for co-operation) can constitute an obstacle to a move which would clearly benefit all - in this case by removing unnecessary replication of transmission resources across the regions. Although ITV has a considerable history of negotiated cost sharing, any efficiency gains foregone through such internal rivalry could be fully recovered under circumstances of collective ownership.

BSkyB carries out transmission of UK satellite television channels, some of which are wholly or partly owned and others (e.g. The Disney Channel or MTV) which are independent. The company also provides subscriber management services for these channels and the advantages of retaining unilateral control over distribution can be summed up thus:

> People [independent channels] pay BSkyB a royalty for providing a distribution platform to UK viewers. This provides the cash to buy rights and expand our own originated channels ...

> There are economies per user (channel) in having a ready made platform plus all the servicing and administration ... it would cost a fortune to set up
>
> (Jane Reed, News International, 1997).

BSkyB's position as the sole UK supplier of distribution for subscriber-funded satellite television channels has attracted controversy, not because of the economies of scale it reaps as the market expands (although, clearly, these exist) but because of the perceived tactical advantages conferred by control over this "gate-keeping" function. Specific competition issues surrounding gate-keeper monopolies, and how these are regulated, are considered in chapter 9 (section 9.2(b)).

In summary then, fragmented ownership is not necessarily an impediment to the pursuit of efficiency gains in television broadcasting. Co-operation between UK broadcasters who are not direct competitors is fairly common-place (e.g. in airtime sales or programming) and, even for small players, this allows some scale advantages and economies to be exploited jointly.

Nonetheless, a sizeable market share immediately confers important advantages in each of the main activities of broadcasting. Critical mass reduces the per-viewer costs of revenue gathering and, by conferring additional market power, also helps firms to negotiate a higher price for the supply of commercial access to audiences. A high market share (for the same service) also brings economies of scale in assembling programming and in distribution. Even when it is comprised of a number of services requiring differentiated content or separate distribution systems, a high share of the market - the clustering of television ownership - facilitates some cost-efficiencies in less significant functions (such as administration and finance) which would have to be replicated were each such service to be supplied by a separate firm.

The following section shifts the focus of analysis to another part of the television industry - programme-making - and, again, is concerned with the relationship between size and economic performance.

7.2 Television Programme Production

Eight companies in the sample group are, to a greater or lesser extent, involved in making television programmes. Six of these are also active in television broadcasting in the UK, four of whom control regional ITV licences (Grampian, Granada, STV and United News & Media) and two of whom (News International and Mirror Group) are involved in DTH satellite and cable television respectively. The remaining two (Guardian Media Group and Pearson) are the owners of "independent" production companies.[124]

The high level of cross-ownership between television broadcasting and programme production within the sample group is indicative of the (at least, perceived) benefits of being involved in both distributing and creating television content.[125] This section, however, will focus on the economics of *monomedia* expansion; in other words, the advantages of achieving a greater size or market share in the production sector. In using this particular sample group to carry out the analysis, it must be acknowledged that, (unlike the sample group) the vast majority of the 800 or so television production companies in the UK are "independent" rather than vertically integrated entities. On the other hand, because of the dominance of broadcasters within the vertical supply chain for television, vertically integrated entities capture a sizeable proportion of the available market.

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[124] The 1990 Broadcasting Act established as the definition of an 'independent' production company, one which is not more than 15% owned by a TV broadcasting company nor, itself, owns more than 15% of a TV broadcaster. The 1995 (Independent Productions) Broadcasting Order amended the threshold for cross-ownership between 'independent' production companies and TV broadcasters, raising it from 15% to 25%.
[125] The economics of vertical integration in the TV industry are analysed more fully in chapter 8 (Sect 8.1).

There are no comprehensive statistics available concerning the total value of television production activity carried out in the UK. However, it is possible to estimate its value by taking account of programme transmissions by all the major terrestrial broadcasters and original production work being carried out for the cable and satellite sectors. On this basis, the value of production work carried out by the sample group collectively represents a share of some 30% of the estimated £2bn total UK television production market in 1996. As neither Mirror Group's subsidiary L!ve TV nor News International's (40% owned) subsidiary BSkyB treat programme production as a separate activity from broadcasting it is impossible to include operating performance figures for either in the following graph.

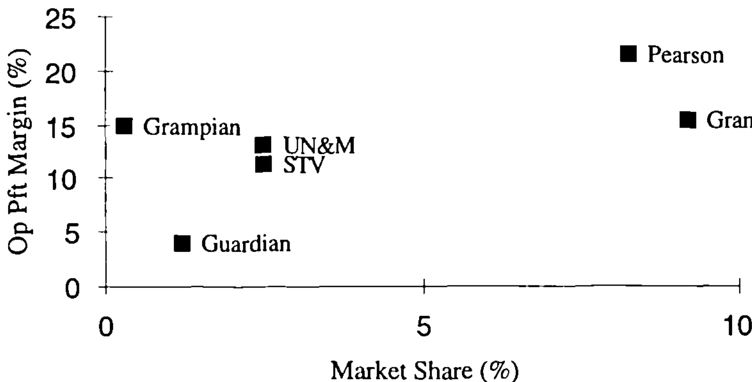

Figure 7.2: Market Share and Operating Profit Margins in TV Production in 1996.

Plotting the operating profit performance and market shares of the remaining six companies, there is some evidence of a general relationship between these variables, in that the two largest companies - Granada Media Group and Pearson - achieve the best margins. The value of the correlation coefficient for this sample group in 1996 is 0.634, indicating a relatively modest positive association between the variables.

The exception to a generally strong correlation between size and performance is Grampian Television which, with only 0.3% of the market, nevertheless achieves above average margins (15%) on its production activities. The explanation for this may reside

in the fact that, to a much greater extent than any of the other broadcaster-producers above, Grampian's production activity comprises servicing its *own* broadcasting operation.[126] Excluding Grampian, the evidence of a link between size and performance is a good deal stronger. This is confirmed by recalculating the correlation co-efficient for the sample excluding Grampian, which yields a value of 0.802, indicating a much stronger relationship.

These findings are reinforced by qualitative evidence from the companies all of whom suggested that advantages of one kind or another accrue to large scale television production companies. On the other hand, it is widely agreed that programme production tends to be a "buyer's market" (i.e. that the supply of production capability exceeds commissions available from broadcasters) so that the key to success for a programme-maker is not so much size as the ability to create "hit" programmes. On closer inspection, it becomes apparent that these two issues (size and ability to create "hits") are not entirely disassociated:

> Pearson (through Thames TV) is unusual as an 'independent' in having a big primetime show on ITV which does consistently well: 'The Bill' constantly gets a market share well in excess of what you would expect for that slot. Therefore, we are important as a supplier ...
> As an 'independent' it is very difficult to get into the primetime slot - unless you have a great show - and the only way you can establish a great show is by having it on, so it's a bit of a vicious circle. What being big does for you is it allows you to get a new show on air ... it gives you negotiating leverage (you can say, I won't raise the price of X if you take Y). That is the principal 'economy' or scale advantage.

(Nigel Portwood, Pearson, 1997).

[126] Most vertically integrated ITV companies account separately for, on the one hand, externally commissioned programme production work (e.g. for the ITV network) and, on the other, 'in-house' production (i.e. production which directly services their broadcasting operations); the former is generally recognised as a distinct profit centre whereas the latter is treated as a 'Cost of Sale' within the broadcasting division. Since, in reality, 'in-house' (e.g. regional) productions are transferred at cost from the production to the broadcasting division, the operating margins ascribed to such activity are largely *notional* and may vary widely, depending on the accounting conventions deployed (e.g. whether the use of facilities is charged at a full market rate or a marginal cost rate).

Pearson is now one of the largest programme producers in the UK having, over the last five years, acquired independent production companies Thames TV and SelecTV and, also, Grundy Worldwide (about 40% of whose work is UK-based). The commercial logic behind its expansion reflects lessons learned from other sectors in which Pearson is active:

> In any 'hit' business - e.g. television production, music or trade publishing - scale helps you to deal with risks, because you can diversify your costs across a greater portfolio.
>
> (Nigel Portwood, Pearson, 1997).

In other words, by creating and having control over a range of programmes, Pearson is able to spread the unequal returns from strong and weak performers across its portfolio of production, including new development. The strength of its "hit" programmes not only provides the negotiating power to gain distribution access for new shows, it also cross-subsidises a range of additional production and development activity aimed at replenishing the "hits".

In a marketplace in which the number of sellers (i.e. producers) is well in excess of the number of buyers, establishing oneself as a supplier of what is described as "must have" programming - i.e. programmes which guarantee high audience ratings - is clearly regarded as a key priority. The *potential* (i.e. expertise and talent) to create such programming may not be contingent on size, but the likely opportunity to do so *in practice* (i.e. securing a commission from a broadcaster) appears to be closely tied up with a company's existing status as a supplier.

> For example, when you look at the forthcoming Channel 5, you can forget about all this 'Let a thousand flowers bloom' philosophy [which is prevalent] at Channel 4 - it's more a case of 'we're going to use a few tried and tested suppliers' ... They [C5] are going in for *stripping* which brings costs down by using long runs [of the same programme series]. They want something with track record. They want someone who can do volume - who can set up a factory...
> ITV is also tending that way, for example ..[Company X] .. we know they have the clout to go out and do deals in the market place; to get good deals on facilities

> because they've got volume and they've got experience. We know that they'll produce a technically acceptable programme, that will not breach any ITC rules - It's a lot less hassle.
> But C4 will still be a home for the eccentric [programme], the 'one-off', etc...
>
> (Janet Walker, Granada Media Group, 1997).

The apparently self-perpetuating dominance of suppliers who have established a successful track record might well serve as a barrier or, at least, a deterrent to market entry. However, the continued willingness of one buyer (i.e. Channel 4) to award commissions to less experienced programme-makers acts as a countervailing force. Channel 4's unusual "Let a thousand flowers bloom" philosophy undoubtedly encourages a diversity amongst programme suppliers which would not otherwise exist. On the other hand, it is not clear that this serves the commercial interests of the production sector, since the negotiating power of buyers is contingent on the degree of competition between suppliers. At present, this is running at a high level because, bearing in mind the generally high cost of audiovisual production, the available market for television production (estimated at £2bn in 1996) is simply not big enough to support the large number of production companies (some 800) already in existence in the UK.

The fact that broadcasters have the upper hand in negotiations about the terms on which programmes are commissioned inevitably serves to constrain the commercial success of the production sector. According to an ITV executive who sits as a member of the Finance Committee for ITV network production, "important suppliers" are favoured in terms of being awarded commissions, but:

> ... not on fees. You don't make a killing just because you are large. The system of having a central ITV scheduler and commissioner, which is *independent* of the broadcasting companies [and their production subsidiaries] works well in this way. What counts is having specific established products like 'Coronation Street' and 'The Bill'. So, there *is* an advantage in having known successful product but it doesn't necessarily get you higher margins.
> .. [Some people] .. are of the opinion that *nobody* should make money out of ITV for making programmes - these should be sold to the network at cost (and we

> should concentrate on competing with each other as broadcasters for advertising revenue). This view is not shared by everyone [in ITV], but neither is the view that we should all make big profits as production companies. I think, at the moment, we get all our programmes at a fair cost.
>
> (Donald Waters, Grampian Television, 1997).

Some tension amongst ITV participants about terms of trade with suppliers is understandable, given that the majority are also vertically integrated into programme production.

> Because it's such a *buyer's* market, ITV could probably get tougher - it could ask for deficit funding in exchange for rights. But because it is that unique combination, where one-third of the people who pay for the schedule are also its main producers, there is a kind of equilibrium established there, where they [broadcasters] clearly want to be able to show profitable production arms because software and rights are important to the future.
>
> (Gus Macdonald, Scottish Television, 1997).

However, it is not entirely clear that the "equilibrium" favours the long-term interests of the production sector. The prevailing system of terms on which programme suppliers are commissioned in the UK (by *all* broadcasters) involves, for the producer, little financial risk but also low returns. Following the award of a commission, the producer will receive a payment which covers the full production budget plus a variable (usually modest) fee or "profit margin". In exchange, the broadcaster acquires not only first transmission rights but also all or most secondary rights plus (usually) an option to take future series of the programme. The production company benefits to the extent that, whether or not the programme is a success, its costs are covered. On the other hand, whatever returns are available through secondary sales accrue (largely) to the broadcaster.

By contrast, a system of "deficit financing" is prevalent in the US television industry Owen & Wildman, 1992). Under this system, programme-makers receive a payment which is below the total production budget for the programme (typically, by one-third) and, in return, the broadcaster acquires primary transmission rights only. Producers are

obliged to take a share of the broadcaster's financial risk but, on the other hand, stand to enjoy all the income from secondary sales and higher fees on any subsequent re-commission.

Any move, in the UK, towards the "tougher" system of "deficit funding in exchange for rights" would place a financial strain on independent production companies who are small and under-capitalised. On the other hand, production companies with the resources to accept commissions on this basis would be far better placed to build up and exploit their assets over time, as secondary markets for television programming continue to develop in the UK. To the extent that such a move would encourage consolidation in the production sector, it would also undermine the predominance of buyers' negotiating power in favour of suppliers.

Under the current system, "negotiating leverage" can only be acquired by "important" suppliers, such as Pearson or Granada. The weaker position of smaller companies - such as Guardian Media Group's independent production subsidiary Broadcast Communications - is reflected in their performance and their views about the need for change:

> With small production companies, the broadcasters have got the whip hand. It is virtually impossible for *anyone* to make more than 3-4% margins... There is no future unless you get to the point where you can share risk - i.e. 'deficit fund' and get a share in secondary rights - as in the US.
>
> (Harry Roche, ex Guardian Media Group, 1997).

The advantages of size (or status as a supplier) are not only to do with spreading risk and accumulating negotiating power but are also, at least to some extent, to do with economies of scale in production, in the traditional sense. Large scale production does not generally bring with it reduced input costs (since "talent" or individual artists tend to comprise the main raw material), but overhead costs can be spread, at a reducing marginal rate, over increasing output levels:

> You need a certain infrastructure regardless of size: finance (to do costs and budgets); legal affairs (to do contracts). [As production expands] you will get a certain level of economies of scale on these, on Errors & Omissions insurance, and marginal savings on casting ... if you've got the studios, staff and facilities in place, you can get better use out of them.
> But the problem is that programmes are all individual pieces. You can't say "OK, 'World in Action' team, you're here - make another half-dozen programmes!" ... You can't assume that if you make a few more programmes cheaply, that the ITV network will want them. Also, a lot is 'talent' based. You might want to do twenty episodes of 'Prime Suspects' in a year, but the main star might not want to ... 'Talent' is not susceptible to the economies of scale argument.
>
> (Janet Walker, Granada Media Group, 1997).

Thus, production companies with a busier production slate will be able to achieve economies of scale through improved rates of overhead recovery. However, demand is relatively unpredictable, which makes it difficult to sustain a consistently optimal rate of output. Also, whether the additional variable costs directly associated with any specific unit of output lend themselves to economies of scale depends on the character of that product. In general, because of development costs, the cost of assembling sets, contracting "talent" etc., the production of a "one-off" programme will be more expensive than producing a series. Similarly, re-commissions of a second or third series of the same programme will tend to yield economies of scale.

> The major development costs you write off in the first run - the cost of developing the format is put into the first six shows because you don't know if you will get a second series commissioned. Therefore, any subsequent series is more profitable...
>
> (Nigel Portwood, Pearson, 1997).

On the other hand, the level of scale economies available on the direct production costs of a long-running series will depend - in particular, on the terms of access between the producer and whatever ingredient lends the programme its audience appeal. "Human asset specificity" and the prevalence of short-term contracts and freelancing makes it difficult for television production companies to avoid transaction costs (Moschandreas, 1994, p65, p68). If the success of a programme is dependent on specific writers, actors,

presenters or directors then, subject to the terms of their contracts, these individuals may effectively be able to halt production of a further series (by withdrawal of their labour) or else to inflate production costs by re-negotiation of their remuneration.

> [The profitability of long-running commissions] .. depends on how clever you have been in sewing up talent ... It's not just a case of cranking the handle, it is a *creative* process .. so, it depends on how much people are interested in being part of what they see as a factory process...
> Ideally, you [as a production company] want a banker like 'The Antiques Road Show' which has no stars, no writers .. and the audiences keep coming. LWT's bankers are entertainment. Therefore, you have pressure from stars and also, these days, the threat that they may go and set up their own production companies. Granada has got contemporary drama - e.g. 'Prime Suspect' and 'Cracker' - which is also very star-driven...
> Both LWT and Granada are now trying to do so-called "precinct" drama for the ITV network - i.e. low cost drama (with £375-500,000 rather than £750-£1,000,000 per hour production budgets) which doesn't have stars or exotic locations - e.g. 'Staying Alive' ... We're on a learning curve; Granada is at an advantage because it has done 'Spring Hill' for BSkyB, and it's trying to bring some of the production methods into more conventional drama at ITV ...
> The secret is, first of all, developing a number of "must have" titles. Secondly, doing deals that lock in the talent so that you've got an option with agreed increases and you're not held to ransom. And, thirdly, constantly exploring ways of attacking production costs...
> (Janet Walker, Granada Media Group, 1997).

Thus, although the production of a long-running series should lead to economies of scale (through, for example, improved efficiency as the production team becomes more experienced at working together), the extent of those economies will depend on the nature of the programme (whether, for example, it is studio based or requires many expensive changes of location) and - in particular - the programme-maker's ability to constrain the price of programme inputs for which there are no perceived substitutes. Some programmes have few such vital ingredients and are good "bankers" whereas, with others, success may immediately be accompanied by inflationary pressure on costs.

More generally, companies with a large scale of production activity stand to benefit from greater expertise and lower (per unit of output) overhead costs across a range of support functions which are integral to the business, such as finance and legal affairs. Sales (of secondary transmission rights) is also a vital function and, whilst this may be subcontracted to a third party, (e.g. an international programme distributor), there are clear downstream benefits for companies with a large critical mass in production. A bigger production slate creates a reputation which can be exploited both in domestic secondary and international programme markets and it also creates economies within the marketing and selling functions:

> If you're going to distribute programmes in, say, Australia or France or Los Angeles, you need more than one show to justify the fixed costs of having a sales office there! A big catalogue makes secondary markets more accessible and more economical to exploit.
>
> (Nigel Portwood, Pearson, 1997).

In view of these various advantages for large production companies, it is hardly surprising that, within the sample group, the operating performance of those with a larger share of the market tends to outshine that of their smaller rivals. The exception to this general trend is Grampian TV's production arm. As stated earlier, this company derives the bulk of its work from internal rather than external commissions. So, even though the total value of Grampian's programming contributions to the ITV network or to other broadcasters is extremely modest, the company benefits from a relatively high degree of stability regarding demand for its output. This stability helps it to run its production resources at fairly high capacity levels for much of the time which, in turn, serves to enhance the profitability of production activities. Clearly, then, the strength of Grampian's performance relative to, say, that of the Guardian Media Group's, reflects the fact that it is vertically integrated into broadcasting.[127]

[127] The benefits of vertical integration in the television industry are examined more fully in chapter 8.

Production would not exist without broadcasting. If we lost our licence in the last licence round, we couldn't see how we could have supported a substantial production house in the North of Scotland.

(Donald Waters, Grampian Television, 1997).

The advantages of vertical expansion in the television industry are analysed more fully in the following chapter (Section 8.1 below). Monomedia expansion remains the concern for this chapter and, in the following section, the focus turns from television to another key sector of the traditional media - newspaper publishing.

7.3 National Newspaper Publishing

The sample group includes five companies who are publishers of national newspapers in the UK. Their collective share of national circulations was around 80% in 1996 although there are considerable disparities between the size of the largest and smallest of these proprietors.[128] News International - through its spread of "quality" and "popular" daily and Sunday titles, is the largest single player in this market with a 37% share in 1996. Mirror Group also has a range of titles and enjoys a dominant position with some 26% of national daily circulations. United News & Media's titles accounted for some

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[128] The market for national newspapers in the UK tends to be sub-divided between daily (which run, typically, from Monday to Friday) and Sunday titles. An additional sub-division is commonplace between three categories of daily or Sunday newspaper: 'quality' titles (i.e. those aimed primarily at the 'AB' socio-economic segment of the population, or the country's wealthiest and best educated constituents), 'mid-market' titles, and 'popular' titles (known, generically as 'the tabloids' and aimed at the largest population segments 'C2's and 'DE's).
News International owns a 'quality' Sunday title (the *Sunday Times*), a 'popular' Sunday title (the *News of the World*), a 'quality' daily title (the *Times*), and a 'popular' daily (the *Sun*). **Mirror Group Newspapers** (MGN) owns 'popular' Sunday titles the *Sunday Mirror*, *The People* and the *Sunday Record* (whose main circulations are in Scotland) and 'popular' daily titles the *Daily Mirror* and the *Daily Record* (mostly in Scotland). MGN also owns 43% of Independent Newspapers which publishes a 'quality' daily and a 'quality' Sunday title (the *Independent* and the *Independent on Sunday*). **United News & Media** owns 'mid-market' Sunday title the *Sunday Express*, 'mid-market' daily title the *Daily Express* and 'popular' title the *Daily Star*. **Guardian Media Group** owns a 'quality' Sunday title the *Observer* and a 'quality' daily, the *Guardian*. **Pearson** owns one 'quality' daily title, the *Financial Times*.

13% of the market in 1996 and the remaining two, Guardian Media Group and Pearson have market shares of just 3% and 2% each respectively.

It is important to note the special circumstances surrounding the smallest national newspaper publishers in the sample group. Firstly, the Guardian Media Group, unlike all eight other companies under scrutiny, is not a public limited company with shares floated on the stock exchange. The Guardian Media Group is wholly owned by a private trust (the Scott Trust), one of whose primary objectives is to ensure the continuation of its national newspaper title, the *Guardian,* irrespective of whether or not the newspaper is operating profitably. The desire to sustain the position of the *Guardian*, more or less regardless of its commercial performance, is tied up with the family history of the Scott Trust and with the perceived importance of maintaining a quality title with "liberal" political values in the UK national newspaper market (Schlesinger, 1994, p16). The Group acquired a second title, the Sunday *Observer* , in 1993. The *Observer* was and remains a loss-maker but, in accordance the philosophy of the Scott Trust, is being supported and developed within the Group.

> Under the terms set out by the Trust, the *Guardian* is expected to be 'profit seeking', but not necessarily profit making ... and now the *Observer* is in the equation ... In a sense, the commercial management's task in the Group was to ensure that you could grow and expand margins in <u>other</u> activities to enable that to continue. This has been done, up to now, very successfully.
>
> (Harry Roche, ex Guardian Media Group, 1997).

As far as Pearson is concerned, it is worth acknowledging that, unlike the national titles owned by all other companies in this sample, Pearson's newspaper - the *Financial Times* - is a specialist publication for which no alternatives or substitutes are available in the UK. The *Financial Times*' editorial coverage is focused very specifically on financial news and the publication is aimed at a particular professional segment of the market and at a narrow range of advertisers.

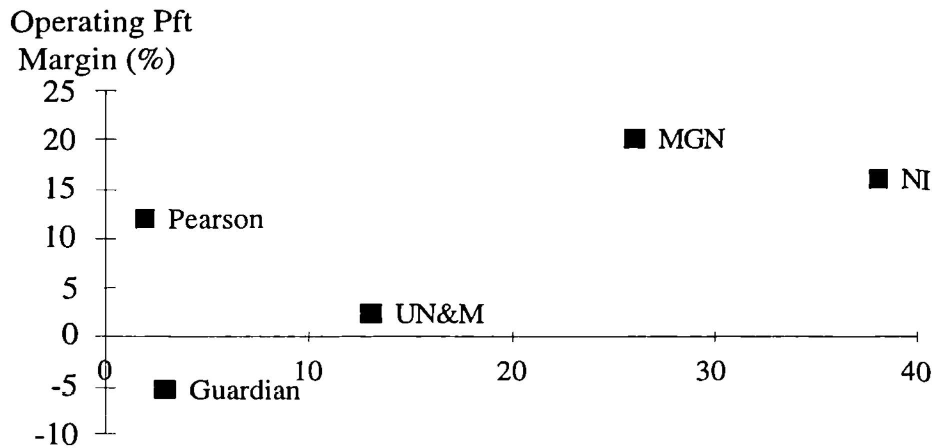

Figure 7.3: Market Share and Operating Margins for National Newspapers Groups in 1996.

Looking at size and operating performance together for this sector, it emerges that the largest players achieve an operating profit performance which is far superior to their smaller competitors. However, when interpreting the comparative performance of this particular set of "rivals", the special circumstances alluded to above must be taken into account. The Guardian Media Group's negative operating performance inevitably reflects the fact that its national newspaper division is *not* run to conventional profit maximising objectives. In addition, the company with the smallest share of national circulations - Pearson - occupies a unique market position since its only title is a specialist publication involving a unique set of cost and revenue variables. The niche position occupied by Pearson helps to explain why it achieves a better operating margin than either of its two larger rivals - United News & Media and Guardian Media Group. Not surprisingly then, the correlation co-efficient for the entire sample, at 0.663, suggests a weaker association between size and performance than when Pearson and the Guardian Media Group are left out, in which case the co-efficient rises to 0.747.

David Montgomery of the Mirror Group explains that, while control over a large market share creates the *potential* to exploit a range of economies of scale, it does not necessarily

follow that, in practice, companies with control over large circulation shares will achieve higher operating margins than companies with a low share of circulation:

> Yes, there *are* economies of scale but [on the other hand] you can have a unique market position e.g. a monopoly franchise [in a certain area] ... Volume isn't necessarily the only thing that counts and having groups of newspapers clumped together isn't necessarily the only thing that counts - but it *is* helpful .. [when] .. you *do* have more than one title under the same infrastructure.
>
> (David Montgomery, Mirror Group, 1997).

All national newspapers in the UK derive revenue from two sources: advertising and cover price income. Variations exist between the extent of each individual title's reliance on either source but, in all cases, both revenue streams are directly linked to a title's circulation.[129] Since the majority of a newspaper's operating costs tend to be associated with creating and assembling editorial matter (as opposed to printing and distribution), marginal production costs per extra unit of circulation tend to be low. In other words, because marginal editorial costs per unit of circulation are low or zero, there are natural economies of scale as circulations (and, thus, advertising and sales income) increase.

This suggests that there is a certain "critical mass" or level of circulation volume which a newspaper title must reach in order to become profitable. Where this threshold is set for any given title depends, largely, on the overhead costs associated with generating that specific product (e.g. the volume of self-originated editorial content; the range of specialist correspondents; the extent of foreign news coverage etc.). Although editorial overheads may be relatively fixed for any given title on a day-to-day basis, there will be variations between rival titles in the level of such costs which reflect the individual character of each newspaper. Thus, although economies of scale are available for exploitation by all newspaper operators, it does not follow that all titles can achieve

[129] According to statistics compiled by the Advertising Association, the 'quality' segment of the UK press relies on advertising to a greater extent than cover price income (by a ratio of at least 60:40 percent) whereas, for 'popular' titles, the opposite is true, with the majority of revenues derived directly from cover sales income (Advertising Association, 1996 p 202).

similar operating profitability at a similar level of revenue. Clearly, an expansion in circulation will benefit any newspaper but, because some titles are inherently more expensive than others to produce, the share of circulation required to sustain each will vary.

The actual level of operating profitability of rival titles in the UK national newspaper industry varies significantly. Such variation undoubtedly reflect major discrepancies in revenue, mainly accounted for by differing respective circulation levels or "market shares". For example, high circulation daily titles such as the *Sun* and *Daily Mirror* (owned by News International and Mirror Group respectively) are extremely profitable, as are the more widely consumed titles in the Sunday market, such as the *News of the World* and the *Sunday Times* (both owned by News International) whereas, by contrast, lower circulation daily titles such as the *Independent* (43% owned by Mirror Group) are struggling to cover their costs. Revenue differentials are not, however, the sole criterion affecting profitability since there are also some significant differentials in the cost levels associated with publishing different products. Additional variables, such as a niche market position or, indeed, variations in management efficiency will also play a part in overall performances.

> The higher the circulation, the better the chance of making decent margins but of course you've got to look at (other) things ... It's a combination of size and having a defined market niche (e.g. the *FT*) .. and management could be an issue.
>
> (Charles Stern, United News & Media, 1997).

In the case of United News & Media, the latter is widely seen as a factor accounting for its relatively weak profits performance and, at present, "strengthening management" in the newspaper division is acknowledged as a major priority for the Group.

Nonetheless, all of the other newspaper proprietors in the sample group agree that control over a large share of national circulations creates advantages and economies of scale

which, at least in theory, ought to result in larger newspaper groups achieving a better performance than smaller ones. The benefits referred to can be sub-divided between revenues and costs, the latter being by far the most significant. Perceptions as to the scope for cost sharing between different newspaper titles tend to vary, and an interesting question emerges about the distinction between those costs which can be shared *only* if the titles in question are held in common ownership and those which could be shared, even by rival titles, if separate proprietors adopted a more co-operative approach.

To the extent that cost sharing is possible between rival titles, there is little or no economic argument in favour of consolidated ownership. With reference to the concept of pluralism, an important issue is whether, and under what circumstances of ownership, the range of activities across which cost sharing is possible extends itself to include journalism and editorial work.

Revenues

Notwithstanding the "natural" economies of scale in the newspaper industry discussed above, it would appear that newspapers with a large share of circulation may also, in some cases, be empowered to expand their revenue base - to build incremental revenues - by virtue of their market dominance. This can be achieved through cross-promotion of "sister" titles, or through the sale of advertising packages across collectively-owned titles or, perhaps, through an aggressive pricing policy.

For example, the largest proprietor in the UK national newspaper industry - News International - was the instigator in 1993 of a price war affecting both the "quality" and the "popular" segments of the UK national newspaper industry.

> There had been a long standing assumption until 1993 that there was no price sensitivity in [the 'quality' segment of] newspapers; that people belonged to their newspaper .. your newspaper was like a badge.
> There was a particular problem at the *Times*: we had invested lots of money in it .. we had added value, but with no appreciable gains in readership... and the *Times* had been losing money for as long as anyone could remember .. (Its costs are higher than probably many other papers because of the enormous amount of editorial, foreign desks and having a lot of journalists) ... The only thing we hadn't tried in the marketing equation was the price...
> In order to make money, we needed more advertising and, to get that, we needed to be within spitting distance of the ['quality' daily] market leader, the *Daily Telegraph*.. Cutting the price would induce some new readers to try the *Times* and so, we hoped, boost readership and - probably some 18 months to 3 years later - also increase advertising. That is exactly what is happening... But we still have a hell of a way to go...
> Circulations have more than doubled - advertising is taking some time to catch up. It [setting higher advertising rates] is a tricky call; you have to find out what the market will tolerate ... circulations are up by 150% but advertising rates are up by, say, 20% this year and 14% next year.
>
> (Jane Reed, News International, 1997).

Although there may still be some way to go with raising the *Times'* circulation to the critical mass required (to achieve operating profitability), the strategy of discounting its cover price has clearly worked insofar as it has enabled the newspaper to gradually expand both its cover sales income and its advertising revenues. Contrary to many expectations, the *Times'* experiment with price discounting has shown that demand for newspapers in the "quality" segment of the market is not entirely price inelastic - that the introduction of price differentials will induce some readers to switch between rival titles - and also, since overall circulations in this segment have increased since 1993, that some readers can be encouraged to purchase an additional daily newspaper.

However, the introduction of a price reduction in September 1993 did not immediately win the *Times* a corresponding increase in circulations; circulation levels have proven to be more responsive over the medium and long term than in the initial period following

the implementation of price reductions. This confirms the conventional economic theory that, because it takes time for consumers to adjust their behaviour, "the response of quantity demanded to a given price change, and thus the measured price elasticity of demand, will tend to be greater the longer the time-span considered" (Lipsey, 1989, p86).

As Jane Reed explains, the delay between a price reduction - which gradually increases circulations - and a corresponding increase in advertising levels, is even longer. Even though the precise extent of the increase in the *Times'* circulation levels is known to advertisers (through statistics gathered by the Audit Bureau of Circulations (ABC)), it does not follow that they will immediately be willing to pay the existing (per reader) advertising rate, at the margin, for access to these additional *Times'* readers. As higher circulation levels are achieved, (per reader) advertising rates may fall to a discount and can only be adjusted to a commensurate or improved level gradually over time. So, not only is the long-run demand (/circulation) curve more price elastic than short-run curves, but also the circulation elasticity of advertising income tends to increase in the long term.

To benefit from a strategy of price discounting, a necessary condition is that demand for your newspaper title be price elastic. Since elasticity tends to be greater in the long-run than the short-run, a newspaper may well be required to withstand an initial shortfall in revenues, as consumers purchasing patterns and advertisers "tolerance" to higher rates are tested. The risks and the expense involved would, *ceteris paribus*, appear to preclude any stand-alone loss-making title from embarking on such a strategy. However, the strength of News International's position within the sector - its collective ownership of a number of other highly profitable titles - facilitated the cross-subsidisation of a price discounting experiment with the *Times* which has since served to increase its dominance in the sector.

This is not to suggest that a dominant position in the newspaper industry conveys with it the absolute power to set prices. Certainly, the *Times'* price reduction strategy has

influenced some of its rivals to follow suit, at least temporarily. The price war has brought a variety of revisions in where cover prices for competing titles in the "quality" segment are set relative to each other. It would appear from accompanying alterations in circulations (or lack thereof, in the case of some titles) that price elasticity of demand varies from one newspaper title to the next, and is *not* correlated with existing market shares but, rather, with perceptions as to the availability of near substitutes. Thus, differentiation (albeit, to a varying extent) between products prevents any single supplier from having any absolute power to set prices. Nonetheless, as a clear example of the potentially negative competition implications of excessive market power (Moschandreas, 1994, pp483-4), News International's dominant overall position has provided the firm with the important advantage of having adequate financial resources to improve the market share of a loss-making title through the implementation of an aggressive pricing strategy.

In addition to having this scale of resources, News International also benefits from not being answerable to shareholders (ibid, p307) in the way that many other UK media firms are :

> I don't think any newspaper publisher can afford not to be involved in competitive pricing strategies and everyone is... What helps to it *more* is, firstly, having a strong company so that the financial impact can be absorbed and, secondly, the ownership structure: NI is a public company but basically Rupert Murdoch controls it so .. [he can decide autonomously to take a loss in a price war] .. whereas, for other groups like us who are floated on the Stock Exchange, we can't afford to do that.
>
> (Charles Stern, United News & Media, 1997).

Another means through which newspapers with a larger share of the market can use their position to bring about additional revenues is through selling joint advertising packages across a number of collectively-owned titles, in addition to selling each title individually:

> Big advertisers take Group advertising and we'd like to do more, but they [NI's titles] are very different products: the *Sun* and *News of the World* work better together, as do the *Times* and *Sunday Times*, than with all four.
> There are advantages ... A[n advertiser's] product may be best suited to one newspaper and not as well to another and, in order to raise advertising for the latter, you say "Buy both and you get ... etc."
>
> (Jane Reed, News International, 1997).

According to David Montgomery, the negotiation with large advertisers of joint advertising packages across associated or commonly owned titles is quite commonplace, by Mirror Group Newspapers and others. However, there is a limit to the benefits available from selling such packages and, in some cases:

> .. it would be complete craziness, in the sense that we would expect to make more out of selling them separately ... Advertisers would expect to pay less (i.e. at a cheaper rate) for a joint package.
>
> (David Montgomery, Mirror Group, 1997).

The opportunity to offer combined advertising packages creates potential synergies between different newspaper titles. However, as Harry Roche explains, it is not always easy to capitalise on this potential, in practice. For example, initial expectations at the Guardian Media Group, that the market leadership of its daily title (the *Guardian*) in recruitment advertising would help to rapidly extend revenues for a newly acquired Sunday title (the *Observer*) were met with disappointment. Recruitment advertising is strongly driven by "known" or existing response levels, so advertisers are reluctant to support a new entrant or give it the opportunity to build up a market. One way to counter this reluctance might be to take action which would risk weakening the incumbent title's position, in order to launch the newcomer. However, Guardian Media Group's protective philosophy with regard to the *Guardian* would seem to militate against such a strategy.

> I believe, personally, that we should have taken more of a risk with the *Guardian* ... in order to help the *Observer*. We didn't. We wanted to build the *Observer* without diminishing the *Guardian's* appeal to the market. We were wrong. For example, repeats of the *Guardian's* daily recruitment advertisements could have

> been removed from the Guardian's Saturday supplement to an *Observer* Sunday supplement instead, which would embrace both titles...
> What I'm saying is, there should be a revenue advantage [through owning an increased share of the market], but it takes some doing!
>
> (Harry Roche, ex Guardian Media Group, 1997).

Pearson Group owns only one national title, which has the smallest market share of any national newspaper. However, as the only daily publication specialising in coverage of financial news, the *Financial Times* occupies its own niche in the UK market; it attracts a unique readership which is highly attractive to certain business-to-business and classified (recruitment) advertisers. Notwithstanding the benefits of a niche market position, size is clearly a requirement as far as revenue is concerned:

> Scale kicks in the following way: there is a certain critical mass below which you cannot attract good advertising. For example, our *FT* paper in the US attracts virtually no US advertising because it doesn't have the circulation reach .. It's a 'step' function - there is a circulation reach we have to achieve before we can pull in (domestic US) advertising.
>
> (Nigel Portwood, Pearson, 1997).

Costs

The cost advantages (or economies) available through ownership of a large share of the national newspaper market are generally easier to identify than revenue advantages. The fact that production costs for a mass market title (e.g. the *News of the World* which sells around five million copies every Sunday) can be spread across a high number of readers creates what were referred to above as "natural" economies of scale in the industry. In addition, since the vast majority of the activities involved in newspaper publishing are common to *all* titles (broadly; news gathering, editorial work, advertising sales, finance and administration, printing and distribution), there is, in theory, considerable scope for

economies of scale to be derived through sharing some of these overlapping functions between competing titles.

The extent to which such economies can be exploited depends, in reality, on the propensity of different titles to share costs with each other. In turn, this propensity seems contingent on ownership arrangements:

> It's very difficult to get national newspapers to agree among themselves [on cost sharing], even where it is sensible. So, clearly, an equity participation in a business does tend to make them more compliant, but not necessarily so.
>
> (David Montgomery, Mirror Group, 1997).

It is also contingent on differing perceptions, between newspaper managers, about which activities it is or is not "sensible" for rival newspapers to share costs within.

At the moment, a number of the functions involved in publishing and distribution of national newspapers in the UK are actually contracted out and/or shared between competing titles, even where collective ownership does not exist:

> There are certain newswire services which everybody uses [to source content] e.g. PA, AFP or Reuters...
> The *FT* outsources its printing now... it is done under contract and shared with the *Mirror* and *Express* titles...
> Wholesaling and distribution is carried out by two or three big wholesalers: everyone uses them and pays them a fee for taking your product.
>
> (Nigel Portwood, Pearson, 1997).

Even so, according to David Montgomery, residual rivalries between newspaper owners can impede progress with establishing the most optimal arrangements for those functions where costs are shared:

> There are printing and distribution arrangements between rival publishers, but it has *not* been taken to its logical conclusion. [For example] distribution in this country between newspapers is archaic; primitive even. The newspaper publisher never gets close to his end-user : newspapers are trucked from the plant to a

> wholesale shop, then broken up again and re-trucked to the retail outlet, then broken up again and the retailer (if he is interested) gives them to boys on bicycles... So we don't know who are customers are ... and that is very irksome. It doesn't have to be like that - the Royal Mail, for instance, has got the workforce (but not the flexibility) to deliver newspapers, if they were prepared to do that business... It's an idea that you *could* make something of, but you would have to have *more* than one publisher who was prepared to do it (and a Royal Mail that is prepared to have a punch-up with its workforce) ...
>
> (David Montgomery, Mirror Group, 1997).

There is some disagreement about where the line should be drawn on cost sharing between "rival" newspapers, but certain activities clearly do not lend themselves to a co-operative approach between rival owners. Advertising sales is an example of an activity where, because of the potential for a conflict of interest between partners' rival products, a degree of duplication seems essential:

> We [at the *FT*] have our own dedicated advertising sales department and there is no way we would let anyone share that. It's like airline reservation systems; ultimately, whoever is in control of (or has leverage over) the system tends to make it favour their own product. So, I don't see how sharing could work. The [advertising] customer base is at the heart of our business, and we wouldn't want to give up that asset.
>
> (Nigel Portwood, Pearson, 1997).

On the other hand, many obstructions to cost sharing created by rivalry between titles dissolve when there is collective ownership of a number of different newspapers by the same company and, apparently, others can be forcibly eliminated through a robust management approach. In a situation of collective ownership, scale economies can be derived both by integrating overlapping cost functions (some of which could not feasibly be shared otherwise) and by aggregating negotiating power to achieve lower raw material costs (e.g. newsprint).

> Distribution, we share with rivals (through TNT, a stand-alone operation which also transports the *Telegraph)* .. We also outsource stories from news agencies, as do our rivals..
> Other costs, we share between the four titles that we own ... You can buy paper much more cheaply, and it's a huge cost (You can get a really good deal on paper if you are buying large amounts)...
> You can combine a lot of the administration - the basic overheads or housekeeping (e.g. finance is mostly centralised in Peterborough). Also, there are huge efficiencies on printing ... this is done collectively for all our titles at our printing sites in Wapping, in Glasgow etc. Each title has its own advertising sales team, but they work closely together within one [collective] sales department, sharing equipment...
> We are *not* looking at sharing any of these [latter] costs with rivals at the moment (although I am aware that others have been talking about it). Of course, if someone came to us with a brilliant idea, and where we would not lose our competitive edge, then we would consider it
>
> (Jane Reed, News International, 1997).

Since, in many cases, functions such as printing and distribution are already contracted out (and thus, effectively, shared) by rival newspapers, the main additional scope for cost sharing which arises through collective ownership of more than one title would seem to be in back office support functions and in advertising sales. However, some newspaper managers would go further. The editorial process itself may also be seen as an area where streamlining is possible through, for instance, the integration (between different titles) of overlapping journalistic capability. David Montgomery is an advocate and, by his own description, has "lectured for the world" on the so-called "collegiate" approach within newspaper publishing:

> Within the collegiate of papers, connected by shareholdings, there is no limit and there are no boundaries as to where you can share costs; it goes from printing to content... Editorial especially! That is anathema to journalists and it may be anathema to partners, but it is going to happen, rightly or wrongly as far as they are concerned, because you *cannot* cover the world as an individual title (without duplicating costs).

> The *Mirror* has a whole machinery for covering television soap operas and the Royal Family, so why would it be duplicated by the *Independent* (which only has a minor interest in both of these issues whereas the *Mirror* has a voracious appetite for them)? Why doesn't the *Independent* simply *leverage* the resource brought in by its partner newspaper, and customise it, so that it's all in the editing process rather than the gathering process? Why should the *Mirror* have an environmental correspondent when environment is only an occasional area of interest where the Mirror reports? So why not take *Independent* material from a paper that specialises in environment coverage?
> ... In the extreme, what will happen in future is that you will *only* source material yourself which is specialist to a particular publication and identifies that publication. The rest will be outsourced, either within the bigger collegiate or through agencies or through relationships ... Papers are identified by their specialisations, *not* by covering the world.
>
> (David Montgomery, Mirror Group, 1997).

In theory, the rationale behind this approach is difficult to fault. Essentially, a given range of editorial products can be produced more cost-effectively by (a) drawing, as appropriate to each title's individual character, on what is regarded as a flexible internal pool of shared journalistic expertise, and (b) relying, to the fullest extent feasible, on less expensive secondary news sources. Some UK newspaper managers would agree that the David Montgomery's approach is "sensible" but, in practice, few have tried implementing it to any great extent beyond (as is traditional in the sector) outsourcing some small proportion of their news stories. All national newspaper titles still tend to rely primarily on their own dedicated journalists and it is difficult to imagine that a major adjustment in operating practices could be secured without some risk to the editorial stability and integrity of the titles concerned.

Nonetheless, the approach being "pioneered" at Mirror Group Newspapers is regarded by some as unavoidable as the industry continues to become more competitive.

> There is scope for costs sharing [between collectively owned titles] and, after we [at Guardian Media Group] took over the *Observer*, we were able to pull some costs out. David Montgomery's views on this are more radical and I support

> them. That [cost sharing between collectively owned titles] is sensible and, whether other publishers like it or not, that is the way it is going.
> As Chairman of PA [the Press Association - a news service], its quite obvious that more and more publishers are interested in having a service that will enable them to reduce their costs ... and leave them free to concentrate their resources and efforts to the areas they believe are critical to (the success of) their publication. More and more pages are being created centrally for, say, TV listings, sports coverage and regional coverage. And that will *grow* because, if you've got skilled journalists gathering the news at the beginning of the process, then it is more economic to carry that work out for two or three titles, deliver it to them in the format in which they require it, and they then add their particular editorial slant.
>
> (Harry Roche, ex Guardian Media Group, 1997).

For both David Montgomery and Harry Roche, the potential area for further cost sharing between different national titles lies specifically in "news gathering". The underlying assumption is that, for any given news story, the costs expended in investigating and writing it up need not be duplicated by several competing titles. Instead, the story only needs to be originated once and then it may be shared by a number of publications who will "customise" it or "add their particular editorial slant".

In itself, this philosophy is not particularly novel since the practice of outsourcing some stories through independent newswire services and other agencies is already prevalent within the national, regional and local newspaper publishing industries. What is "radical" about David Montgomery's approach is not the idea of capitalising on external news-gathering sources but, "at the extreme", the principle of minimising dedicated internal news-gathering capability.

Whereas, in broadcast media, identical components can easily be incorporated, at different times or in different places, into different products, competition between rival titles in the same national daily newspaper market calls for a high degree of editorial differentiation. The extent to which a title's ability to differentiate itself from others relies on dedicated journalists (as opposed to sub-editors) is a subject for divided opinions.

An alternative viewpoint is that individual news-gathering and journalistic capabilities are of such importance to the editorial integrity and, thus, the success of a newspaper title that it is not really feasible to share these between titles. The traditional approach, which still holds sway in many quarters, is that these very skills give a newspaper its individuality and its competitive edge. For example, News International has four titles in the UK national market and, while there has been no hesitation in combining functions such as administration and printing, journalistic and editorial functions remain separate:

> There is very little cost sharing on this. The editorial character of each paper is sacrosanct. Editors are entirely running their own shoots. It is only the support systems you can share (e.g. dark rooms, processing, the electronic pagination system) and there *are* savings there... but *not* in having one shared news desk. How could you have the same news desk for the *Sun* and the *Times* ? They are completely different. We would not share journalists because the tone of each paper is different and it is sacrosanct and it requires different journalistic styles... Of course, journalists *can* move and can work freelance. But sharing [editorial]? Its the short end to nothing.
>
> (Jane Reed, News International, 1997).

Others seem equally sceptical about the benefits available from trying to integrate as many cost functions as possible for competing titles:

> We've looked at all this and it is not any easy one.. Sharing journalists across different titles would be extreme. It is *very* hard to do that and I wouldn't say it is possible at all. Where it [sharing costs] might be more debatable would be things like advertising sales... But, again, you risk losing the independence of your title...
>
> (Charles Stern, United News & Media, 1997).

Clearly then, not every newspaper manager would agree with the view "there is no limit and there are no boundaries as to where you can share costs" in the situation where several titles are held in common ownership. The reasons why such differences in opinion exist represent an interesting area for further research into managerial culture in the media industry. Significantly, however, Mirror Group's espousal of this claim is

backed up by the fact that, for several years, it has consistently achieved the highest operating margins in the national UK newspaper industry (see figure 6.5, p163).

Moreover, the relatively high levels of profitability achieved by both the Mirror Group and News International as compared with their smaller rival, United News & Media (or, indeed, with the performance of the even smaller Guardian Media Group) would seem to confirm the general availability of market power advantages and efficiency gains (particular, scale economies) for larger players.

Of course, circumstances at the Guardian Media Group are clearly unusual - its newspaper division's negative operating performance in 1996 reflects the Group's willingness to not only support but also to invest (through more marketing) in the growth of its loss-making Sunday title, the *Observer*. Also, Pearson's position as, effectively, a niche publisher - i.e. a monopolist in its own specialist area - has an important bearing on its operating performance. Other national newspapers are unable to compete for the specialist advertising attracted by the *FT* in the same way as they compete with each other for expenditure from mainstream advertisers. But, although Pearson's operating performance undoubtedly benefits from this niche position, the conviction remains that:

> Synergy and economies of scale amongst newspapers are definitely there .. [and collective] .. *ownership* is the key, in order to get the *big* advantages.
>
> (Nigel Portwood, Pearson, 1997).

Thus, setting aside such special circumstances, there is widespread acknowledgement amongst this sample group that large players in the UK national newspaper market enjoy a range of significant economic advantages. As was evident in respect of television broadcasting, it appears that, in general, newspaper firms with a large market share have potential both to generate higher levels of income and, in particular, to incur lower (per consumer) operating costs than rivals with a smaller market presence.

7.4 Radio

This section returns to the economics of expansion in broadcasting. Only two of the companies in the sample group have been directly involved in radio broadcasting although others (e.g. Guardian Media Group) have an interest in the sector through minority shareholdings in one or more radio operators. EMAP, through its ownership of 17 commercial radio stations, has developed into one of the largest radio broadcasters in the UK. In addition, Grampian Television, through its 50% investment in Scot FM - the local radio licensee for Central Scotland, was for a time a direct participant in the sector. However, Grampian Television's interest in Scot FM was disposed of in June 1996 (Grampian, 1996b).

By examining the experience of EMAP as it has (mainly, through acquisitions) built up its presence in radio broadcasting over the last three years, it is possible to trace a clear linear relationship between its market share and the levels of operating profitability it has achieved.[130]

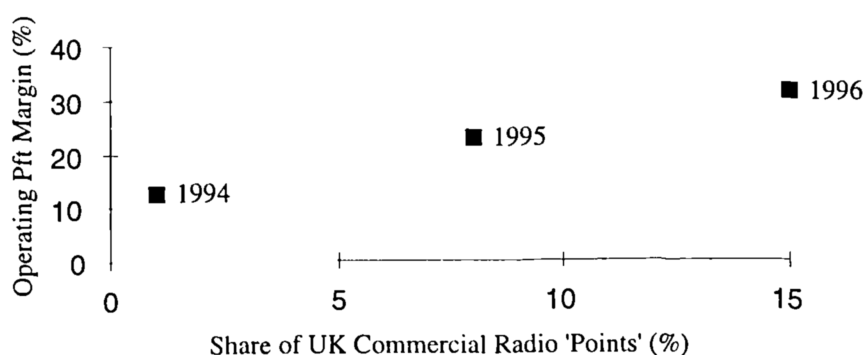

Figure 7.4: Market Share and Operating Margins - EMAP Radio Division (1994-96)

The presence of such a correlation is not entirely surprising given that, as with the television industry, the fact that marginal transmission costs are low or zero creates

[130] The value of the correlation co-efficient for this series is 0.998, confirming an almost perfect linear correlation.

natural economies of scale for radio broadcasters (Alexander et al, 1993). In much the same way as with television, however, the practical extent to which economies can be exploited by an individual radio broadcaster is not solely dependent on total audience share. Since UK radio licences are limited by fixed transmission areas, a crucial factor is the *composition* of that market share in terms of the number of distinct services (or sets of operating costs) it represents. Setting aside the issue of cost differentials for alternative types of radio content, it seems clear that, for any given level of total audience share, a broadcaster who only has to provide a single radio service can naturally avail itself of more economies of scale (lower per listener costs) than one providing several different services.

Thus, the availability of scale economies for a radio broadcaster is dependent on the number of different licensed services being provided as well as total audience share. On the other hand, where there is little overlap between the transmission areas associated with each licence, an opportunity may exist to share a common service (or elements thereof) across a "network" of radio stations held in common ownership.

The UK commercial radio sector is generally subject to fewer regulatory constraints and prescriptions concerning its content than the television sector. Although local (ILR), regional and national (INR) commercial radio broadcasting licences must be awarded and are policed by the Radio Authority, the parameters within which radio companies are free to alter, customise or tailor the services they provide are relatively broad, when compared with UK terrestrial television broadcasting. The opportunity to share components of a common service across several licences in different localities can be and often is exercised. Thus, scale economies are possible even where a company's market share comprises several "different" services.

The most important advantage of controlling a large market share in the commercial radio industry is the ability to spread operating costs across a larger audience (or collection of

audiences). However, market power also creates revenue advantages. Notwithstanding the growth of commercial radio advertising in the UK since the early 1990s (as many additional ILR and new INR licences have been awarded), one of the key factors reflected in its relatively underdeveloped position has been the fragmented structure of the industry.[131] Few large advertisers or agencies have been willing to undertake the required number of transactions with small individual radio stations to purchase a sizeable UK radio audience. An accelerated programme of licence awards since the early 1990s has transformed the supply of commercial radio airtime, but those with a small market share (e.g. Scot FM) remain at a disadvantage:

> Its the same old story [as with television] - your advertising brand count .. getting your fair share of revenue - its much easier if you are larger.
> .. People want *volume* and demographics ... [If you are small] it's a question of attracting the advertisers to visit you in the first place, or persuading them to make the time to see you.
>
> (Donald Waters, Grampian Television, 1997).

The award of more commercial radio licences (and with larger transmission areas) in recent years has encouraged the development of several bigger scale radio companies in the UK, often owning a cluster of licences. EMAP is an example of such a company and, clearly, its "critical mass" - the fact that, between all its stations, it has a sizeable audience to offer - lends it more appeal with large advertisers. To take advantage of this, advertising at a "national" or "regional" level is centralised and carried out collectively for EMAP's radio licences, whereas local advertising sales are carried out independently by each of its 17 stations.

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[131] Statistics collected and published annually by the Advertising Association in its Handbook (Ad. Assoc., 1996) show that the share of total advertising expenditure attributed to radio (as opposed to other media) is exceptionally low in the UK by international standards. Prior to 1993, the commercial radio sector attracted only 2% of total UK advertising (as compared with 8-11% in many other Western European countries, and the United States). Since then, this share has crept up to 3% and above and is continuing to rise. The explanation for this late development lies in the government's decision, set out in the 1987 green paper "Radio: Choices and Opportunities', to massively extend the coverage of the UK commercial radio sector. This has been achieved steadily through, since the late 1980s, the award of many additional local and regional commercial licences and, since 1993, the introduction of three commercial radio licences with national audience coverage. Prior to this programme of new licence awards, commercial radio in the UK comprised a fragmented and incomplete spread of small local (ILR) radio stations across the country.

According to Chris Innis, the ability to attract national advertisers depends not only on size or critical mass but also on which "markets" or audiences you can offer, with London and the metropolitan areas attracting a premium in their cost per thousand (CPT) rates. Also, supplying a large audience may encourage the opposite effect to what is desired; purchasers may seek a "bulk" discount. In order to maximise the collective advertising rate per listener, a balance has to be struck between selling airtime jointly and selling each station individually.

> The advertiser wants 'one stop' and *one* sell, whereas we want 'one stop' and seventeen sells. The danger with one sell is that, when you move towards a commodity purchase, it will start to drive discounts. That is the tension: advertisers want simplicity in how they buy (ideally, one sell) and you'll do that for, say, Procter & Gamble. But, for most, we prefer not to because you are looking to get them to stop once and buy 17 different products at full price.
>
> (Chris Innis, EMAP, 1997).

Direct access to a stream of national and regional advertising expenditure, on whatever terms, is an advantage which small separately owned radio stations do not share. This is one of the factors which has encouraged consolidation within the sector. However, the availability of economies of scale across a range of operating costs is generally perceived as the most important incentive to acquire an enlarged market share:

> You can undoubtedly tailor programmes to suit more than one radio audience .. [Group X] .. do it very well here in Scotland. Much programming sounds good in Aberdeen or Glasgow...
>
> (Donald Waters, Grampian Television, 1997).

Sharing programmes across a network of stations will yield important economies of scale but, as far as EMAP is concerned, it is not feasible to offer a completely uniform service across all its stations.

> Most of the people getting economies are getting them in their costs - e.g. .. [Group Y] .. who 'slave'[132] programmes... But we [EMAP] are not best at capitalising on this because we regard it as a local business .. We tend to programme locally...
> Pop music ... is not a uniform market. There are differences in taste and style between, say, Liverpool and Manchester.
>
> (Chris Innis, EMAP, 1997).

As with local newspapers, a "flavour" which reflects the distinctiveness of the area being served is seen as important to a local radio station's image and audience appeal. Nonetheless, it is possible to "slave" or share at least some (self-originated) programming - especially in slack periods, such as the late night/ early morning slot - across a network of collectively owned stations. In addition, the cost of programmes acquired from external suppliers (e.g. sports coverage or news services such as Independent Radio News (IRN)) depends on the negotiating power (or market share) of each individual purchaser, with large radio broadcasters able to buy at a lower per listener rate.

Aside from scale economies available on programming (content), there are a range of "back-end" functions involved in radio broadcasting which, when shared or collectively contracted out, lend themselves cost-savings. These include audience research, airtime sales, programme acquisitions, finance, administration and transmission (which is generally contracted out to NTL and the BBC).

> [With a large market share] .. you can *always* get better service deals. On, for example, transmission, which is a very big cost item - you get a better price and better terms of trade...
>
> (Chris Innis, EMAP, 1997).

The prevalence of scale economies within radio broadcasting makes it possible to see why EMAP's operating profitability has improved substantially over time in line with its

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[132] To 'slave' is an Australian term; it describes the practice of running a common theme (i.e. the same programme content) across a group of broadcasting stations.

share of the commercial radio industry. However, the correlation between market share and operating performance may not always hold true because an additional factor affecting profitability is the composition (in terms of number and nature of licences held) of that market share. For example, it is entirely possible that a company with a relatively small market share, but based in one (or more) lucrative metropolitan niche(s), will achieve exceptionally high margins. Also, some forms of radio content - namely, speech-based formats - are more expensive than others and inherently require a higher "critical mass" of audience before operating profitability will be achieved.

Nonetheless, the evidence in favour of a general relationship between size and performance is compelling. Since UK commercial radio licence areas tend to cover quite small geographic areas, most broadcasters with a large market share (e.g. Capital Radio and GWR Group) have achieved this in the same way as EMAP - by acquiring several separate licences - and, indeed, most are highly profitable.

According to Chris Innis, the key to long-term success lies in correctly judging which costs can and cannot be combined between different radio services:

> [Group Z] .. has built the margins in its business by centralising a lot more costs than anyone else, but there *is* a tension. You have to strike a balance which maintains a local identity, which is really what *makes* a local radio station. Radio is very much a 'me' medium...
> It's a case of deciding between what you can and what you *should* centralise ... what characterises the local service and what doesn't. That's always the dilemma...
>
> (Chris Innis, EMAP, 1997).

7.5 Conclusions

The "tension" referred to by Chris Innis above will be familiar to managers throughout the media. An expansion in (consumption of) output will generally result in an increase

in profitability per unit of output. However, marginal profits depend on the relationship between marginal revenues and marginal *costs*.

Increasing consumption of a single given product, be it a newspaper title or a radio or television service will, unambiguously, result in increased profitability per unit of output; economies of scale will accrue because of low marginal costs (Martin, 1993, p21). But, since tastes and preferences are not entirely homogeneous across the full potential market, some additional (specialised) inputs may be required to induce maximum consumption - in other words, marginally "differentiated" products will make sense.

The more differentiation (additional inputs) required to expand consumption of the same basic product, the greater the proportion of variable costs per marginal unit of consumption. So, *marginally differentiated products make sense, but only to a point* - i.e. insofar as marginal revenues exceed costs. Thus, a tension will exist between the objective of maximising the available market for the firm's output and the desire to exhaust any scale economies that are within the firm's control. "The trade off presents a serious dilemma for policy ... when economies of scale and the consumer's demand for variety are both important" (George, Joll & Lynk, 1991, p227).

In analysing the economies available to firms operating in any single sector of the media (monomedia expansion), a crucial issue is the extent of *heterogeneity* in its output. The structure and the extent of total costs for a media firm are not only affected by its market share but are also sensitive to the composition of that market share, in terms of the number of related or unrelated products this represents.

Many, although not all, companies operating in any single sector of the media are, in fact, multi-product firms, e.g. News International has 4 different products in the national newspaper market; Granada Media Group has a number of television channels; EMAP has 17 radio stations. For such firms, a distinction can be made between cost-efficiencies

created as the scale of consumption of its output expands - i.e. either product specific or "ray" (spanning all products) economies of *scale* - and cost-efficiencies which arise as the mix of output changes - i.e. economies of *scope*. "When the total cost of producing two products under common ownership is lower than the cost of producing each product separately, production is said to exhibit economies of scope" (Moschandreas, 1994, p155).[133]

The underlying concept here is that if, say, the total cost to EMAP of operating 17 separate radio stations is lower than the sum of the operating costs for these 17 stations, were they each owned separately, then the efficiency gains represent economies of scope. On the other hand, economies of scale will be enjoyed (either on a product specific basis or across the range of these 17 products) as audiences for each station increase. For the many multi-product media firms in operation, the co-existence of both economies of scale and economies of scope means that the benefits of monomedia expansion are greatly magnified.

The quantitative data considered above reveals that, in all sectors, those companies within the sample group with the largest market shares appear to be achieving better operating profit margins than their smaller rivals. This evidence of an association (stronger and more linear in some sectors than others) between market share and operating margins might not, in itself, provide proof of causation between these two variables, nor of the direction of causality. High operating margins may well be attributable to a large market share, but the reverse is also plausible: that a large market share will reflect a more efficient performance by a firm (George, Joll & Lynk, 1991, p102). Also, it is possible that both size and performance have been influenced by "other" variables.

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[133] Economies of scope may be expressed in the following mathematical equation where A and B represent non-identical products (e.g. two separate radio services) and C represents the firm's production costs: $C(A,B) < C(A,0) + C(B,0)$. Thus, the equation describes a situation where the costs of producing both goods collectively is lower than if each good were produced by two separate firms.

For the sample group under consideration, there are several instances where the operating profit levels of individual firms would seem to challenge the idea that performance is primarily a function of size. Qualitative evidence re-inforces this point, insofar as it was widely acknowledged that a firm's operating performance may reflect factors other than size. Nonetheless, *the main thrust of the evidence suggests strongly that, in each activity and for any firm, a range of cost advantages and other benefits* ***are*** *directly attributable to the size or scale of a firm's market presence.* In those cases where the level of profitability achieved by an individual company appears to be out of step with its market share (or fails to reflect economies or diseconomies of size), the suggested "other" variables which might be at work were, in particular, variations in "managerial efficiency" or "niche market positions". "Exceptional circumstances" were cited as another possible exogenous variable (e.g. in the case of Guardian Group's national newspaper division).

It is beyond the scope or intention of this study to give these other factors affecting the (size and) performance of commercial media companies the attention they richly deserve. Nevertheless, before setting these aside, it is worth noting that no company in the sample group directly identified any recent developments (e.g. technological advances) which might serve to extend potential economies of scale in their sector. On the whole, *the observed benefits and advantages of being a large rather than a small player appear to have been around for some time, and are no more strongly characteristic of the media industry in the late 1990s than they would have been in years gone past.*

Advantages of Horizontal Expansion

Deterministic approaches to the rationale for industrial concentration have emphasised the importance of economies of scale (Moschandreas, 1994, p30). According to the evidence considered above, economies of scale are, indeed, highly relevant for media and

this provides part of the explanation for the positive relationship observed between market share and profitability in television, radio and newspapers. In addition to cost -efficiency advantages, the higher profitability achieved by large UK media firms also reflects revenue benefits, sometimes made possible as a result of dominant market positions (Martin, 1993, p68).

In terms of the policy implications of the relationship between the size and the performance of firms, all factors contributing to enhanced profitability may not be regarded as equally positive (ibid, pp313-17). Welfare gains are more easily discernible in higher profits based on improved efficiency than in higher profits based on exploitation of a dominant market position. Whilst, in theory, the existence of a framework of UK competition regulation specifically designed to eliminate undesirable instances of the latter implies that the better performance of large media firms would not reflect anti-competitive behaviour, distinctions between "market power" and "efficiency" advantages remain worthy of consideration. Although profitability has been adopted in this investigation as the most convenient measure of comparative efficiency, the underlying concern is with advantages for the economy (e.g. economies of scale, rationalisation of production) rather than advantages only from the point of view of firm.

Looking at each of the media sectors under consideration in this study, and drawing on both the quantitative and qualitative evidence gathered, the main advantages of horizontal expansion may be summarised as follows:

In *television broadcasting*, extensive product-specific economies of scale are made available by the fact that, once a delivery infrastructure is in place, the marginal costs of providing the service to an additional viewer (within one's transmission area or "footprint") are zero or extremely low. The overhead costs associated with providing a given service tend to be equal, regardless of audience size and so, *ceteris paribus*, economies of scale arise, as larger audiences are translated into more revenue.

In practice, different delivery systems for television in the UK have different cost and revenue structures, partly reflecting technology but also because of (uneven) regulation. Also, the financial impact of such "natural" economies of scale may be reduced if, as is the case with ITV, the television service in question forms part of an established network with fixed internal arrangements for cost sharing.

Economies of scope as well as scale co-exist for television broadcasters operating more than one service. The more homogeneity possible between both services, the greater the economies of scope (Moschandreas, 1994, p155). In addition, economies arise through the opportunity to combine back-office activities (e.g. finance and administration) and support functions (e.g. airtime sales and secondary programme sales).

Even where different television services are separately owned, collective economies are gained through, in particular, sharing components of a programme service with other broadcasters, and also by sharing support functions. This is especially feasible for local or regional UK broadcasters operating in different geographical transmission areas, but there is evidence that, even in such circumstances, rivalry about terms may act as an impediment to co-operation.

In addition to reduced (per viewer) costs, UK television broadcasters with a large audience volume or "critical mass" also acquire revenue advantages. Advertising rates (CPT) will generally reflect location and demographics but also appear to be influenced by the market power (size) of the seller (Martin, 1993, p68). Increased negotiating leverage with advertisers has been an important motive behind the consolidation of airtime sales activities within ITV. Whereas increased negotiating leverage in the market for airtime sales may benefit the profits of individual broadcasters, it is open to question whether this constitutes a general benefit for the market performance of the sector as a whole. The findings of this study do not suggest that ITV's dominance in the

television airtime sales market has prevented market entry by new commercial rivals. On the other hand, the existence of specific competition-based limits on UK television advertising market share provides a clear acknowledgement of the potential, in advertising markets, for anti-competitive behaviour or other economic inefficiencies commonly associated with market dominance.[134]

The economics of *radio broadcasting* are very similar to television, albeit that audio-visual production is inherently much more expensive than radio production. Monomedia expansion facilitates extensive economies of scale and, also, economies of scope. Because the majority of commercial radio broadcasting licences in the UK serve relatively small local transmission areas, economies of scope are an even more prevalent feature of the radio than the television industry.

The output of *television production* companies - programmes - are "public" goods in the sense that, like whole broadcast services, they are not destroyed in the act of consumption (Collins et al, 1988). Thus, for any programme, economies of scale (reduced per viewer production costs) will arise as consumption of the product expands. In the UK however, such economies tend to be enjoyed not by production companies themselves but by broadcasters. The terms on which production companies supply programmes to broadcasters generally involve the (at least partial) assignation of secondary as well as primary transmission rights to the purchaser. Therefore, returns for a UK production company typically come in the form of "fixed" production fees paid by the broadcaster rather than "variable" streams of income directly determined by the volume of audiences it generates.

These arrangements disempower producers from fully capitalising on "natural" economies or diseconomies of scale in their output. However, insofar as producers will

[134] ITV's sales arrangements are governed by the ITC which, in line with general UK competition policy, has set an upper limit of 25% on the market share (i.e. share of total UK television advertising revenues) that any company may control.

be able to negotiate some share in the incremental returns for a "hit" show, the resulting product-specific economies of scale also pave the way for economies of scope. As a company's production "slate" expands, variable returns from its more and its less successful outputs can be spread across the full range of its production activities, thereby reducing the risks (of low or, possibly, negative returns) associated with any single unit of output.

"Important" programme suppliers - those who have established their ability to make products with high audience appeal - acquire bargaining power and a competitive advantage over rivals in terms of their ability to sell (or gain commissions for) new products (Martin, 1993, p274). Size (market share) and "importance" (reputation for supplying "hit" programmes) are separate concepts but, in reality, a successful reputation and a busy production slate tend to be causally connected and mutually self-perpetuating. In addition, some economies of scale are available in the production process itself. Companies with increasing output will always enjoy economies of scale on fixed overheads, e.g. by making better use of capital equipment (cameras, post-production facilities, etc.) or because, as the company grows, the opportunity for specialisation of tasks will enhance productivity (Moschandreas, 1994, p126). Economies of scale may also influence direct or variable costs, depending on heterogeneity of output: per unit production costs tend to reduce for long-running series (although, in some cases, the price of specialist inputs such as "talent" may rise over the long run).

For *national newspaper publishers*, product-specific economies of scale will arise because the marginal costs involved in selling one additional copy of the same edition are low. Marginal costs *do* exist, since (unlike broadcasting) the product is delivered in a tangible form, involving printing and distribution costs. However, editorial overheads tend to be the largest single component of expenditure and these do not change as consumption of the product expands or contracts. The editorial overheads associated with publishing any given title tend to be "fixed", regardless of actual circulation volumes

and so, *ceteris paribus*, economies of scale arise, as larger levels of readership are translated into more revenue.
Economies of scope as well as scale will co-exist for owners publishing more than one title. These arise because of the opportunity to negotiate better collective terms on input prices (e.g. paper) or support services (e.g. printing or distribution), and because of the opportunity to combine back-office activities (e.g. finance and administration) and specialist functions (e.g. printing or advertising sales). Economies of scope may also arise in the editorial process, although the extent of these is unclear and a matter for disagreement between different publishers. Combining journalistic functions between different titles would yield economies of scale but a tension will exist with sustaining the individual "tone" of each product.

Even where newspaper titles are separately owned, collective economies can be and, to some extent, are exploited through sharing or contracting out to a third-party activities such as printing and distribution. However, rivalry between separate newspaper owners inevitably serves to constrain the extent of such cost sharing (e.g. different owners do not collectively sell their advertising nor negotiate collectively to purchase newsprint). Thus, ownership remains the key to certain cost-efficiencies.

In addition, newspaper owners with a large market share acquire revenue advantages. Dominant newspaper publishers have greater resources with which to engage in or withstand aggressive competitive pricing strategies (Moschandreas, 1994, p349). Also, as elsewhere in the media, newspaper advertising rates (per reader) will be influenced to some extent by the negotiating power or "critical mass" of the seller. To the extent that the exercise of "market power" by large newspaper groups may serve to impede competition - for example, through predatory pricing techniques - this advantage for the individual firm would translate into an obstacle for market efficiency and a disadvantage

for consumers.[135] Hence, strategic benefits of scale for the firm cannot, unambiguously, be regarded as positive "economic" gains, in the same way as improved cost-efficiency through a better use of resources would be (Martin, 1993, pp313-7).

In summary then, the general weight of this evidence suggests a strong and positive correlation between monomedia firm size and profitability, the latter arising largely (although not entirely) through efficiency gains such as increased economies of scale and scope and rationalisation of resources. Qualitative evidence conclusively supports the idea that, although many factors other than size can and do affect the performance of individual media firms, a causal link *is* present between the market share and the, at least, *potential* economic performance of firms operating in the television, radio and newspaper sectors. The following chapter moves on from the economics of monomedia expansion so as to focus on the other key aspect of media firms' corporate strategies which are affected by special ownership regulations; that of cross-sectoral expansion.

[135] In an investigation carried out in 1995, the Office of Fair Trading (OFT) found that, on the whole, aggressive discounting in the UK national newspaper market benefited rather than damaged consumers' interests.

Chapter 8

The Economics of Cross-Media Expansion in the UK

The activities of media firms need not be confined merely to a single sub-sector of the industry but frequently span several of these. This chapter will analyse the relationship between certain combinations of cross-ownership and the economic efficiency of media firms. The individual pattern of UK cross-media ownership in the television broadcasting, television production, radio broadcasting and the national and regional newspaper sectors (represented as A, B, C, D, and E respectively) for each member of the sample group is set out in full in figure 6.5 above. The following provides a brief reminder of market shares, by key sector of activity, for 1996.[136]

	TV B'casting (A)	TV Prod (B)	Radio (C)	Nat. Newspapers (D)
EMAP			15	
Grampian TV	1	0.3		
Granada Group	6	9		
Guardian		1		3
Mirror Group	0.1			26
News Int'l	5			38
Pearson		8		2
Scottish TV	2	2		
UN&M	5	2		13

Figure 8.1 Market Share by Firm in Key Operating Activities in 1996.

The chapter is concerned with what, if any, economic benefits may arise through two different sorts of cross-sectoral ownership configuration; namely, diagonal and vertical integration. Vertical integration involves expanding activities either "upstream" or

[136] The financial year endings, which differ for individual members of the sample group, are specified in figure 6.5 (Section 6.6) above.

"downstream" in the supply chain - e.g. into (television) production as well as distribution (broadcasting) - and is considered in section 8.2 below. Firstly, however, the economics of diagonal integration - expansion sideways or "diagonally" into what may be perceived as complementary activities (e.g. newspapers plus magazines, or television plus radio) - will be assessed.

8.1 Diagonal Integration

The focus in this section is the relationship between diagonal cross-sectoral expansion and the economic performance of UK media firms; what, if any, benefits or "synergies" can be exploited through extending activities into additional sub-sectors of the media?

In theory, a variety of reasons may exist why firms operating in one industry or sub-sector of activity might move across into another. For example, the perceived availability of higher rates of return in a newly emerging sector of activity may draw entrants from more mature or from declining industries (Lipsey, 1989, p246; Martin, 1993, p278). Other economic incentives for a firm to extend into a new area of activity would be the perceived availability, through combining new with existing operations, of either incremental revenue advantages or else some collective cost efficiencies (economies of scope) through the shared use of specialised resources or expertise (Martin, 1993, p279).

One way of investigating the possible presence and extent of specific advantages arising from cross-media ownership is to compare performance levels within a single media sector for firms exhibiting different "configurations". The key combinations affected by current UK cross-media ownership restrictions are those involving television broadcasting, radio and/or newspapers. Of particular interest, following recent changes in restrictions affecting UK media cross-ownership, are the benefits available from cross-

sectoral expansion between national newspaper publishing and television broadcasting (A+D).

Prior to the 1996 Broadcasting Act, many UK national newspaper proprietors already had some degree of cross-ownership in the television industry. However, this was restricted to programme production (B) or else to cable or satellite delivered broadcasting; cross-ownership between newspapers and *terrestrial* television broadcasting licences was not permitted (except by way of minor cross-investments). News International expanded from newspapers into satellite television, through Sky which became, in 1990, BSkyB. More recently, Mirror Group Newspapers has begun to diversify into cable television broadcasting through L!ve TV.

The 1996 Broadcasting Act now permits any newspaper proprietor (with less than a 20% share of national circulations) to also own television broadcasting licences - including those for terrestrial delivery - up to a maximum national audience share of 15%. As a result of this relaxation, two terrestrial television companies have taken over or merged with newspaper firms. MAI (holder of two regional ITV licences in the South-East of England) merged with newspaper publisher United Newspaper (which owns the *Express* titles in the national market) to form United News & Media in 1996. Scottish Television took over regional newspaper publisher Caledonian Newspapers, also in 1996 (Scottish Television, 1996b). Thus, amongst the 5 firms in the television broadcasting sample, only Granada Media Group and Grampian Television - the largest and smallest respectively - remain "pure" television companies.[137]

137 Since this research was carried out in Spring 1997, Scottish Television has also taken over Grampian Television and has renamed itself Scottish Media Group plc.

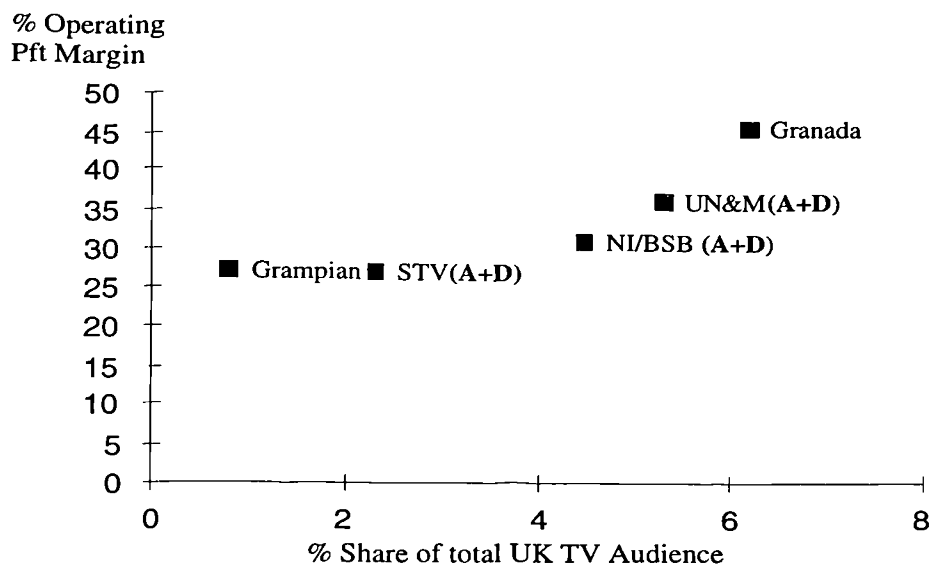

Figure 8.2: Market Share and Operating Margins for TV Broadcasting Sample in 1996.

Compared with the three other "diversified" broadcasters, both Granada and especially Grampian would appear to have achieved above-average television operating margins in 1996, taking into account their respective shares of the market. However, in view of the small size of this sample and their mixed individual histories of diagonal expansion into newspaper publishing, the above data yields little reliable inferential value about the general relationship between cross-ownership (A+D) and the performance of television broadcasters (A). In the case of United News & Media and Scottish Television, it is clearly still too early to derive quantitative evidence as to the impact on their profitability of cross-sectoral expansion. For BSkyB, News International has been the dominant shareholder since its inception and throughout a highly dynamic phase in which any impact attributable to cross-ownership is obscured by a number of other variables.

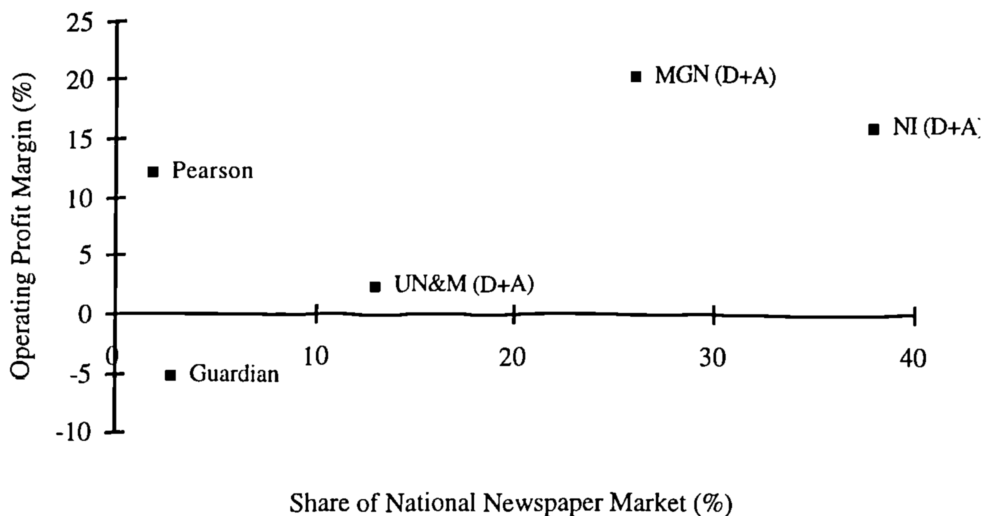

Figure 8.3: Market Share and Operating Margins for UK National Newspaper Sample in 1996.

Deriving meaning from the quantitative data is no easier when it comes to considering it from the alternative side of the equation - the impact of television and newspaper cross-ownership (D+A) on the performance of national newspaper operators (D). Again, two companies - Pearson and Guardian Media Group - may be considered "pure" newspaper publishers, in the sense that they have no direct involvement in television broadcasting. As discussed earlier (in section 7.3), the performance of each of these newspaper publishers is affected by "special" considerations. Of the remaining three companies who can be classified as diversified (D+A), two have only very recently become so - Mirror Group and United News & Media - and so it is still too early to make any appraisal of the economic advantages or disadvantages. News International is the only newspaper company which has been diversified (through its 40% shareholding in BSkyB) into television broadcasting for some time. On the face of it, there is no evidence of an association between this cross-ownership on News International's part and the attainment of any exceptional level of operating profitability. But, once again, there is insufficient historic quantitative data to draw any firm conclusions about the comparative advantages of cross-sectoral integration.

Although quantitative historic data provides little useful evidence, several companies within the sample group were clearly in a good position to offer qualitative evidence concerning the economics of cross-ownership between television and newspapers. In a number of cases (e.g. News International, Mirror Group, United News & Media and Scottish Television) this evidence is informed by actual experience of cross-ownership between the television and newspaper sectors in the UK, albeit that such experience is relatively short for some media firms. This evidence is considered below.

According to Gus Macdonald, whose company recently acquired Caledonian Newspapers, the main rationale behind this expansion from television broadcasting into regional newspaper publishing was to extend collective revenues (Moschandreas, 1994, pp347-8). An additional benefit has been the opportunity to reduce some costs, by combining back-office functions:

> Advertising is the main advantage - the top line. Our television and newspapers have different customer bases (television relies mostly on national rather than local advertisers; it is the opposite for regional newspapers) ... which you could say makes it 'a good fit' .. can help us to access a lot of local advertising for television and we may find ways of bringing national campaigns into the regional papers ...
> One of the long-term attractions was .. [the potential for development of] .. new packages of information for the future, which can be cut together from (our accumulated stocks of) images and texts about Scotland ..
> [Also] there are overlapping costs which can be reduced in the short-term: all the central services e.g. finance, personnel, IT, buildings maintenance, etc. - we are confident of making annual savings ..
> [But there is little overlap on journalistic functions] .. They are very different trades, and the kind of people you can send out to bring back a passable 90 seconds of film for your local news are very different from the people you need to write 2,000 words about the internal battles inside the Labour party ...
> ... You can take costs out to help the bottom line, but that is a limited exercise. It's driving the top line that counts.
>
> (Gus Macdonald, Scottish Television, 1997).

Scottish Television's extended control over a *specific* regional market (in Central Scotland) may help it to "drive" its revenues, but few other media firms seem convinced about the potential to offer combined television and newspaper advertising packages. On the whole, advertisers for newspapers are perceived to be different from those purchasing television advertising, and likely to remain so. Nigel Portwood thinks it is "very rare that anyone will buy a combined package across TV and newspapers". Harry Roche believes that it is possible, but "not to any appreciable degree". Speaking about News International, whose interests have spanned both newspapers and television broadcasting for several years, Jane Reed suggests that:

> [There are] .. not really many opportunities to offer combined television and newspaper packages. People have looked at the possibility at various times (as they have looked occasionally at 'global' advertising packages as a possibility), but I don't think its a huge factor in very many people's advertising strategies ... You could number the successes to date on one hand..
>
> (Jane Reed, News International, 1997).

In fact, across the sample group, there is a strong tendency towards scepticism about whether television broadcasting and newspaper publishing offer any substantive synergies. Apart from STV, few share the conviction that combined advertising packages are a potential benefit. At the same time, there is widespread agreement with Gus Macdonald's view that the skills involved in newspaper production and distribution are different from those required in the television industry, and vice versa. The "bi-medial" approach introduced at the BBC in the 1990s (i.e. the sharing of production resources, where possible, between radio and television) may be feasible to some extent within broadcasting, but it clearly does not extend to the combination of newspaper publishing with broadcasting activities. In other words, economies of scope are not seen as an incentive for cross-ownership between television and newspapers either. Thus, the economic rationale for combining newspaper with television operations would appear to be quite limited:

> There are actually a lot of successful groups who have operated both, always operating each distinctly - with the exception of, occasionally, slavishly cross-promoting [using one product (say, an established newspaper title) to promote another (say, a new television service)] ...
> I do not think that television and newspapers are a 'natural' diversification from each other. I think people like to explain things strategically but the reason why, say, .. [newspaper company X] .. got into television was because they thought it was a good business proposition, *not* because they were staggered by the synergies...
> The synergies would be: you might be able to use the same accounts system and you could maybe get your newspaper titles to slavishly cross-promote your television channels... although you can do that [promotion] anyway, by buying an advertising campaign...
>
> (Chris Innis, EMAP, 1997).

David Montgomery, whose company has recently expanded from newspaper publishing into television (through cable subsidiary L!ve TV), agrees that there is little overlap in the production techniques for television and newspapers. There have been some opportunities for Mirror Group to transfer expertise (e.g. marketing and creative) from the newspaper to its new television operation. On the other hand, monomedia expansion is still perceived as inherently more advantageous than cross-media expansion:

> I think there is something to be said for size, but where is the economy of scale between a TV company merging with a newspaper? ... It is newspapers that make the savings among newspapers and TV companies that make the savings amongst TV companies...
> It's much more appropriate for a TV operator [than a newspaper] to acquire more TV because then you get the economies. (But, I think if we went in cold to a TV company that was not efficient we could make a huge difference.)
>
> (David Montgomery, Mirror Group, 1997).

Jane Reed agrees that the scope for combining functions between television and newspapers is relatively limited and that there are more synergies with either monomedia expansion or, say, "between film, TV and books than between newspapers and TV". The

opportunity to cross-promote is acknowledged as one important advantage but, in terms of day-to-day operations, News International's newspaper and television broadcasting activities have remained quite separate from each other:

> We originally thought there would be some advantages in cost sharing. Many people from our newspapers went over originally to help set up Sky News, and the business of news gathering was similar but news production was completely different, so we quickly found we had to get TV people in to do it..
> The Fox World News Channel is being set up at the moment and, for instance, we plan to incorporate 'reactions' from *Times* journalists to big London news stories, or from Sydney ... etc., but there are not huge savings in financial terms... it's good in terms of using the brand names ...
> What you can share, oddly enough, is a kind of attitude and the basics of journalism ... but we can't necessarily feed off each other in any other way, except we can cross-promote...
>
> (Jane Reed, News International, 1997).

Charles Stern summarises the benefits, for United News & Media, of combining its activities with those of MAI (holder of two regional ITV licences) as follows:

> When we did the merger a year ago, we set ourselves certain targets: some were (Head Office) cost savings; some were management strengthening; and some financial strengthening, all of which we have achieved. We believe that in the long-term there will also be some cross-fertilisation, but that is a *long*-term and not a short-term thing ...
> I don't know where it [cross-fertilisation/ cost sharing] would come from but I know that they are doing similar sorts of things and it may well be that there are opportunities. But I can't tell you what they would be or where they would come from because we haven't got there yet. But, we're out to...
> [Meanwhile] you *can* cross-promote a lot, and we have increasingly, over the last year, been using our television stations to promote our newspapers ... For C5 [in which UN&M is a major shareholder], the *Express* has certainly carried quite a lot of stuff of a slightly more positive nature than our competitors. And that's fine. So, there are plenty of opportunities.
>
> (Charles Stern, United News & Media, 1997).

Thus, according to most managers in the sample group, *the only special advantage of cross-owning television and newspapers would appear to be the opportunity to cross-promote products.* Some opportunities may arise to combine back-office activities (as is the case with Scottish Television and Caledonian Publishing and, also, United News and MAI) or, perhaps, to introduce improvements in managerial efficiency but, apparently, no more so than would arise in any merger situation involving other (loosely related) sectors of activity.

> That [cross-promotion] is <u>it</u> as far as I'm concerned; there are no other synergies for television and newspapers.
>
> (Nigel Portwood, Pearson, 1997).

> I think that's right. We're not using the same journalists on both [TV and national newspapers] ... There has been talk of international deals of that sort [combining TV and newspaper advertising], but it is certainly not going on in any major way.. The logic in putting them together was that we hoped that, as well as getting the cost savings available from putting (any) two groups together, we would get some cross-promotional opportunities between our television and newspaper interests. But also, MAI had market research companies and we [United Newspapers] had business magazines, and that is all to do with companies promoting themselves and finding out about their markets, so there was going to be .. [a benefit] .. there as well.
>
> (Charles Stern, United News & Media, 1997).

If "natural" economies of scope are non-existent and revenue advantages are generally difficult to achieve, it follows that few economic benefits can be directly or solely attributable to the fact of cross-ownership between the television and newspapers. Thus, from a general or societal viewpoint, the economic argument in favour of such cross-ownership appears relatively weak. However, from the viewpoint of individual companies, the rationale for cross-ownership may be quite persuasive. Pearson has recently become a 20% shareholder in the new fifth terrestrial television channel:

> Pearson's original argument for going from newspapers to television was that advertisers were moving to television from the press. We want to diversify risk; to manage the decline in this medium for advertising [newspapers] and take some of the upside in the new growth area. That is fine but it's actually an *investment* statement, not a management statement ...
> ... Cross-media ownership synergies was very much the argument put forward [to the Government], but it is not what people were after, as is borne out by what is happening ...
>
> (Nigel Portwood, Pearson, 1997).

It is widely acknowledged that the main point of lobbying for a relaxation in UK cross-media ownership restrictions was to clear the way for newspaper proprietors to expand beyond their own sector (where demand is in gradual long-term decline) into the more profitable growth areas in the media (i.e. terrestrial television). As Nigel Portwood notes, this argument in favour of cross-ownership has no basis whatsoever in terms of improved operational or economic efficiency but, instead, is based solely on securing a low-risk route to long-term earnings growth for incumbent newspaper proprietors and shareholders (George, Joll & Lynk, 1991, p64; Moschandreas, 1994, p346). The differentiation between these motives - efficiency versus risk-spreading - is important and introduces the question of what is, and what is *not*, a legitimate concern for public policy.

For Harry Roche, who campaigned on behalf of the national newspaper sector, it is a disappointment that, so far, the re-regulation in the 1996 Broadcasting Act:

> ... rather than allowing newspaper publishers to get out of the straight-jackets they were in, has allowed television operators to remain paramount in their own sector and also to partake in newspaper publishing.
>
> (Harry Roche, ex Guardian Media Group, 1997).

The distinction, if any, between which activity (newspapers or broadcasting) has the upper hand in a cross-sectoral merger has no bearing on whatever economies or diseconomies it might create and the associated public interest in the economics of such a

merger. On the other hand, the rationale for any particular merger will reflect the goals of whichever firm has instigated it.

The commercial incentive for a newspaper proprietor to move into television (i.e. to re-position itself away from a marginally declining industry sector to an area of growth) can be much more readily identified than the incentive for a television company to move into newspaper publishing (Lipsey, 1989, p426). If opportunities to build incremental revenues are limited, and economies of scope are not an intrinsic feature, then it is difficult to see why profit-maximising television companies would choose to expand in the direction of a low-growth area such as newspaper publishing.

One possible motivation is that more synergies and "economies of multiformity" (Albarran & Dimmick, 1996) between newspaper publishing and television broadcasting may develop over the long term. For example, the growth in electronic communications may well, as Gus Macdonald suggests, create demand for new products based on both audio-visual images and text - a market which combined television-newspaper owners would find themselves "in a pole position" to exploit:

> But that is a punt in the future, and you never know how far away the future may be.
>
> (Gus Macdonald, Scottish Television, 1997).

As far as Scottish Television and United News & Media are concerned, the perceived "long-term" potential for synergies to emerge between television and newspapers, and increased flexibility to respond to such future opportunities, were important considerations behind their respective decisions to expand diagonally into each other's sectors.

Such considerations are clearly valid on commercial grounds but, as another possibility, motives other than profit-maximisation - i.e. managerial motives - may also play a role in

cross-sectoral mergers between television and newspapers. Managerial theorists have frequently suggested that the desire by managers to "build empires" is an important motivation for diagonal growth (George, Joll and Lynk, 1991, p82; Martin, 1993, p280) and, indeed, a number of interviewees amongst the sample group express the belief that the "real" explanation for television companies' expansion into newspaper publishing is as "a defensive move" against hostile takeover, i.e. making the enlarged company less attractive to potential predators. Considerable regional sensitivities prevail about the possibility of losing control of media companies to "outsiders" and this may encourage conglomerate expansion, notwithstanding any negative efficiency implications.

Other factors cited as encouraging such takeovers include "the human factor" - the desire by managements to simply increase their own prestige by increasing the overall size of their firm (Marris, 1963: discussed in George, Joll and Lynk, 1991, pp50-1; and in Martin, 1993, p259) - and the "flying speed" argument - a growing company creates positive morale and is easier to manage than one that is contracting or standing still.

Thus, takeovers between television and newspaper operators may have more to do with a convergence between the interests of the management of television companies (in not losing control of their operations) and the need for newspaper proprietors to sustain their long-term profit prospects, than with any distant prospect of "technological" convergence.

For firms who are diversified or diagonally integrated across a range of sub-sectors of the media industry, the potential to exploit cross-synergies and economies of scale and scope appears to be mainly dependent, not only on the extent of overlap between production or distribution processes, but also on the degree of homogeneity in content or output.

Economies of scope will arise where some resources are sharable between different activities, i.e. when its use in the production of one good leaves some excess capacity which could be used to produce another good (Moschandreas, 1994, p155). The semi-

public nature of media content, as a resource (the fact that its use in the production of one product does not diminish its availability for use in the production of another) means that, in theory, economies of scope should be available for diversified media companies (Albarran & Dimmick, 1996, p41). In practice however, distinctions between the sort of content required for different media products may be such as to eliminate any possible economies of scope.

Where a multi-sectoral firm's output is characterised by a specialised common theme, this would create synergies (Martin, 1993, p279). For example, Pearson's specialisation in providing a particular form of content - management information - enables it to exploit economies of scope between different products, or modes of delivery (e.g. newspapers, newsletters, magazines) for that content. It also creates the opportunity to exploit new vehicles for delivery of media content e.g. on-line information services.

> There are massive synergies: it is the same content base, but with just a different front-end.
>
> (Nigel Portwood, Pearson, 1997).

In addition, Pearson is able to capitalise on cost-efficiencies created by overlap in the production process for some of its products: cross-ownership between newspaper publishing, magazine publishing and book publishing creates potential economies in, say, printing and purchasing paper - processes and inputs common to all of these activities.

So, even where media products seem quite "different" (e.g. radio and newspapers, or television and books), economies may theoretically be available through sharing or "repurposing" content (Albarran & Dimmick, 1996, p41). However, much will depend on how specialised the content of each product is and how readily such content can be re-packaged into different formats (i.e. the relationship between the marginal costs of re-formatting content and the marginal revenues likely to be raised through additional "windows" created).

Clearly, there is more scope for content sharing between text-based products (e.g. electronic and print provision) than between text-based and audio or audio-visual products. According to the views expressed by members of this sample group, there is little or no overlap between production techniques in the television and newspaper industry (A+D), or between production techniques in the newspaper and radio sectors (A+C). Technological convergence between these sectors has *not* arrived. So although, for instance, some news gathering activities might be shared (especially where locality or some other specialisation is common), there is a limit to any available economies of scope between, for instance, radio and newspapers, or newspapers and television.

Content specialisation based on (serving a particular) locality may act as an incentive for multi-sectoral expansion. For example, as discussed above, Scottish Television's takeover of a local Glasgow-based newspaper publisher is expected by the company to create revenue synergies, through the opportunity to offer combined advertising packages in that particular locality. However, such synergies (insofar as they exist) may be impeded by cross-media ownership restrictions at the local or regional level which prevent multi-sectoral expansion involving television, newspapers and radio.

Local cross-ownership restrictions may encourage firms to experiment with multi-sectoral expansion outside their own district. For example, Grampian Television (holder of a terrestrial television broadcasting licence for the North of Scotland) expanded into the radio sector by acquiring a 50% share in Scot FM (a commercial radio licensee based in Central Scotland) in 1994. However, the company withdrew from the radio sector two years later because a lack of synergies between this and its television broadcasting activities. The failure of this strategy for expansion (A+C) is attributed, in part, to the absence of economies which might have been available were both broadcasting operations based in the same locality. Moreover, distinctions arising because of different (audio and audio-visual) production techniques and different (advertising) customer bases meant that the company was unable to find any meaningful operating synergies:

> I was disappointed and thought that there was going to be more synergy than there actually was. The processes are quite different. We imagined, for example, that the newsroom would have done similar things but, of course it didn't because it was a Central belt of Scotland newsroom in radio and a North of Scotland newsroom in television. We thought there would be some synergies on the engineering side, but Scot FM .. never needed a Grampian engineer. Advertising sales was totally different. We tried to sell packages across radio and television but it wasn't very attractive to many people, especially because of different regions... And, as for cross-promotion [between Grampian TV and Scot FM] there was no point! .. It would have been different if we had been allowed to buy a radio station closer to home...
>
> (Donald Waters, Grampian Television, 1997).

Grampian Television is not the only media firm in the sample group to have found itself susceptible to miscalculating the available synergies where multi-sectoral expansion is concerned. Diagonal expansion across the more traditional sectors of the media might, in some ways, be regarded as a low-risk option, insofar as the markets for traditional media products are already highly evolved. By contrast, newly emerging media (e.g. multi-media products, or electronic dissemination via the Internet) and their markets are not so clearly defined and understood.

Expansion in the direction of "new" media products creates opportunities for new synergies to be exploited, but is inherently more risky since the extent of such synergies tends to be unpredictable. For example, Pearson's efforts to expand its publishing activities into computer games (through the acquisition of US company Mindscape) has not yielded the expected synergies but, instead, has resulted in financial losses:

> The great 'holy grail' has always been multi-media ... or 'convergence' - a great hyped concept in the media world (involving hardware, software etc)...
> There will be clear opportunities for publishers to capitalise on their skills as part of that mix .. [but] .. things move fast, which automatically favours technology companies [rather than traditional media providers] .. With multi-media, there are too many competitors too early in the industry. Hardware

> platforms are changing ... people have made all sorts of wrong investments and mistakes ...
>
> (Nigel Portwood, Pearson, 1997).

While diversification into newly emerging media markets is, by and large, outside the scope of UK regulatory constraints affecting cross-media ownership, the inherent risks with such a strategy are a deterrent and may, instead, encourage media firms to pursue growth through expansion within traditional sectors of the media (i.e. newspapers, television and radio).

Whether the latter strategy will deliver any "holy grails" seems uncertain. To the extent that some recent corporate activity involving the traditional media sectors appears to lack any compelling underlying economic rationale, the new hybrid organisational structures which have emerged as a consequence cannot, as yet, be regarded as stable (Martin, 1993, p260). The evidence provided by this sample group suggests that economies of scope between these sectors will not necessarily exist, except in the relatively rare circumstances where specific overlaps can be identified within either the product or the supply process. (On the other hand, economies *are* likely to be present between, say, different print media products, or text-based products or different audio-visual products, or where specialist content provides a genuinely "sharable" resource, etc.)

The opportunity to cross-promote collectively owned media products remains a potential strategic advantage for diversified media firms. Whether this feature will result in any general economic advantages (as opposed to commercial advantages for the specific firm in question) depends on how it is used. If cross-promotion is used to facilitate *de novo* expansion (i.e. the introduction of new products which increase choice) then welfare and competition should be enhanced (Moschandreas, 1994, p349). On the other hand, cross-promotion used to build cross-sectoral dominance for existing products would have a negative impact on competition.

8.2 Vertical Integration

Within any given sector of the media, it is possible to break down into stages, or vertically disaggregate, each of the activities involved in making and then supplying a product to the consumer. For example, the newspaper industry can be disaggregated into news gathering, editing, printing, distribution and retailing. The television industry can be broadly broken down into programme production, assembling the schedule and transmission to viewers. Many, but not all, media companies are involved in more than one stage in the supply process. Vertical integration is the term used to indicate the extent to which several stages are undertaken by a single media firm. Vertical expansion can take place either "upstream" (in the direction of preceding stages of production) or "downstream" (in the direction of the consumer) in the supply chain.

This section focuses on the economics of vertical integration in the UK television industry (A+B). Current cross-media ownership restrictions do not prevent broadcasters from vertically integrating upstream into programme production. Indeed, most UK television broadcasters *are* vertically integrated into programme production. However, an important distinction can be made between programme producers who, under UK legislation, are defined as "independent" and those who are not. In the latter case (i.e. where the production company owns more than 25% of a television broadcasting company, or vice versa), the vertically-integrated production company is excluded from providing programmes which fulfil a broadcasters' "independent production quota".[138] Thus, the imposition of "independent" production quotas on UK terrestrial broadcasters sustains a measure of vertical disaggregation - a separation between the functions of programme-making and broadcasting - within the UK television industry.

The purpose of this section is to consider whether vertical integration (within a television broadcasting company) enhances the economic performance of UK production

[138] Under the terms of the 1990 and 1996 Broadcasting Acts, terrestrial broadcasters are required to ensure that at least 25% of their programming output (excluding special categories such as news) is sourced externally from programme-makers who are 'independent'.

companies. The sample group includes eight companies who are involved in making television programmes, but no quantitative data is available concerning the television production activities of two of these (News International and Mirror Group). Of the six remaining production companies, four belong to vertically integrated television broadcasters, all of whom control terrestrial regional ITV licences (Grampian Television, Granada Media Group, Scottish Television and United News & Media). The remaining two (Guardian Media Group and Pearson) are the owners of "independent" production companies.

The high level of cross-ownership between television broadcasting and programme production within the sample group may, in itself, seem indicative of the (at least, perceived) benefits of being involved in both distributing and creating television content. However, as discussed in section 7.2 above, the majority of programme production firms in the UK are, in fact, small independent companies.

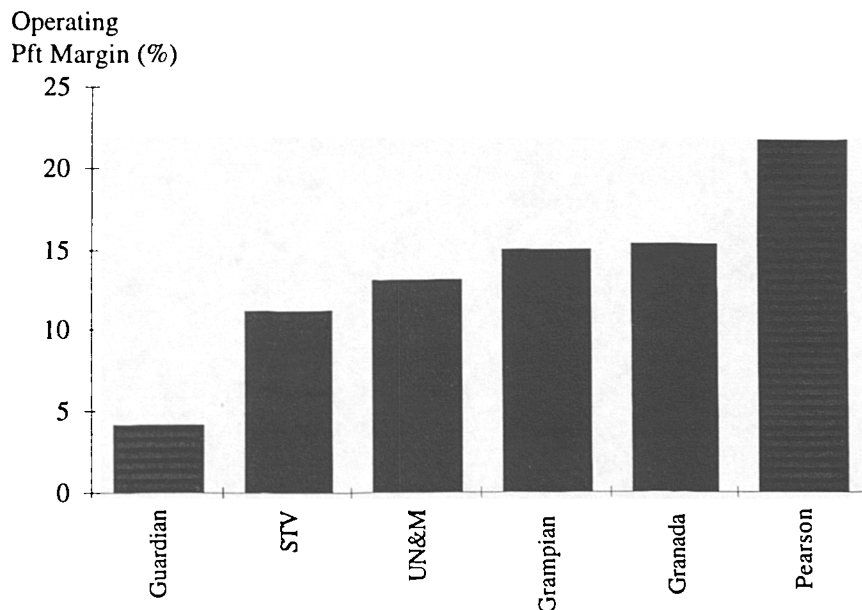

Figure 8.4: Operating Profit Margins for UK Television Production Sample in 1996.

The above bar chart ranks the operating profit performance of these six UK television programme-makers in 1996. With regard to the specific question of whether

"independent" production companies fare better or worse than their vertically integrated rivals, the evidence seems contrary: both the highest (Pearson) and the lowest (Guardian Media Group) operating margins in the sector are achieved, respectively, by the two independent producers in the sample. This situation appears to hold true over time, since the operating margins achieved by all six of these production companies have been relatively stable over the last 3-4 years (see figure 6.5, p164). Thus, at first glance, it would appear that the correlation between size and performance, discussed in section 7.2 above, is stronger than any association between vertical structure (A+B) and performance.

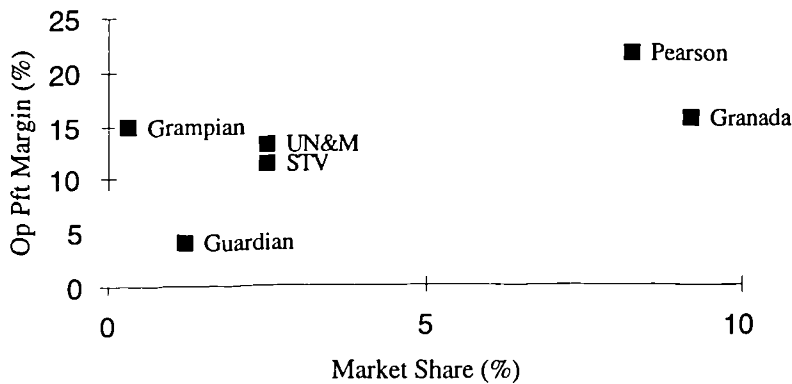

Figure 8.5: Market Share and Operating Profit Margins in Television Production in 1996.

The principal exception to the apparently positive relationship between size and structure is Grampian Television, a vertically integrated broadcaster-production company. The exceptionally high operating profit levels achieved by Grampian in its production activities (given its small share of the market) may reflect some cross-benefits available to this firm because of its vertically integrated structure or, indeed, it could reflect some other unrelated factor.

In theory, vertical integration in any industry will be motivated by potential efficiency gains and, possibly, by the pursuit of market power (George, Joll & Lynk, 1991, p65; Moschandreas, 1994, p327). Efficiency gains in the production process would most

obviously be present if there was some form of technological interdependence between the two different stages involved. In fact, this is not the case for programme production and television broadcasting - most television broadcasts involve pre-recorded programmes (acquired as an intermediary product) and there are no special technological arguments for integrating both the programme-making and broadcasting stages.

On the other hand, television broadcasting typically involves the use of some technological resources (studios, staff etc.) which could also be used in programme production. Where this is the case, upstream vertical integration will enable the broadcaster to operate such resources at higher capacity levels, thus creating cost-efficiencies.

> Overhead recovery is the big advantage [of vertical integration]. You can't have half a camera or half a studio. If you're going to have a studio - and you've *got* to have a studio - then let's fill that studio as many days of the week and as many hours of the day as you can.
>
> (Donald Waters, Grampian Television, 1997).

The extent to which a broadcaster's activities *necessarily* involve resources which are "sharable" with programme-production activities will vary, depending on the terms of individual broadcasting licences. The equipment which is specifically required for broadcasting (i.e. Telecine, transmission suites etc.) is, in fact, largely different from the equipment involved in programme-making (i.e. studios, post-production facilities etc.) Vertical integration into programme production is not an official requirement in order to be awarded a UK broadcasting licence and, indeed, some successful applicants (e.g. Carlton Television) at the last round of ITV licence awards were "publisher-broadcasters" (i.e. did not have their own programme production operations but relied, instead, on intermediary products supplied by "independents").

However, prior to 1991, UK television broadcasters had traditionally been vertically integrated into programme production and, thus, most ITV incumbents were amply equipped with expensive programme making resources. The "producer-broadcaster"

organisational structure which prevailed at the time of the last set of ITV licence awards prompted many applications for licence-renewal which reflected this structure. In other words, many ITV applicants committed themselves to supplying original programmes for the ITV schedule and thus, it seems, to sustaining their own production resources. According to Gus Macdonald, the main reason for vertical integration into programme production is that it enables Scottish Television, the broadcaster, to fulfil its ITV licence requirements:

> ... we have *got* to show the ITC that we make serious efforts to contribute programmes to the network.
>
> (Gus Macdonald, Scottish Television, 1997).

A certain level of in-house programme production may be perceived as an inevitable requirement for a broadcaster. This is true only to the extent that a broadcaster's requirements cannot be supplied by the external market - if, for instance, there were not enough "independent" programme-makers available in the broadcaster's region to supply it, at an appropriate cost, with the programmes needed under the terms of its broadcasting licence. Whether, on the whole, the degree of vertical integration exhibited amongst UK broadcasters can be said to reflect (or be justified by) a shortage of competing programme suppliers seems extremely doubtful. Nonetheless, the perception that some in-house programme-making capacity is essential to the fulfilment of broadcasting obligations continues, in some cases, to be presented as a rationale for vertical integration.

Vertical integration being a *de facto* requirement as a broadcaster, overhead recovery provides a rationale for expanding programme production output:

> These plants [at STV] were built to accommodate programming in a different era, much of which was supplied at below cost to the ITV network. Also, there was a lot more over-manning and misuse of resources in the old days. Once you have tightened all that down, you have to fill the capacity with something else. We run this centre [in Glasgow] - we closed down our Edinburgh studios - and we make twice as much programming in hours as we used to ten years ago, with

> about 600 people (as against 800 people then). So, our productivity in programme-making has gone up dramatically.
>
> (Gus Macdonald, Scottish Television, 1997).

Of course, any excess capacity (facilities etc.) can, alternatively, be shared externally; it may be sold or traded in the open market. Most broadcasters, including STV and Grampian Television, lease out spare capacity to "independent" programme makers, as well as carrying out in-house programme production. Most broadcasters also manage their production operations "at arms length" from their broadcasting activities, in the sense that in-house programme production is accounted for separately and on a fully costed basis (i.e. including the imputed costs of resources). However, some resources are easier to lease out than others. Whereas, for example, post-production facilities may easily be traded, in-house production staff and technicians represent a relatively "inflexible" overhead.

Since leasing excess internal labour or equipment capacity may prove complex, uncertain or time-consuming, expanding in-house programme production may be seen as a more efficient option. But, because of the competitive and uncertain environment in which most programme commissioning takes place, it is not easy for any production company to fully control its own rate of output. Thus, it is generally difficult for a programme production firm, whether "independent" or otherwise, to achieve optimal capacity usage.

However, the vertically integrated production firm has a very significant advantage over the "independent" production in terms of managing capacity efficiently. Vertical integration ensures a given level of demand from the related broadcasting operation whereas "independent suppliers [must] bear the brunt of demand fluctuations" (George, Joll & Lynk, 1991, p74).

In theory, economising on transaction costs is a key benefit and an incentive for vertical integration. According to Coase (1937), Williamson (1975) and others, vertical

expansion will be attractive when net efficiency gains can be achieved by replacing market transacting - i.e. inter-firm trade - with internal transacting - i.e. making or distributing the product in-house. In practice, the evidence suggests that the "costs" (created by uncertainty, weaker informational flows etc) involved in inter-firm trade between producers and broadcasters tend to be much higher than when both functions are carried out in-house. For a vertically integrated programme-maker such as Granada, the risks and costs involved in operating at below capacity are reduced because "a steady flow" of in-house programme commissions (say, to supply product to fulfil regional programme broadcasting quotas) is available to complement external commissions :

> If you didn't have in-house production, you wouldn't bother with facilities. The facilities work *because* you have not only external sales but in-house production, and you can schedule them so that internal work (which is perhaps more flexible on timing) will complement external sales, so that you get a fairly steady flow of work for the body of technicians you have on staff. If you lost all that in-house internal production, we would not be able to provide enough steady work for our own staff and it would be cheaper to get in free-lance staff ... the economics would not work out.
>
> (Janet Walker, Granada Media Group, 1997).

An "independent" production company selling programmes as an intermediate product to broadcasters is just as capable of deriving economies of large-scale production as a vertically integrated production firm supplying its parent broadcasting company's or an outsider's needs. However, a steady or predictable flow of output is important in terms of optimising the use of fixed overheads. Thus, a stark contrast between the operating profit margins achieved by an "independent" production company (e.g. Guardian Media Group's subsidiary) and a vertically integrated production company (e.g. Grampian Television) at, broadly, the same level of market share may be accounted for by efficiencies in capacity management on the part of the latter.

Production efficiencies are available to vertically integrated production companies through overlapping use of resources for "in-house" as well as externally commissioned

work, and through a higher level of knowledge concerning their own rate of output. In theory, "independent" producers could benefit equally from production efficiencies if they also enjoyed an assured level of demand for their output. In practice, some independent producers who have become established as "important suppliers" (e.g. Pearson) are able to sustain a steady production slate, but most are faced with highly unpredictable demand. The crucial advantage of shared ownership over both these stages is that resources which are indivisible (and, typically, seen as partly integral to the broadcasting function) will be exploited more consistently and at more cost-efficient levels.

While efficiency gains are undeniably an advantage of vertical integration, the pursuit of market power may be another motive for production companies and television broadcasters to join forces (Martin, 1993, p273).

Since there is a high degree of competition between programme suppliers for major "external" commissions (e.g. from the ITV network, Channel 4 or BBC television), any advantage a production company can acquire in securing such commissions is an important bonus. Integrated firms can, to some extent, avoid the market power of dominant buyers. In general, the establishment of a separate centralised body (the ITV "network centre") which commissions and schedules ITV's collective programme schedule has ensured that competition for programme commissions takes place on a fair and equal basis, i.e. on the merits of the programme proposal put forward rather than whether the proposal comes from a (vertically integrated) ITV participant. However, even if tendering for programme commissions were carried out anonymously, vertical integration may provide a competitive edge. Producer-broadcasters have an informational advantage over their "independent" rivals which can help to get positioned to secure a commission:

> Everyone likes to pretend that there's a level playing field in terms of access to the ITV network - I don't think anyone actually *does* believe that because it's perfectly

> obvious that if you've got the same people working in production as broadcasting then you're not going to have 'Chinese Walls'. There's going to be occasions when someone from broadcasting says to someone from production - "I'll tell you what we really want: a cracking entertainment programme for Wednesday nights". There is absolutely no doubt that being part of ITV[broadcasting] gets the intelligence to you faster. It would be daft to pretend otherwise, because it's self-evident really...
>
> (Janet Walker, Granada Media Group, 1997).

Market power is an important factor in the economics of programme supply. As discussed above (in section 7.2), an "important supplier" - or one which has established its credentials as a supplier of "hit" programming - secures bargaining power which can be used to gain additional programme commissions and better terms of trade. The converse, from a broadcaster's point of view, is that excessive reliance on a small number of important suppliers creates the possibility of post-contractual opportunistic behaviour on the part of these suppliers. If the supplier of a key programme in a broadcaster's schedule threatens to withdraw that programme or sell it at a higher price to a rival broadcaster, then high costs may have to be incurred to retain that particular programme. Vertical integration is a way of avoiding the higher costs associated with such behaviour (Martin, 1993, p274).

If monopoly power is present in the programme production stage (say, because a supplier has control over a specific programme for which no perceived substitutes are available) then, even without vertical integration, the firm with "upstream" monopoly power may be able to appropriate some of any monopoly profits available at the broadcasting stage (Moschandreas, 1994, p417). It is rarely the situation that no substitutes are available for a particular product but, with television programming, specificity of inputs (particular actors, writers or presenters) is a factor in their popularity and success. This explains why an "independent" producer like Pearson which has succeeded in becoming an important supplier, is able to achieve high levels of operating profit, even without being vertically integrated.

In summary then, while vertical integration between programme production and broadcasting will create some important efficiencies and benefits, it is by no means essential for the success of a programme production company. Levels of demand tend to be uncertain and, because of the complexities or attendant transaction costs with leasing out any spare capacity, any security over distribution access for output (i.e. through vertical integration) will allow for improved cost-efficiency.

However, vertical integration is not the only route to success as a supplier. To the extent that there is open competition for programme commissions (and informational advantages *do* favour vertically integrated firms), independent suppliers are demonstrably no less able to conceive and supply "hit" programmes, and thereby accumulate market power, than their vertically integrated rivals.

At a time when the means of broadcast delivery is expanding rapidly, access to (the means of creating) "hit" programmes has become increasingly important for broadcasters. Greater competition between broadcasters will gradually shift more bargaining power in the direction of "important suppliers". Thus, the accumulation of market power at the programme creation stage will enhance the attractions, from a profit-maximising broadcaster's point of view, of predatory backstream vertical integration.

8.3 Conclusions

According to the evidence considered above, the combinations of *diagonal* cross-sectoral integration which yield significant economic efficiencies are those which facilitate sharing of common specialised content or of a common distribution infrastructure - i.e. those which give rise to the "economies of multiformity" described by Albarran & Dimmick (1996, p41). But, since production and distribution techniques are different for radio, television and newspapers, relatively few opportunities to make better use of

collective resources will arise directly from diagonal cross-ownership between these particular sectors of the media. Even though diagonal expansion across television, radio and newspapers may not give rise to any general economic gains, such strategies sometimes create worthwhile benefits for individual firms and their shareholders or managements.

Turning to *vertical* cross-media expansion, technological interdependence between production and distribution is not a special feature of the television industry but, nonetheless, some useful efficiency gains or transaction cost reductions may arise through vertical cross-ownership. Efficiency gains are sometimes not easily disentangled from the market power advantages of vertical integration (George, Joll & Lynk, 1991, p72). The increased control over the market enjoyed by vertically integrated television companies may be precisely what gives rise to efficiency gains (e.g. the ability to optimise usage of production capacity). As previous writers have suggested (Peacock, 1986), excessive levels of control over the vertical supply chain for television could give rise to less rather than greater economic efficiency (e.g. through complacency by broadcasters over programme production costs). However, to the extent that many independent production companies exist in the UK and, indeed, significant market power may also be accumulated by "important" independent programme suppliers, current levels of vertical ownership evidently do not seriously impede competition in the programme production sector.

Chapter 9

The Broadcasting Act 1996: An analysis of changes in the UK media ownership policy framework

The earlier discussion (in chapter 4) of how UK media ownership policy has developed in recent years includes an assessment of concerns which helped to shape the regulatory changes set out in the 1996 Broadcasting Act. Drawing on evidence gathered from the sample of UK media groups whose economic performance was considered in chapters 6, 7 and 8, and on interviews with senior Department of National Heritage (DNH) policy makers, this chapter sets out to analyse the effectiveness of new policy measures in the 1996 Act on media and cross-media ownership.

It is sometimes suggested that "policy analysis is as much an art and a craft as a science" (Weimer & Vining, 1989, p12). Indeed, a wide variety of investigative approaches are evident within and across the disciplines of economics, policy studies and political science ranging from, for example, the application of "power models" (Parsons, 1995, p248) to the "rational" techniques of cost-benefit analysis or systems analysis (ibid, p399). Selection of the "best" approach may involve some prior judgement about which aspect of a given policy is of greatest significance - whether what counts is, for example, how the policy reflects underlying power structures, or what process was involved in bringing it about, or what its impact might be. The approach adopted here to analysing recent revisions in UK media ownership policy seeks to take account of the potential for interplay between these different dimensions.

The chosen technique might be loosely described as "means-ends" analysis (Levin, 1997, p34) in the sense that the "real" logic behind the new provisions on media ownership in the 1996 Act is probed by considering their practical outcome or effect. Implicit in this conceptual framework is the idea that the explanations for recent media ownership policy

changes will emerge not only from comparing "means" (measures chosen) with stated "ends" (policy aims) but, more particularly, by identifying and exploring any inconsistencies or discrepancies between espoused policy aims and *actual* outcomes. What follows, then, is an appraisal of the impact of changes in UK media ownership policy instigated through the 1996 Broadcasting Act which is structured by reference to each of the Government's key stated objectives but which is alert to the possibility of alternative factors playing a role in shaping policy.

The key concerns and objectives which the new legislation was intended to address were outlined in the Green Paper on Media Ownership of May 1995:

> 'Government has a responsibility both to promote *diversity* and choice for consumers and to set *the right framework for industry to flourish* ... The main objective .. [is] .. to secure a plurality of sources of information and opinion, and a plurality of editorial control over them. Another important objective is to provide the environment to enable UK broadcasters, equipment manufacturers and programme makers to take full advantage of major market opportunities ... '
> '...the existing structure of media ownership regulation, relying as it does on prohibitions which reinforce the traditional segmentation of the media market, is insufficiently flexible to allow media companies to exploit to the full the opportunities offered by new technologies ...'
> 'The Government has decided that there is a continuing case for specific regulations governing media ownership, beyond those which are applied by the general competition law; but that there is a need to liberalise the existing ownership regulations both within and across different media sectors.'
> (DNH, 1995a, p16;p20; p1).

Although some amendments were introduced between the proposals set out in this Green Paper and the legislation finally enacted in 1996, the Government remained steadfast throughout the period in its espoused commitment to the two key priorities expressed above: promoting pluralism and accommodating the successful economic development of industry.

The policy aims underlying these two key priorities may be categorised as, on the one hand, those of a socio-political nature - i.e. promoting plurality (or avoiding excessive dominance by any individual media owner); and, on the other hand, those of an economic nature - i.e. promoting efficiency and promoting the international competitiveness of UK media firms (or avoiding hindrances to the commercial success of industry).

The simultaneous pursuit of both of these broad objectives creates an obvious conflict - pluralism would require more effective restraints on ownership whereas industrial aspirations calls for deregulation. Policy-makers at the DNH were charged with reconciling these objectives within a single regulatory framework. As the evidence below indicates, concerns about the Government's relationship with the press during the policy formulation period were uppermost in deciding how these conflicting aims were traded off against each other. Thus, the role played by wider political forces and by the conduct of the process of policy-making itself, as opposed to the pursuit of espoused policy aims, emerge as crucial issues in this assessment.

9.1 Promotion of Socio-Political Policy Aims

(a) Pluralism at national and regional level.

> The main objective .. [of media ownership policy is] .. to secure a plurality of sources of information and opinion, and a plurality of editorial control over them.
>
> (DNH, 1995a, p16).

At its most basic level, the "pluralism" objective is about ensuring that the structure of media provision allows for a diversity of independent viewpoints - an open traffic in opinions, ideas or forms of cultural expression. As a policy objective, pluralism has both a cultural and a political public-interest dimension: the socio-cultural dimension refers to

the inherent desirability of fostering a range and diversity of cultural expressions within the media (as reflects society) whereas the political dimension is more specifically about the need, within a democracy, for free expression of a range of opinions and viewpoints. Media ownership legislation can be and, as discussed in chapter 4, *is* used to promote cultural and political pluralism. By restricting the amount of media outlets any private individual or organisation may own, some level of diversity amongst media suppliers is assured. Plurality amongst suppliers is, in turn, a means of encouraging diversity or plurality of media sources and content.

Evidently, securing pluralism has been the main priority for the UK Government's recent media ownership policy changes. The formulation of the new legislation at the DNH coincided with this Government department establishing its own distinctive role as, first and foremost, a champion of cultural concerns:

> The plurality and diversity one is, I think, part of an emerging self-consciousness at this newly created Department .. about what it was about. Broadcasting had shifted from the Home Office to the DNH at the 1992 election and, as we thought about what we were about with media ownership policy, we felt it was of a piece with our general concern to 'let a thousand flowers flourish' and our aim to promote creativity and a diverse culture which reflected all aspects of a diverse life in the country.
> We also had to ask ourselves the question, if we are saying (for the sake of argument, to the DTI) that normal competition policy is not sufficient and there is something distinctive about the media industry ... then what exactly is it about the media?
> When we analysed it we felt that plurality of ownership is a good thing in itself, even if the things being propagated were saying pretty much the same things and covering pretty much the same kind of subject matter; there was an inherent virtue in *that* [plurality of ownership], quite irrespective of the fact that this plurality of ownership might be in a market where certain people were very dominant. That, in a sense, didn't matter. It was important, even if some of them were very small in market terms, that there were a lot of different ones [media owners] going.
> The other (distinct) issue is diversity of content; it was a good thing in its own right if there was, for example, material reflecting black experience or high brow arts or life in the sparsely populated parts of the country, even if it was clear that

> the audience for this was small or if more money could be made out of allowing expansion in more mainstream areas.
>
> (Paul Bolt, DNH, 1997).

This thinking is clearly sympathetic with the special need, in the case of the media, for diversity of ownership. Yet the DNH concedes it was responsible for drafting new media ownership provisions into the 1996 Broadcasting Act which, in practice, offer *less* rather than more protection for pluralism. Not only have monomedia ownership ceilings been raised, especially in the case of terrestrial television, but previous restrictions on cross-media ownership between national newspapers proprietors and terrestrial television have largely been done away with (albeit that the two largest national newspaper owners, News International and Mirror Group Newspapers, are still prevented from expansion into terrestrial television). In effect, the new media ownership provisions allow for radio, television and newspapers in the UK to be supplied by fewer media owners than had previously, under the 1990 media ownership legislation, been considered an acceptable minimum. In practice, this has resulted in much greater concentration of ownership of terrestrial television and in some additional cross-ownership between newspaper and television providers.

The failure to try and turn what is presented as the main objective - pluralism - into more effective media ownership legislation may be accounted for partly by prevailing "perceptions" (Levin, 1997, p37); the general impetus for reviewing media ownership rules was perceived, at the DNH, to be a de-regulatory one. The industrial case in favour of liberalising media ownership regulations was highly influential and, for the DNH, there appeared to be few persuasive proponents of the opposite case in favour of imposing more effective restrictions:

> I was certainly surprised by the way in which the public and political discussion of these issues had changed between 1989-90, when the original pattern of media ownership regulation was set, and 1993-95 as we moved up to a very much more liberalised position in the new legislation. In a sense, the 1990 Act was as rigid as

> it was precisely because the dominant voice on both sides in Parliament was in favour of strict limits on media control. Whether simply because those thoughts were overtaken by market developments internationally or because the media interests had been successful in arguing their case and getting the public mood altered, that was *very* much less of a concern by the time we got to the new legislation.
> It was very much harder to find people out there who were influential enough to sustain an argument based on holding people back in the interests of pluralism. It just didn't have much in the way of a constituency and it tended to be some pretty unpersuasive groups ... Even the ITC were not, in any way, attempting to hold the line as it had been set in 1990-91.
>
> (Paul Wright, DNH, 1997).

Paul Wright's view that the stronger voices in the debate about media ownership rule changes tended to be in favour of rather than against liberalisation echoes the findings set out in chapter 4. However, the fact that pro-liberalisation arguments proved more "influential" with MPs and policy-makers cannot be disassociated from the fact that this side of the issue was being propagated by large media owners whereas the opposite side was primarily being argued by individual trades unions, and a handful of consumer groups and academics.

The role of the media in, in the first instance, placing media ownership on the policy agenda and, subsequently, in stimulating (or failing to stimulate) a well-informed and balanced public discussion of this, as any other, public policy issue deserves consideration (Parsons, 1995, pp85-6; Weimer & Vining, 1989, pp111-2). Policy-makers at the DNH acknowledge that those responsible for conducting the public debate about media ownership rule changes had a particular vested interest in its outcome; they were conscious that self-interested media owners had the capacity "to create completely artificial currents of opinion". The steps taken to deal with the power of media owners was to adopt a "tactical" approach. This approach, however, seems to exemplify rather than to have tackled the problem:

> Broadly speaking, what we did was say [to the media] 'Well look, we are not in a position to wholly jettison the other side of the argument. We are satisfied, within Government, following months and months of examination, that there are still these positive goods on the plurality and diversity side'.
> I think, to be honest, what was done was simply to calculate how much needed to be done in order to buy off most of the media and, in particular, the newspaper sector of the media, to the extent that they would say that they would back up our proposals and say that they were a good statesman-like thing. And that then, having sort of covered ourselves by going what we assessed as that far, or far enough in that direction, we could then (as indeed we *did* during the passage of the Bill) spend most of our time defending ourselves against attacks designed to engender yet further liberalisation.
>
> (Paul Bolt, DNH, 1997).

So, rather than looking, first, at ways of containing the political influence of media owners, policy-makers took more or less the opposite approach: that approval from "most of the media and, in particular, the newspaper sector" had to be within reach *before* finalising which safeguards for pluralism would remain and could successfully be defended. This tacit negotiation between the Government and the press paved the way not only for most media owners to gain exactly the de-regulatory concessions they were seeking but also, ironically, for the Government to present itself as a stout defender of the public interest in pluralism:

> Most of the rhetoric used by Ministers during the passage of the Bill was, in fact, rather *paradoxically*, putting themselves in the position of defending and re-stating the well-tried principles that the media were 'special' - the lifeblood of democracy - and sounding very much defensive of that policy. So, paradoxically, the Government came over very strongly as the proponent of that policy ...
> I say *curiously* because, of course, looked at over the passage of time, it looks like a very substantial liberalisation *indeed.*
>
> (Paul Bolt, DNH, 1997).

The danger that political factors may outweigh public interest considerations (of any kind) might be regarded as a general occupational hazard for regulation of the media. In

this specific case of the re-formulation of UK media ownership policy, it appears to have been a systemic failing of the process, in that it was not merely the Government - i.e. Conservative MPs - who were muted in their support for more effective restraints on excessive media power. During the Commons Committee stage of the Broadcasting Bill, the Government managed to resist a Labour supported amendment which would have allowed substantial further liberalisation of media ownership rules, only because of the support of the Liberal Democrats.

> The one thing that does very much stick in my mind is the extent to which (as we have subsequently seen in other areas) certainly in media ownership, the Labour shadow Government very much stole the Conservatives clothes at the time of the recent Bill, arguing for a much more deregulated liberalised position than many people on the Government side were. How far that was, as it were, special interest pleading on the part of the [Labour supporting] Mirror, for example, not to be excluded from the freedom to get into terrestrial TV, it is difficult to say. It certainly had the appearance of being somewhat opportunistic ...
>
> (Paul Wright, DNH, 1997).

Many within the industry echo this scepticism about the relationship between politicians and the press and, in most cases, their scepticism is not confined to any single political party:

> Politicians always approach it from a position of political influence - not from the consumer's viewpoint - because that is all they care about : how good a run the media is giving them...
> Regulators and politicians don't look up five years and think back; they think of media ownership rules in the context of their own constituencies and parliamentary seats.
>
> (Chris Innis, EMAP, 1997).

So, the absence of an influential supporting constituency for pluralism meant that it - the "main objective" for the new media ownership rules - became consigned to Ministerial rhetoric rather than any meaningful priority for those drafting legislative changes. Pitched against the desires of a much more powerful sectional interest - i.e. media owners - the arguments of those defending the public interest in pluralism left virtually no

impression or "mark" on policy making (Levin, 1997, pp38-41). What seems most surprising about this situation is not so much the political hypocrisy it exemplifies as the failure, at every level, to take proper account of existing media power as a potential and actual obstruction to the development, in the first place, of any supporting constituency for pluralism. Notwithstanding the acknowledged role of a self-interested media in creating the prevailing climate of opinion, no special steps were taken to promote public awareness and discussion of the issues outside of the media.

Furthermore, to the extent that there existed any political will even to reflect upon pluralism and on the possible socio-political or cultural consequences of reducing media ownership restraints, it seems that little in the way of independent analysis was available for guidance. The absence of relevant information upon which to base policy decisions signals a notable lapse from what might be expected under rational policy making conditions (Hogwood & Gunn, 1984, p45). DNH policy-makers relied instead on their "intuitions" about what levels of media and cross-media concentration of ownership would seem acceptable:

> The fact of the matter is that it was largely impressionistic. We hadn't commissioned any research and, indeed, the time-scale was such that one could scarcely have done that. We certainly constructed scenarios about the likely effect on the pattern of ownership within ITV. We looked at the likely pattern of newspaper-television alliances. But nothing on a very scientific basis.
>
> (Paul Wright, DNH, 1997).

Most striking, however, remains the issue that securing the approval of most media owners for where the new media and cross-media ownership levels would be set - or, as Paul Bolt put it, "getting the BMIG on-side" - was clearly regarded as the key imperative. This explains how pluralism slipped from the high status accorded to it in the policy agenda presented by Government to the public. Of greater significance is what it reveals about how policies involving the media take shape in this country. As previous writers in political science have suggested, policy-making may be inseparable from the

relationship between the institutions and machinery of Government and the wider political system (Levin, 1997, p51). Clearly, media owners are a significant force to be reckoned with in the wider political system in Britain.

Far from independently investigating, weighing up and seeking to uphold public interest principles of any sort, the main aim for UK media ownership policy-makers seems to have been to secure approval for their willingness to introduce whatever policy changes the majority of media owners were calling for. Ironically, it is precisely this scenario which exemplifies, firstly, the relationship between media ownership and political influence and thus, secondly, the importance of curbing ownership levels. In practical terms, it also reveals an inherent flaw within the mechanism by which the public are supposed to be protected from such abuses of media and political influence.

Notwithstanding the evidently overwhelming political impetus to concede many of the de-regulatory measures called for by media industry participants during the passage of the Broadcasting Bill, some countervailing arguments in favour of diversity also found sufficient backing to be incorporated into the new statutes:

> We tended increasingly to talk in shorthand about a concept called 'voice' which was a product of the two factors of plurality (of ownership) and diversity (of content).
> In practice, what the Bill ended up doing was sacrificing a bit of plurality - but not as much as it might have done - and trying to bolster up the direct controls designed to ensure diversity [of content] within a context of, perhaps, less plural ownership patterns. And there were various aspects to the legislation where that manifested itself (e.g. reinforcing regional programming requirements for C3/ITV ... making cross-media takeovers subject to a 'public interest test')...
> The general principle which we, probably more implicitly than explicitly, followed was that, if you're going to give more on plurality, you've got think very hard about whether you can afford the impact on diversity.
> And we also said that there were certain bastions which we firmly retreated behind and defended on the question of plurality; that it just wasn't going to go beyond *that*. And we defended the 15% audience share limit on television

> ownership with really surprising ease in the course of the Bill, and that is not amendable.
>
> (Paul Bolt, DNH, 1997).

The ease with which "certain bastions" - for example, the 15% audience limit on television ownership - were defended is not surprising since, in fact, these bastions already represented a substantially de-regulatory position, arrived at precisely in order to ensure the blessing of most large industry players. While there is no question that certain interest groups would have preferred even greater liberalisation of the rules than took place, the fact remains that the bastions which were defended by Government and policy-makers "on the question of pluralism" represented a quite substantial *increase* in allowable levels of media ownership and, thus, a reduction in prescribed minimum levels of protection for pluralism.

Nonetheless, accompanying measures aimed at safeguarding diversity of content - for example, those ensuring continuity of regional programming obligations within ITV- were strongly encouraged and endorsed by some smaller regional companies such as Grampian Television. Even with these extra safeguards however, some concerns about the effect of de-regulating media ownership were not entirely quelled. Within ITV, the removal of the 2-licence ownership limit and the creation of a 15% total television audience share limit instead has inevitably placed pressure on the federal structure which previously underpinned regionalism. According to Donald Waters, expansion and consolidation within ITV is creating unhealthy rifts:

> You have to believe in either one of two things: You either believe that regionalism works and is important or you don't. If you don't ... then it follows that there should be *one* ITV company - just one. Not fighting against itself and not having these internecine wars about London time splits ...
> You've got to accept some duplication of resources if you want regionalism ...
>
> (Donald Waters, Grampian Television, 1997).

The full duplication of resources required to sustain all regional programming commitments throughout the system is precisely what the additional regulatory safeguards in the 1996 Act are intended to ensure, irrespective of consolidation of ownership within ITV.[139] But residual concerns about encouraging consolidation are evident, not least because some ITV incumbents are less convinced of the inherent benefits of regionalism than others:

> ... I'm not sure I *do* believe in regionalism to be honest, and I'm not sure that the British public does. I just wonder if the public cares about regional opt-outs as much as the ITC thinks they do.
>
> (Janet Walker, Granada Media Group, 1997).

Some multi-licence holders may be inclined to view regional programming as a cost liability rather than a positive investment and, to the extent that this is so, there will be less support for initiatives which would strengthen ITV's regional flavour. Whereas the new legislation undoubtedly reinforces safeguards for existing regional programming, it does so in the context of having unleashed a period of consolidation that will de-stabilise the federal structure via which regionalism was the *raison-d'être* for ITV.

Likewise, the introduction of "public interest tests" (PITs) to be applied for cross-media takeovers at the regional and national level represents an effort by policy-makers to uphold the public interest in diversity, in the somewhat contradictory context of allowing far higher levels of cross-media ownership. The PIT is carried out by the relevant regulatory authority, whether the ITC or the Radio Authority, and involves consideration of the consequences - including issues of diversity - before giving final approval to any proposed cross-media takeover involving radio, television and/or newspapers. The criteria for the PIT are loosely defined in the 1996 Act and allow considerable discretion to the relevant industry regulator to decide what may or may not serve the public interest.

[139] As a poignant reminder of the concerns underlying Grampian Television's support for such safeguards, the company was taken over by Scottish Television (now 'Scottish Media Group plc') in June 1997, shortly after the field research for this study was carried out.

An example of the new PIT in action is provided by Scottish Television's takeover of Caledonian Newspapers in 1996. This was made possible under the new de-regulatory provisions on cross-media ownership in the 1996 Act, but was subject to a PIT since Caledonian's newspaper titles - the *Evening Times* and the *Herald* - serve part of the same area as STV's regional ITV service. The ITC carried out a PIT, taking into account "plurality of ownership, diversity of information available to the public, relevant economic benefits and the effect on the operation of broadcasting and newspaper markets", and concluded that the acquisition "may not be expected to operate against the public interest" (ITC, 1996). While no great detail of the reasoning behind the decision was announced, factors cited by the ITC in favour of the merger included "the current strength and diversity of the newspaper market in Scotland and the support for the transaction expressed by a range of respondents to the public consultation" (ibid.).

A crucial issue for any PIT to consider will be the ensuing market share or "voice" of the combined enterprise in its locality. As it happens, the *Evening Times* and the *Herald* are dominant titles in the local Glasgow newspaper market but, since the area covered by STV's television service extends to the whole central belt of Scotland, they represent a market share of less than 20% in STV's transmission area when taken as a whole. Any judgement about the effect on plurality depends on precisely which locality the regulator chooses to regard as the relevant market. In this case, a reduction in plurality of media ownership in *Glasgow* is allowable on the grounds of "diversity of the newspaper market in Scotland".

Of course, striving to maintain diverse ownership at the micro level of individual cities and towns would place very tight restrictions on expansion by local media operators. In the case of STV, the ITC was favourably impressed that "a number of respondents remarked on the fact that Caledonian would remain in Scottish ownership as part of a more substantial Scottish media group". What seems to emerge is a contradictory pull

between the public interest in diversity of ownership and the public interest in allowing "more substantial" indigenous media providers to develop.

This is a general and recurrent dilemma for media ownership regulators at all levels. If plurality matters, it must be as important at the local and regional level as at the national or European level. However, diversity of ownership at the micro level is much more difficult to safeguard since smaller markets will only support a limited number of players and, in this context, the strength of indigenous suppliers is a highly sensitive political issue.

For this reason, it can be argued that public interest tests which take account of the individual circumstances and consequences of any cross-media takeover are the best approach, since they allow regulators to judge how much diversity of ownership any individual local market can "afford", both economically and politically. On the other hand, if the principle of pluralism comes first, then more clearly drawn upper restrictions on cross-media ownership would have been a more effective option than the newly-introduced PIT, designed, as the latter is, to take account of other factors on a discretionary basis.

In the final analysis, the weight of the evidence above demonstrates that pluralism did *not* come first in the recent re-formulation of UK media ownership rules. The, as Paul Bolt concedes, "very substantial liberalisation indeed" ushered in by the 1996 Broadcasting Act allows for media in Britain to be supplied by fewer owners than before. Pluralism could only be defended at all during the passage of the Broadcasting Bill by first "buying off" a majority of the media with de-regulatory concessions. Whereas some "negotiating, bargaining and exerting of pressure" is not unusual within the process of reaching agreement on new policy measures (Levin, 1997, p45), what distinguishes this case is that few if any positive counter-concessions in the direction of protecting pluralism appear to have accompanied the extravagant shifts required to "buy off" media owners.

Against a background of no research whatsoever into the socio-political impact of these policy changes, it is difficult to say what consequences may emerge.

What is clear, however, is that existing levels of political influence on the part of the media mean that policy is predicated on the industry's requirements rather than the best interests of the consumer or society at large. In purporting to be democratic, the UK system of political decision-making implies uppermost concern with the latter - the interests and wishes of "the people" (Smith, 1974, p28). Thus, the situation exemplified by revisions of UK media ownership in the 1996 Broadcasting underlines concerns previously raised by leading scholars of public policy and policy analysis, such as Lasswell and Lindblom, about the impact on democracy of "the interests and manipulations of powerful elites" (Parsons, 1995, p614). As noted by many other theorists concerned with the role of the media in politics, democracy is particularly threatened when self-interested elites have the capacity to set policy agendas and manipulate public opinion (ibid, pp106-45).

From the point of view of society, the important concern may not be the many individual instances of enlargement and vertical or diagonal integration by UK media companies which recent regulatory changes allow. The strengthening of an indigenous media supplier in Scotland, for example, certainly has its attractions from a socio-cultural point of view. Taken as a whole, however, what these corporate changes represent is the reinforcement of political power for a commercial sector which shows no hesitation in using this power to promote its own interests, irrespective of other societal concerns. It would, perhaps, be unreasonable to expect an industrial sector which is empowered to influence its own regulatory environment to pursue any interest other than its own, and there can be no guarantee of a convergence between commercial and societal interests.

The need for policy-makers to "buy off" the media is, demonstrably, already present, and this raises a broader question about where exactly power is located in the construction of

public policy in this country. Many previous studies have drawn attention to the role of the media in the dynamics of agenda-setting (Parsons, 1995, pp113-14; Smith, 1976, pp57-61; Weimer & Vining, 1989, pp111-2;), even where the interests of media owners are not visibly at stake. If the need to "buy off" the media predominates over the design of public policy in one area, it cannot be assumed that such a need would not impose itself in other areas. If media owners are able to preside over the shape of policies which are supposed to keep their political influence in check, how can they be prevented from shaping policy is any other area they see fit?

(b) Effective and equitable constraints on any single owner's media power

> 'If one voice becomes too strong ... democracy is damaged.'
>
> (DNH, 1995a, p3).

Part of protecting the public interest in diverse media ownership is the duty, acknowledged in the 1995 Green Paper on Media Ownership, to place restraints on all media which prevent any single individual or organisation from gaining too much influence over public opinion. Judged by existing levels of media concentration in this country (as set out in the appendices to this same Green Paper) it would be difficult to say that this duty has been well served in previous legislation. At present, some 38% of national daily and Sunday newspaper circulations in the UK are controlled by a single commercial proprietor, News International.

A striking feature of the new media ownership legislation, acknowledged by many media owners themselves, is the continued failure of the Government to tackle the issue of equitable constraints over the share of media power enjoyed by any individual or organisation. The 1996 Act established upper ceilings on cross-media ownership, and on

monomedia ownership in both the television and the radio sectors. However, it does not establish any upper limit on ownership of national newspapers:

> There *is* a [public interest] case to say you don't want one person owning all newspapers. Funnily enough, the 1996 Broadcasting Act does not stop that [100% monomedia ownership]. You just can't *cross*-own. Brussels is doing the same, saying you can have any amount of newspapers but, if you want to cross-own, then there are limits.
>
> (Jane Reed, News International, 1997).

A number of explanations are suggested as to why this gap was not addressed in the Government's review and re-formulation of media and cross-media ownership rules:

> There never has been any upper ceiling on newspaper ownership other than that provided by competition law, has there? ... We did have the view at the time that this was supposed to be a *de*-regulatory measure; we were not supposed to be in the business of erecting new regulation in areas where it had not existed before. We didn't extend the logic of our controls to magazines, for example. We had nothing to say, of any substance, about new technologies in terms of Internet transmission and that sort of thing, and how that would feed into circulation figures for the purposes of market share. It was very much a rather old-fashioned look at the traditional media that had been subject to regulatory control over recent years.
>
> ... The other thing was, it is one thing to say that if Mirror Group wanted to acquire a TV station they could only do so by divesting one of their titles, but rather another to say that if News International wanted to continue as a newspaper publisher (leaving aside any of its other media interests) it had to divest. And, arguably, that was what competition law was already there to do. The converse argument would be that the only effective outcome [of monomedia newspaper restraints] would be that titles that would otherwise be saved (and, indeed, that was the rationale for letting NI happen in the first place) would be jettisoned and lost.
>
> And *politically*, I think both parties were so much in awe of Murdoch that it was hard to contemplate that as a policy response.
>
> (Paul Wright, DNH, 1997).

Paul Wright refers to the counter-argument that by setting upper limits on newspaper ownership and requiring some divestment by companies exceeding those limits, the future of some existing titles would become uncertain. This is a fair point since not all national newspaper titles are profitable and, for example, it could be difficult to find a new buyer for News International's daily title the *Times* (which is loss making). But even if large newspaper owners might, in some few cases, be supporting economically unviable titles, the question remains as to whether, in view of the political influence associated with newspaper ownership, the complete absence of any upper ceiling is justifiable:

> I don't think it is and I don't think the Government pretends that it is. We said, in the Green Paper that, in the longer term, the logic was to assimilate them [newspapers] in the overall system [of ownership controls] because of technological and market convergence. There are two reasons - one respectable, one possibly less so - which I think explain why it hasn't happened. The less respectable reason is, of course, precisely because newspapers which have got such a large share are so powerful that you don't want to annoy them (But that didn't cut much ice with the *Daily Mirror* in trying to extend its power). And the other was, it is much easier to stop a market getting out of control by these rules than it is to ask people to roll back...
>
> (Paul Bolt, DNH, 1997).

It may seem surprising that, in acknowledging the existing political influence of newspaper proprietors, policy-makers did not also see it as their job to do something about curbing this influence. Paradoxically, of course, their hands were tied since, as Paul Wright explains, "these decisions were political at root". The DNH, it would seem, was placed in the position of enacting the wishes of politicians and Government ministers who were "in awe of" media proprietors.

The most influential of these proprietors was a lobby group formed by most national newspapers - the British Media Industry Group (BMIG) - but which excluded the two largest newspaper owning groups, News International and Mirror Group. The extent to which the ensuing legislation reflects, first and foremost, measures which were

advocated by the BMIG provides a classic example of policy-making as a "selective response" to institutional interests (Levin, 1997, pp38-41). Cross-ownership between national newspapers and terrestrial television was liberalised, but (in an apparent concession to "pluralism") only for those newspaper proprietors with a share of national circulations of less than 20%. This 20% upper ceiling on cross-media expansion by newspaper proprietors enables all members of the BMIG to move into terrestrial television, but it excludes the two largest UK newspaper owning groups, News International and Mirror Group.

> The liberalisation in the 1996 Act was largely driven by .. [Newspaper Group A, B and C] ... They had a huge influence on that whole process and were successful. The way Westminster works is so sleazy and the next lot won't be any better - the only chance is Parliamentary reform...
> Those guys [Newspaper Group A, B and C] were big opinion formers - one the editor of a national mass-market daily. As media owners at the national level, their access to politicians, not just Tory politicians but *all* politicians, is incredibly good.
>
> (Chris Innis, EMAP, 1997).

> ... I think, undoubtedly, the campaign that the BMIG waged was extremely persuasive and it obviously suited Ministers politically to be able to accommodate them.
>
> (Paul Wright, DNH, 1997).

If the relaxation of cross-ownership limits between newspapers, television and radio in the 1996 Act suited "most" media industry participants, they were not received with equal enthusiasm by the two newspaper groups prevented from expansion into terrestrial television. Some people, even within the BMIG, were conscious that in seeking to exert some constraint over the expansion of what is perceived as the most powerful media baron in the UK - Rupert Murdoch - the simultaneous impact of the 20% cross-ownership ceiling in constraining one other smaller media company (with Labour sympathies) - Mirror Group Newspapers - was likely to unpopular in some quarters:

> It is interesting that the Labour Party has a different view on this [the 20% cross-ownership limits for newspaper proprietors]. I could understand Mirror Group's frustration - they are much smaller than News International. David Montgomery was outraged .. justifiably so.
>
> (Harry Roche, ex Guardian Media Group, 1997).

Outraged though he may be, David Montgomery is clearly aware of the questionable relationship between powerful media barons and politicians since he, as an earlier employee of News International, had witnessed what he perceives as a symbiotic relationship between Rupert Murdoch and the Conservative Government. Although (pitched against the proposals considered acceptable by the influential BMIG) News International was unable to bring about any greater liberalisation of the 1996 cross-media rules, Murdoch's influence with the Government is perceived as a powerful political lever which operates unfairly against the interests of other media industry players:

> The existing rules have not been applied at all in the case of News International. Everyone says that Sky is a wonderful example of entrepreneurial daring and risk of capital. The fact of the matter is that it was the Tory administration who gave Sky a waiver of the licence requirement - because BSB merged with Sky who, themselves, could not have a licensed TV service - completely flaunting the rules that were supposed to prevent monopolistic growth. That was nothing to do with entrepreneurial brilliance. Rupert Murdoch bet the ranch and almost lost it in a reckless move that no shareholder driven company would have allowed. And he was bailed out by a Government that was sympathetic to him.
>
> That's fine and that's part of his skill and I don't take it away from him (and I was part of the management that was behind that move). But it is wrong that history should decree that it was entrepreneurial brilliance when it was a *favour* he got through political means.
>
> And yet the same political establishment has got all these rules and regulations to frustrate anyone else from having an equal chance. And that has limited choice in pay-TV and jeopardised choice in newspapers (because of the recycling of revenues and cross-subsidy of newspapers from pay-TV revenues). Ultimately, that might extinguish some choice with newspapers, and it continues to frustrate other programmers from being able to reach the public through pay-TV...
>
> (David Montgomery, Mirror Group Newspapers, 1997).

The perception that NI's existing level of national newspaper ownership gives it a disproportionate influence over policy-making, which is duly deployed in its own favour, is widely and comprehensively corroborated by the company's competitors. Most rivals, however, are impressed with Rupert Murdoch's effective management of his own political influence and suggest that it is politicians who are at fault:

> You've got to take your hat off to Sky. There is a certain way of regulating politicians which he [Murdoch] has a talent for.
>
> (Chris Innis, EMAP, 1997).

> I admire Rupert Murdoch. He is a true media mogul and has run considerable commercial risks more than once. It's the politicians I have my doubts about.
>
> (Harry Roche, ex Guardian Media Group, 1997).

News International strenuously denies that there is any interference in editorial strategy by its owner although, in a contradictory vein, Jane Reed concedes that mass-market proprietors are talking to their editors "all the time".

The whole process of re-formulation of media ownership rules in the UK clearly exemplifies the strength and importance of the relationship between politicians and the press yet, understandable, there is a general reluctance to draw this issue into the public domain:

> There is a very big national interest in the relationship between Government and the media, but there is also a political dimension to it all. Whether it was .. [title X] .. that won the election for the Conservatives the last time or whether it will be .. [title X] .. that wins it for Labour this time you can discuss ... But it means that you may not get very open discussion about it, either from the politicians or maybe from the media.
>
> (Charles Stern, United News & Media, 1997).

The imposition of cross-media newspaper ownership limits which prevent the two largest UK newspaper groups from expanding into terrestrial TV can certainly be seen as defending the public interest in pluralism. But it is not the same thing as insisting that all

newspaper proprietors be brought back in within sensible or reasonable common upper levels of newspaper ownership. According to DNH policy-makers, existing excesses of media power provide the context in which, politically, no such changes could be contemplated, irrespective of the public interest.

Furthermore, the exclusion of News International and Mirror Group from the possibility of expansion into terrestrial television was not achieved without controversy - again, based primarily on allegiances between politicians and specific press groups. However, in determining where the upper limit cross-media newspaper ownership should finally be set, the public interest *did* make a decisive appearance. It emerged as a more important concern than political allegiances, but only on account of a random "event" during a crucial stage of the passage of the Bill (Levin, 1997, p44) - namely, some apparently ill-judged excesses on the part of the *Daily Mirror* .

> One of the important things that happened during the course of this Bill (and we were really on the ropes with the *Daily Mirror* - they waged a very personal and very strident anti- Virginia Bottomley campaign) was "Achtung Fritz!" ... the tone of coverage of the World Cup/ Germany thing. They [the *Daily Mirror*] did this in June, a couple of weeks before the Commons third reading debate on the media ownership provisions.
> Now, certainly, when we came out of Committee, it must have been a very moot point whether we would have won on continuing the 20% limit on newspapers cross-owning the C3 television broadcasters. But, really, there was a strong feeling, particularly on the Labour benches, naturally (even though the *Mirror* was Labour-supporting) - amongst those who still probably believed the true faith of people like the "Campaign for Quality Broadcasting" - of 'For God's sake, are these really the sort of people you want running a television station?'
> ... To be faced so flagrantly with what might apparently be the effect [of removing the 20% cross-ownership limit] - that was the killer! .. It became clear that this was not the climate in which to have an unholy alliance between the Labour front bench and the extreme right of the Tory party ...
> This was a real case of a particular event having a disproportionate effect ... it rekindled half-buried feelings.
>
> (Paul Bolt, DNH, 1997).

This landmark event was, apparently, a catalyst for more radically de-regulatory impulses within the Labour party (in sympathy with the Mirror Group's exclusion from the opportunity to move into terrestrial television) to be quashed by a resurgence of traditional concerns about standards in broadcasting.

In other, although by no means all, cases the sense of allegiance between politicians or policy-makers and particular industrial interest groups was, in itself, at least partly tied up with such ('public interest' type) notions of the preserving quality. The accommodation of such sympathies, however commendable or otherwise and in whatever limited form it took place, remains open to question insofar as that these tended *not* to be the concerns raised for public consultation in the Government's Green Paper on Media Ownership. In particular, the notion that the Government should "look after" ITV as a means of protecting quality television was not apparent in the official policy agenda presented to the public:

> David English and people [the BMIG] were clearly influential in arriving at the original settlement.
>
> But equally, I think, the C3 [ITV] companies were influential. For example, the most important change between the Green Paper and the Bill was the removal of any kind of numerical restriction on the number of C3 licences which you could own ...
>
> C3 are a substantial influence with us, and they are an influence not least because, to some extent, we see their fate as bound up with our aim for continuing quality worthwhile TV. Because we feel that the best chance, if we are going to continue to have commercial TV with public service obligations, we half-tended to feel that you have got to look after the Granada's of this world who, although they are predatory .., do actually have a track record of producing decent stuff. So, we felt that, to some extent, the economic and quality arguments coalesced there.
>
> (Paul Bolt, DNH, 1997).

Thus, far from striving to impose fair and equitable constraints on the voice of all media owners, it would appear that certain voices were considered preferable to others and, accordingly, their interests were advanced. In some cases, the preference for particular voices was based on concerns about quality and in others it was simply a matter of

political expedience. Whereas the former might be construed as a valid public interest concern, the legitimacy of introducing this priority and (in particular) of selecting the beneficiaries, without ever having raised this issue for public consultation or endorsement, seems rather uncertain.

The outcome of pursuing this deviant agenda, whereby some sectors of industry appear to have gained far more de-regulatory concessions than others, is a rather inconsistent set of media ownership controls in the 1996 Act. One very striking anomaly is that monomedia restrictions - acceptable upper limits of ownership for the television, radio and newspapers sectors - have been set at levels which are all entirely different from each other.

> Newspapers were the main protagonists lobbying for relaxation ... whereas the radio industry represent itself less effectively. Plus there were TV players lobbying as well and clearly their agenda was to consolidate the C3 [ITV] network, and that is exactly what they've done ... 15% [of television audiences] sounds very innocuous but, in terms of the commercial TV market, it is almost a 30% share.
>
> (Nigel Portwood, Pearson, 1997).

No upper limits on newspaper ownership whatsoever have been included and, whereas television ownership is restricted to a 15% share of total UK audiences *including* BBC audiences, radio ownership remains restricted to a 15% share of total UK audiences *excluding* BBC audiences. Given that the BBC enjoys a share of almost one half of total UK audiences both in television and in radio, the decision about whether to include or exclude those audiences when computing any other individual organisation's market share is of immense significance. The effect of including BBC audiences within the total television market is to almost double the size of that market and thus to double the audience share a commercial television broadcaster may serve, as compared with what is allowed for commercial radio broadcasters.

From the point of view of consistency, the switch of television ownership rules in the 1996 Act away from the old basis of number of licences held to, instead, an audience share criterion is clearly a wholly positive step. Nonetheless, it is difficult to see what justification there may be for including BBC audiences in the 15% upper limit when most people would regard television as a more powerful medium than radio and when, in practice, this inclusion serves to impose much tighter restrictions on radio than on television ownership.

> ... I think the fact of the matter is we felt that, just as a matter of practical impact that to allow someone more than 15% of the radio points, even excluding the BBC, was running the risk of giving someone a heavily influential position. So, in fact, *illogic* entered into it and potential embarrassment ... entered into our configuration of the rules here, and that's the top and bottom of it.
> ... Again, I go back to the politics of it. Smaller radio stations have a lot of friends and local radio is highly contentious politically - they can whip up a storm no problem in Committee, and I think that constrained the ambitions anyway of the [radio industry] 'fat cats', such as they were...
>
> (Paul Bolt, DNH, 1997).

Whatever intentions may have existed to produce a system of media ownership controls which would prevent any one voice becoming too strong and would prevent democracy being threatened, it is impossible to escape the conclusion that this problem already exists. Because the voices of certain media owners are already too powerful for politicians and policy-makers to adopt a truly independent and even-handed approach, the new media ownership legislation is awash with acknowledged inconsistencies which can now only serve to reinforce the problem.

> Of course there is a public interest case for limiting media ownership. But, at the moment, it's not the public interest but a *political* interest in most cases. And that is why a lot of the rules are designed to address the particular rather than the universal, including development. They are full of inconsistencies and loopholes because of addressing the particular, responding to lobbies and not exercising the foresight they (regulators) are capable of commanding.
>
> (Chris Innis, EMAP, 1997).

The conclusions which must be drawn from this are depressing: Excesses of media power in the UK are present to the extent that new regulatory curbs over it had to be negotiated first with the industry. The "settlement" arrived at was uneven, reflecting and reinforcing the strength of certain voices. Since the 1996 media ownership legislation was deregulatory in its thrust, there is little hope of it being more effective in curbing media power. The main impact it has had so far is to allow a reduction in the number of owners responsible for supplying (C3) terrestrial television and a reduction in the level of diversity of ownership between newspapers and the television industry.

Excesses of media power can and, evidently, do subvert the process by which elected representatives of the people construct public policy in the public interest. This is a serious matter of public concern but, since the *status quo* suits those empowered to instigate change, it will not be brought to the attention of the public through the usual channels of media and political discourse. Nor will it be remedied in the foreseeable future since MPs in both of the main UK political parties seem unwilling, or unable, to jeopardise their own interests by championing the restraints on media power which might restore democracy to health.

9.2 Promotion of Economic or Industrial Policy Aims

'Government has a responsibility ... to set the right framework for the industry to flourish'

(DNH, 1995a, p16).

(a) Competition in domestic media markets

One aspect of the Government's responsibility for setting the right economic framework for the development of the media sector is to create the circumstances under which

competition will flourish and take place on a fair and equal basis. For the media, as with all other sectors of industry, instances of anti-competitive behaviour tend to fall under the jurisdiction of competition law. Hence, competition issues (e.g. predatory pricing) are not generally seen as a specific concern for media ownership regulation. Whereas special media ownership restrictions (based primarily on the need for pluralism) provide a supplement to competition rules, they do not replace the need for competition legislation or for the competition authorities to investigate and deal with instances of restrictive or anti-competitive behaviour involving media companies.

With the highly concentrated ownership levels which currently exist in and across some sectors of the UK media, (notwithstanding the additional legislative safeguards provided in media ownership law), instances of anti-competitive behaviour have frequently arisen and have had to be dealt with accordingly under competition rules. Nonetheless, because both media ownership rules and competition rules are broadly concerned with preventing media owners from abusing their market positions (albeit, on account of quite different underlying concerns), there is a tendency for some industry participants to regard them as carrying out much the same function. Rather than viewing specific media ownership rules as a useful complementary tier of legislation which protects pluralism, some would rather see these done away with altogether in favour of a regulatory regime based solely on competition considerations.

> There is no need for most of the [UK media ownership] rules. I assume that they're to stop dominance but they're based on politician's paranoia ... politicians always believe that you should publish what they want to read about themselves, and not what they don't want. Politicians are the worst people to regulate the media because they have a vested interest.
> I think that normal monopoly rules should apply to the media. There should not be any rules over and above that. And they have to dismantle regulation through organisations like the ITC because its like living in a *nanny state*...
>
> (David Montgomery, Mirror Group Newspapers, 1997).

> My view is that you are better off using competition policy [than media ownership rules] with an OFCOM organisation who would test each case [of an acquisition or merger] using diversity as one issue.
>
> (Gus Macdonald, Scottish Television, 1997).

Commercial media operators tend to be sceptical about the need for virtually any regulatory constraints over their activities. In addition, David Montgomery makes the fair point that "vested interests" raise a concern about the suitability of politicians for the task of constructing media policy. Whether this implies that media regulation should be minimised and abandoned or that the process through which media regulations are constructed is in need of reform is debatable. However sceptical most media operators seem to be about the regulatory process, many exhibit an underlying sense of conviction that pluralism is, in its own right, a distinct and valid policy issue.

Harry Roche points out that the problem with merely using a public issue test approach is that judgements "depend on the Government of the day and how they are advised". Competition rules and the case by case approach are less likely to achieve consistency than clearly drawn media and cross-media ownership rules.

Nevertheless, a future era in which avenues of distribution for media were to become more plentiful might, at some stage, engender higher levels of market access and entry by new media suppliers. If and when such a situation were to arise, a more persuasive case would exist for setting aside special media ownership constraints. Meanwhile, existing levels of market domination by some media suppliers are a concern, not only because of the potential for anti-competitive behaviour, but also, as discussed elsewhere, because of their impact on pluralism:

> I do believe we need more safeguards than competition rules. The technology may, in theory, make it possible to do away with media ownership rules eventually. It could then be ruled by the MMC applying a test in *every* case with the *same emphasis*. This [inequality] is what has been wrong in the past.
>
> (Harry Roche, ex Guardian Media Group, 1997).

Although media ownership policy is not designed nor intended to deal specifically with issues of unfair competition between rival media suppliers, it is frequently held to blame for perceived inequalities of this sort. The perception that media ownership regulations fail to tackle competition effectively is, in some senses, understandable since, if dominant media owners are able to abuse their market position, it would imply a need for tighter restrictions over their market share.

> To me, it's not Murdoch's control of newspapers which is the problem [for media ownership regulators], it's his control over the gateway to television. Through BSkyB and his control over subscription technology, even the cable industry no longer has direct access to its customers. He has the most developed customer service function so he knows what people want to watch. He has real control of access to consumers' homes.
>
> (Nigel Portwood, Pearson, 1997).

> They've been so busy regulating TV as an old rationed service that they have missed the point: that someone has already got a complete monopoly on pay-television ...
>
> (David Montgomery, Mirror Group Newspapers, 1997).

The issue underlying these concerns is News International's ownership of the predominant conditional access technology in the UK. As BSkyB was the first to establish and market a conditional access technology system (developed by News DataCom - another News International subsidiary) for its subscription satellite television services, its system has become the *de facto* standard for anyone wishing to offer a pay-television service in the UK. A similar situation is expected to develop with digital television delivery as BSkyB plans to be first into the market selling consumers its own digital encryption system. Many of News International's rivals fear that BSkyB has or could try to exploit its "first mover" position to give it an unfair advantage over other aspiring entrants to the pay-television market.

Essentially, the concern here is with the potential for anti-competitive behaviour and, in the Government's Green Paper on Media Ownership, this has been deemed an issue to do with "the proper operation of the market" (DNH, 1995a, p18) and thus an issue for competition rather than media ownership policy. BSkyB might, for example, abuse its position by refusing or making access to the required technology awkward and expensive for potential rivals in the pay-television market. As a matter of course, such behaviour as might distort competition is delegated to the appropriate competition authorities - in this case OFTEL (the telecommunications regulator).

However, a confusion about roles and responsibilities is not surprising because, in addition to distorting competition, any instance of abuse of a "gatekeeper monopoly" in broadcasting would also have a detrimental effect on media diversity, the concern for media ownership regulation.

Coupled with this confusion, is the general impression that competition policy is not, at present, working adequately to deal with issues of anti-competitive behaviour arising from excessive or dominant market positions. For example, reassurances from OFTEL in a recent public consultation document that "the conditional access operator is under an obligation to offer technical conditional access services on a fair, reasonable and non-discriminatory basis" (OFTEL, 1996, p5) have clearly *not* extinguished the concerns expressed above. The feeling is widespread amongst media operators that issues of this sort *ought* to have been addressed within the context of the Government's recent review of media ownership policy - that, in some senses, the new media ownership provisions have overlooked some of the most crucial issues:

> The single most important issue in UK media at the moment is who controls the digital gateway and that has not been addressed by anyone or in any cross-media ownership rules...
> ... They could put a lot of pressure on Sky. Anyone can regulate Sky if they want to, but *nobody* wishes to do it. That is the key to it.
>
> (Chris Innis, EMAP, 1997).

If plurality and diversity are to be achieved, then account needs to be taken of technological developments affecting the structure of media supply which, in turn, affect *where* media ownership controls are needed. The new function, within television, of providing conditional access to subscribers, is an example of an activity which incorporates the power to either increase or not increase diversity of media supply. Therefore, even setting aside competition considerations, there is a case based on pluralism for extending the logic of media ownership controls into this area.

However, two major obstacles may explain why this has not taken place. Firstly, it is not clear how imposing ownership limits in an area where only one service provider exists (and, probably, is likely to be optimal), and where market entry may require extensive initial investment in research and development, would succeed in conjuring up an immediate diversity of other suppliers. Thus, the competition approach of requiring the existing monopolist to offer access to rivals "on a fair, reasonable and non-discriminatory basis" would appear to offer a more practical solution, whatever its own inherent weaknesses. Secondly, media ownership regulators, during the passage of the recent Broadcasting Bill, were clearly under the impression that their mission was to liberalise existing media ownership restrictions rather than to consider where and how the incidence of these rules should be amended in order to give more effective protection to pluralism. This is reflected in Paul Wright's earlier comments:

> ... We did have the view at the time that this was supposed to be a *de*-regulatory measure; we were not supposed to be in the business of erecting new regulation in areas where it had not existed before. We didn't extend the logic of our controls to magazines, for example. We had nothing to say, of any substance, about new technologies in terms of Internet transmission and that sort of thing ... It was very much a rather old-fashioned look at the traditional media that had been subject to regulatory control over recent years.
>
> (Paul Wright, DNH, 1997).

The justification for special media ownership regulation is to protect pluralism. However, since pluralism played second fiddle to "creating the right framework for the industry to flourish" during the re-formulation of media ownership rules in 1995-96, the question arises for many media operators as to why the Government did not address competition concerns. Such concerns, stemming mainly from what is regarded as excessive ownership across the supply and distribution chain for pay-television, are centred on a single operator who, it is feared, might well prevent the industry from flourishing outside of its own personal control. What is seen as the failure to tackle this situation is thus *also* perceived as a specific failing of media ownership regulation. The fact that this issue has been consigned to, and passed around between, a variety of UK competition authorities during the last two years is regarded as, quite simply, evidence of regulatory incompetence (or worse) rather than an acceptable logic for its exclusion from the 1996 Broadcasting Act.

The clear message is that it is becoming increasingly difficult to separate issues of pluralism from those of competition. This, together, with issues arising from the increasing overlap between previously separate activities such as broadcasting and telecommunications, is a problem which DNH policy-makers feel might be addressed at some future stage, were a new Labour Government to come into office.

Although not a firm pledge in its 1997 election manifesto, the Labour party has from time to time raised the idea of introducing a new "OFCOM" regulatory authority. Such an authority could take on broad-ranging responsibilities and would span both media and telecommunications. The key question of who will handle competition "still needs to be thought about" and, according to Paul Bolt, rival regulatory bodies are "calling the ground already".

> .. If I had to speculate [about what a Labour Government might do], I think that we will probably get legislation towards the end of the coming Parliament, which will deal with convergence as a whole - with the structures through which the media-telecommunications market will, increasingly, be regulated 'holistically'

> and that means regulation of systems and infrastructure; of competition and markets; of content. I suspect that some kind of framework will be created which will, *inter alia*, do something like the 'single multi-media market' that was floated in the 1995 Green Paper but, also, a lot of other things will have to come in too: the newspapers mergers provisions might come in; the controls of pornography and obscenity might be harmonised; the licensing system...
>
> We [at DNH] hope it will not be done in any monolithic way .. it seems to us that the best way to cope with the different and unpredictable pace at which these various aspects of convergence are going ahead is to have some kind of 'holding company' type system whereby they (regulators in various areas) *do* all co-operate with each other and, possibly, by order, the Secretary of State has the power to merge various functions and pootle about with the structure...
>
> But I don't think it can happen without two things: (a) a careful analysis of where the markets and the technology are really likely to go ... and (b) a hell of a punch-up within Government because these are all highly political issues
>
> (Paul Bolt, DNH, 1997).

Setting aside any possibility of an earlier European Directive on media ownership, an all out "turf war" to establish which regulators and priorities will guide the future development of the media appears the most likely context for any revisions in the structure of media ownership and/or competition regulation. In the context of such a battle, the *distinction* as well as the overlap between pluralism and competition (as concerns for media ownership regulation) would do well to take centre stage. Perhaps the best chance of this happening will be some realisation, as the impending battle looms, that the relaxation of ownership controls in the 1996 Act could serve as the catalyst for a more comprehensive unravelling of unwanted constraints and, indeed, unwanted regulators.

(b) Economic efficiency of media firms

The most important consideration guiding the re-formulation of media ownership rules in the 1996 Act would seem to have been creating the conditions for the media industry to "flourish", i.e. establishing a framework which would strengthen the economic performance of the UK media industry. Many large media industry participants had called for a general liberalisation of previous media ownership rules, based on the argument that this would enable greater efficiency and thus an improved economic performance by the sector. As acknowledged above by DNH policy-makers, it would seem that the Government found these pro-liberalisation arguments much more persuasive than the counter argument in favour of tighter restrictions to protect pluralism.

To assess the likely economic impact of the 1996 media ownership legislation changes, it is helpful to consider the relationship between *allowable* and *economically desirable* configurations for media firms. In order to fully exploit economies of scale and scope in the media, certain configurations are more desirable than others. Media ownership legislation in the UK, before and after the 1996 Broadcasting Act, places no particular constraints on very many potential configurations for a media enterprise; it has only ever affected levels of monomedia and cross-media ownership involving radio, television and newspapers.

The main impact of rule changes in the 1996 Act is to allow, for the first time, significant levels of cross-ownership between television, radio and newspapers and, also, to allow much higher levels of (terrestrial) television ownership than before. This will allow new configurations to flourish, but not all such configurations are "desirable" on the grounds of improved economic efficiency. According to the findings set out in section 6.7 above, the only change from previous restrictions which is unambiguously supported by the potential for additional economic efficiency gains is the relaxation of monomedia restrictions affecting the traditional sectors of the media. There is little or no economic

evidence to support a case for liberalising cross-media restrictions affecting television, radio and newspaper.

This is because, on the whole, the economic performance of television, radio and newspaper firms does point to clearly identifiable benefits arising from expansion *within* each of these individual sectors of activity. On the other hand, diagonal cross-expansion *across*, say, newspapers and television appears *not* to be well-supported by any specific economies of scope or inherent cross-synergies or "economies of multiformity" (Albarran & Dimmick, 1996, p41).

The removal of the 2-licence limit on ITV ownership, in favour of a common upper ceiling on ownership of 15% of the total UK television audience, has paved the way for additional consolidation of ownership in the commercial television sector (e.g. Carlton TV's takeover of Westcountry TV in December 1996). According to the evidence considered in chapter 7, this round of consolidation will yield some additional opportunities for television broadcasters to consolidate "back-office" functions such as finance and administration and, also, some opportunities to derive collective cost-savings on activities such as transmission.

> The media ownership rules prior to 1996 imposed constraints on LWT/Granada and on all the ITV companies because you couldn't have more than two licences. We [at Granada] haven't taken any action is response to the changes but we know we can do if we want, whereas before we couldn't even look at the possibilities... The trouble is that ITV's federal structure is incredibly debilitating, and the new rules go some way to correcting that...
> ... I think the new 15% ceiling on TV ownership is about right but I'm sure they'll want to revisit it in 2-3 years time, because it's such a fast changing environment.
>
> (Janet Walker, Granada Media Group, 1997).

As discussed earlier, the potential for additional cost-efficiencies through consolidation of ownership within ITV is, to some extent at least, limited by the obligation for all licensees to maintain regional programming activities (and investment in associated

resources), irrespective of any ownership changes. It is also limited by the fact that each regional ITV licensee already participates in a variety of collective cost-sharing arrangements (e.g. on network programming, transmission and airtime sales) which, in large measure, cannot be streamlined any further. Nonetheless, whatever additional cost savings can be achieved through consolidation (assuming, of course, no detrimental impact on the quality of programming output) must represent a positive benefit. The removal of waste - i.e. unnecessary duplication of resources - within the television industry is, undeniably, a desirable economic outcome (Martin, 1993, p266).

But a further consideration is *who* exactly enjoys the benefit from higher returns made possible through consolidation of ownership within the television industry? The only clear beneficiaries of ITV consolidation are ITV shareholders. It may well be argued that additional profits for special interest groups of this sort do not constitute a desirable outcome for public policy, especially if they are accompanied by any loss in welfare for the general public (Parsons, 1995, p523). However, the DNH is optimistic about the potential societal benefits of ownership consolidation within ITV. Their optimism is based on the idea that the ITV incumbents represent quality television and, thus, the public interest will be served if Government fosters their expansion both now and in the context of digital broadcasting:

> What we felt was - and this harps back to our half-acknowledged feelings about ITV - that we wanted these people to find money from somewhere for digital terrestrial and for continuing to put into original programme spend for the continuation of quality drama and regional programming and other things that we value about ITV output and they are forced to produce by the ITC.
> We thought, we want to make sure that these people are able to respond to the increasing competition from cable and satellite, and major investment decisions about digital terrestrial. We don't want them to respond to these forces by simply going into a cost-cutting spiral which they might do... So, we wanted to encourage them to be able to continue to expand but to produce more and to buy into digital terrestrial - these were mood noises that we were making to them in the background ... You wanted them to be forward looking and expansionist rather

> than cost-cutting and treating their C3 [ITV] franchises as a cash-cow for other parts of the business...
> They [the ITV companies] still have a very heavily symbiotic relationship with Government .. As long as they buy into the positive expansionist programme, they will tend to get a broadly favourable response from us...
>
> (Paul Bolt, DNH, 1997).

Although cable or satellite competitors might be surprised by this flagrant favouritism, it *is* the case that terrestrial broadcasters (such as ITV) are unilaterally subject to a range of expensive prescriptions concerning the content of their output which do not apply to non-terrestrial rivals. The DNH approach is to regard existing terrestrial broadcasters as a vehicle through which "psb" principles can be extended into the future of UK commercial broadcasting. Whether "mood noises .. in the background" will be enough to encourage shareholder-driven ITV companies to re-invest the proceeds of consolidation in sustaining output quality seems uncertain. But the Government still has other powers with which to exert a positive influence over ITV's output; for example, the re-negotiation of ITV financial bids due in 1999.

Even for those who would not automatically associate ITV with "quality", there are perceived economic benefits in removing ownership constraints. According to David Montgomery, there was never any point in sustaining a fragmented ownership structure within ITV since, as far as pluralism is concerned, the whole of ITV derives its main news service from a single separate provider - ITN. As far as competition is concerned, restrictions on ITV ownership are also ineffectual since they do not prevent incumbents from working together (in airtime sales) to take advantage of their dominant market position:

> Why have seven [ITV] companies all re-distributing *Coronation Street* with seven sets of costs? Because that is all that they do. They are only there because it was the Government's half-baked attempt to prevent monopolies, but monopolies are there anyway because they screw the advertisers and abuse their power.
> The Government's idea was that there is a dissemination of news and information and brainwashing programming that has to be contained and so broken up on a

> regional basis. But it is still a monopoly: in whatever ITV region you're in you still have to watch the same channel, so it is half-baked...
> As competition increases, ITV will have to consolidate into one network. But I don't know what they were trying to prevent in the first place. Is the plot of a soap-opera so insidious that a proprietor will be able to control the minds of half the nation? I doubt it and, anyway, ITN is safeguarded in all sorts of ways. And, even if you could control it, what would be the point?
>
> (David Montgomery, Mirror Group Newspapers, 1997).

According to this position, if there are no positive gains to be made from imposing restrictions on ITV ownership, then no harm can come from removing them. However, the objective behind a federal regional structure for ITV was not so much promoting political pluralism as *regional* diversity, and regional diversity remains a property of the ITV system, in some cases possibly only because of regulatory protection. Nonetheless, allowing consolidation of ownership through the changes introduced in the 1996 Act is clearly justified to the extent that ITV's programme service may be delivered more cost-effectively by fewer owners, and so long as this is achieved without a reduction in the consumer value generated by ITV's output (i.e. so long as efficiency gains are not achieved at the expense of viewer welfare). More time is required before any firm conclusions can be drawn regarding the latter.

A questionable aspect of this policy change is, again, the underlying presumption - without any apparent public consultation or remit - about the need to make the current set of ITV companies wealthier. In its favour, however, is the evidence considered in chapters 6 and 7 which suggests that consolidation of ownership in the television sector would actually provide the opportunity for additional cost-efficiencies.

The evidence that increased cross-ownership between television and newspaper operators - the other key de-regulatory concession afforded in the 1996 Act - would give rise to any economic benefits is far *less* compelling. Indeed, DNH policy-makers seem well aware of this:

> At various points the newspaper industry argued that there were cross-synergies, but the television side always denied that this could ever be the case. The basis of news reporting for newspapers was entirely different from that in news-reporting for television. You'd never get common news outfits to be able to deal both with printed or spoken and visual images. So, I'm surprised if that was thought to be a major part in the argument...
>
> (Paul Wright, DNH, 1997).

The reason why cross-synergies might be perceived as a major impetus for de-regulating cross-ownership in the 1996 Act is because this is the key argument in favour of de-regulation put forward by the industry in its submissions to Government and, in turn, it is precisely the argument in favour of de-regulation which is set out in the 1995 Green Paper on Media Ownership :

> 'The Government believes that it is essential that the media ownership regime should allow the media sector to develop. The similarity of functions which newspapers and broadcasters undertake in terms of collecting, editing and disseminating information, news and entertainment, means that there obvious and natural synergies between companies within each sector, and that it is the interests of both the industry and the consumer to allow larger media companies to develop.'
>
> (DNH, 1995a, p20).

If, in fact, the Government was deeply sceptical about the existence of "obvious and natural synergies between companies within each sector", it nonetheless chose to adopt the arguments put forward by the newspaper industry in favour of de-regulating cross-ownership between the newspaper and television industry:

> What can I say? These were *political* decisions at root. Where it was convenient to try and have a veneer of an economic case, that case was deployed. But I certainly wouldn't want to leave the impression that it was economic arguments, rigorously constructed, that determined policy.
>
> (Paul Wright, DNH, 1997).

Even if Ministers or policy-makers *had* wished to go beyond the "clearly self-interested" submissions of industry participants in order to establish what the economic implications might be of amending UK media ownership legislation as certain industry groups saw fit, it would have been very difficult for them to do so. No research was available, nor was any commissioned, which would provide an independent assessment of either the economic or any other implications of altering the rules:

> We didn't do anything beyond keeping generally listening to a plurality of voices from analysts of the markets ... it would be idle to pretend that we instituted properly rigorous scientific or economic analysis specifically to buttress our policy conclusions. That would be to porter with the truth... This is too political a market to regulate primarily because of economic objectives, although the latter will set the parameters of what you think you are seeking to do ...
>
> (Paul Bolt, DNH, 1997).

It seems surprising to learn that, from a Government motivated to promote the economic prosperity of industry, there was no impetus whatsoever to conduct an independent assessment of what policy changes might best bring that about:

> Very hard to do in the absence of independent research which, as I said, the time scale didn't allow us to do. And I'm not sure that Ministers were quite in the business of saying 'Let us base this on independent research'. One took a lot of one's information obviously from the materials the companies supplied.
>
> (Paul Wright, DNH, 1997).

A more compelling explanation for formulating policy without recourse to appropriate information gathering and analysis could be the desire to avoid acknowledging falsehoods or illogicalities in the "economic" argument used to support the preferred course of action. "[H]idden value judgements" could not have survived a process of explicit research and analysis (Carley, 1983, p33). The intentional withholding of detail may "obscure inconsistency or lack of agreement" (Levin, 1997, p35). Any inconsistency between the findings of independent research and the economic rationale adopted by

Government in favour of deregulating media cross-ownership would have been politically inconvenient.

According the evidence considered in chapter 8 above, independent research most likely *would* have contradicted the "veneer" of an economic case put forward to support de-regulating cross-media ownership - a possibility which cannot have escaped the attention of DNH policy-makers:

> I have certainly heard it plausibly stated by some of these afore-mentioned publications into which I have dipped by way of generally informing myself that it is dubious how far there really are transferable benefits, and how far - whatever the talk is about technological and market convergence - the same skills are needed in the different media and are transferable, and the business knowledge of how to succeed in one medium may not transfer particularly easily to another. And ... even between radio and television.
>
> (Paul Bolt, DNH, 1997).

If this veneer were scratched away, what would remain is an argument, based purely on the strategic self-interest of certain newspaper groups, to be allowed to expand from a stagnant industry into a growth area (Martin, 1993, p278).

> Frankly, the argument that really impressed Ministers was that print was a medium without a lot of obvious expansion potential ...
>
> (Paul Wright, DNH, 1997).

But, in any event, newspaper groups were not prohibited from expanding into cable and satellite television prior to the 1996 Act. What the 1996 Act allows, for the first time, is for most (but not all) newspaper groups to expand into *terrestrial* television, a much more developed and lucrative sector of the television industry:

> For example, ..[TV company A which merged with Newspaper company B] .. are *not* into it for the synergies - they are into it for *continuing* business... They .. [Newspaper company C, D, E and F] .. lobbied against us, but there wasn't anything Rupert was doing which they couldn't have done - that is what is

> extraordinary. They could have gotten into satellite television if they had wanted to; they just wanted the very fast rewards of terrestrial television, where it covers the country ... a licence to print money, etc. They *had* to lobby against us [NI] to make their point. I don't mind about this because everyone is always against us; but I do mind people saying they can't do something (own TV as well as newspapers) when they can!
> There is *not* a lot of cross-over in editorial, production or distribution techniques between TV and newspapers ... There was a lot of hype about cross-synergies ... but the principal advantage is that you need to be in a continuing business. Newspaper publishing is not a growth area ... The main purpose of the 1996 Act, as I saw it, was to give these four newspaper companies [the BMIG] a nod to say, firstly, the ITV companies can take each other over (which seems to make sense in some ways) and then to allow cross-ownership [between newspapers and terrestrial TV].
>
> (Jane Reed, News International, 1997).

Since cross-synergies are not a strong feature of the newspaper and television industries (by whatever method of delivery), there is little or no economic justification for instigating policy changes which allow newspapers to expand into terrestrial television and vice versa. However, as the policy-makers responsible for drafting these changes indicate, it clearly suited Ministers to accommodate the private commercial interests of a powerful newspaper lobby, for political reasons. In other words, far from investigating which policy changes might have encouraged greater efficiency, the Government based its new media ownership regime on industrial arguments which, it emerges, were clearly recognised as specious but, nonetheless, were drafted wholesale into Ministerial rhetoric and into the design of the legislation itself.

Thus, rather than fostering any enhancements in resource allocation in the British media industry, the main effect of these policy changes is simply to enable certain existing players to bolster their own individual commercial prospects. Although many television and newspaper companies are obviously pleased with the success of their lobbying efforts, there remains some scepticism about the broader impact of the 1996 de-regulation of cross-ownership rules on the economic efficiency of the sector:

> I don't think the new rules make any difference to the economic prospects for the sector and I think the world has moved on .. it is all going to be irrelevant. We are at such a cross-roads and media will become much more dysfunctional over the next 5 years .. we've got a whole generation coming up who won't source its stuff from the traditional media...
>
> (Chris Innis, EMAP, 1997).

(c) International competitiveness

> 'Our proposals will liberate British broadcasters to become world leaders'
>
> (DNH, 1995c).

By itself, economic efficiency was not the only argument in favour of allowing larger media enterprises to develop. One of the key factors cited as lending weight to the case in favour of liberalisation was the need to help UK media organisations compete more effectively in overseas markets.

The Green Paper on Media Ownership suggests, without explaining exactly how, that liberalising domestic UK cross-media ownership rules will benefit the performance of UK media firms in overseas markets (DNH, 1995a, p20). But none of the media firms interviewed in the course of this study expect their export performance to be affected by the new rules and most seemed bemused by the suggestion of a link between domestic rule changes and likely exports performance. In spite of what might be called "hype" about globalisation, most UK media firms appear to be clearly focused on the domestic UK market and show little sign of altering their outlook on account of the 1996 Act:

> While bigger media companies may enjoy higher profits in the UK because they are larger and more efficient, it doesn't actually help them in terms of exports because this is not really a global market at the moment...
> That sort of speak (the need to create globally competitive players) was at the heart of competition policy in the 1980s. The same thing was said for airlines and then for telecoms ... it's all about backing national players which could become competitive globally .. backing winners. It works better in airlines and telecoms where regulations have fallen away in other countries aswell *and* where it is truly a global market with a global customer base and real international transactions. But it's not like that for TV or newspapers. TV is obviously a local thing... it is amazing how badly and how little television content travels. Everyone thinks BBC quality drama and ITV output does well overseas but what sells is only a fraction of their programme budgets... The same goes for newspapers.
>
> (Nigel Portwood, Pearson, 1997).

Again, a discrepancy emerges not only between the stated aims and the likely effects of the 1996 media ownership rule changes, but between the stated aims and the underlying beliefs in Government about what results were possible and desirable.

The 1996 Broadcasting Act was not only concerned with de-regulating media ownership but also with introducing digital terrestrial broadcasting. One of the industrial policy aspirations associated with the latter is that a market for the manufacture of digital receiving equipment will develop in the UK ahead of other overseas markets. This objective can be distinguished from the likely impact on media suppliers of liberalising cross-media ownership:

> ... If we had really wanted to promote exports of British television programmes, I rather doubt that allowing further consolidation would be high up the list of things you would do ...
> Within the television programme industry there are very few key players, and they can very easily come to collaborative arrangements, even including the BBC, .. [to sell their products in overseas markets].
> I don't think we can, below the level of rhetoric, put much weight on that. [But] A lot of the international rhetoric was more about thinking wouldn't it be great if

> we were the first into digital terrestrial and could open up a big new market for producing the kit?
>
> (Paul Bolt, DNH, 1997).

Promoting the market for equipment manufacturers *is* a valid policy aim and one which is included in the Government's Green Paper on Media Ownership (DNH, 1995a, p16). But, as Paul Bolt suggests, this is a separate matter from encouraging an improved overseas performance by indigenous media suppliers. As far as the exports performance of UK media suppliers - television, newspaper and radio companies - is concerned, the ownership provisions in the 1996 Broadcasting Act will have had little or no impact. Nor, apparently, were they ever really intended to since, as Paul Bolt admits, "a *lot* of our economic focus was UK-bound".

However, even if liberalising media ownership rules has no immediate impact on exports by domestic media suppliers, there is still the possibility that it may indirectly contribute to their expansion into overseas markets. David Montgomery of Mirror Group Newspapers suggests that "Britain is only a tiny country and all its media companies are tiny compared with world players". Janet Walker of Granada Media Group, for example, hopes that higher ownership ceilings "would make companies stronger, larger and more capable of forming overseas alliances". Many industry participants suggest that because larger companies tend to have more capital for investment in new areas, it follows that larger media companies have greater potential for overseas expansion:

> You can't sell more programmes overseas because you own a newspaper, and I wouldn't claim that .. It's just that larger scale helps; if you are bigger and stronger you can invest more.
>
> (Charles Stern, United News & Media, 1997).

Not surprisingly perhaps, smaller companies would tend to dispute the relationship between size and inclination to innovate or invest in new technologies:

I don't think you need large, widely spread media companies to get investment in state-of-the-art technology. We [at Grampian] keep right up-to-date ... maybe because we are smaller we are more sensitive to changing technology, and can appreciate the effects it will have more quickly .. Grampian was the first with a portable single camera transmission system in ITV, the first with automated studios .. [etc.].

(Donald Waters, Grampian Television, 1997).

The fact remains that the range of corporate strategies and opportunities open to individual firms will be affected, at least to some extent, by the scale of its existing resources (George, Joll & Lynk, 1991, p101). On the other hand, the propensity to take risks is, arguably, a *more* crucial determinant of successful expansion into new product and geographic markets than company size (ibid, p32). For Jane Reed, the suggestion that UK media companies need the Government's backing (via a relaxation of monomedia and cross-media ownership constraints) in order to expand, in itself, signals an aversion to the risks necessary for major international success:

I have never understood this argument. The only thing stopping British media companies from becoming large players was vision and guts... [and investment] .. But investment involves putting up with reduced revenues for a time - This is what happens to NI all the time, e.g. when we invested in Star TV in Asia, it lost a lot of money initially. All components of the Group have to cut back in order to feed what we know will be the future - China and South East Asia. You don't get nowt for nowt...
Media companies over here are not prepared to do that. They needed the Government to say 'OK, you can get bigger'. In my view it will be a long time before they are large enough to become world players ... If they want to get onto the scale of Time Warner, News Corporation or Disney then they've got to do some very much bigger things and very soon.
News International *is* a national player; it is playing in Europe for Britain, not Australia or the US... To actually make us hold back while these others slowly and laboriously get big enough is just sad for Britain.

(Jane Reed, News International, 1997).

Others echo the view that it is not necessarily the scale of existing resources that counts when it comes to successful expansion into new product or geographic markets. Indeed, many theorists have suggested that large firms tend not to be as inventive, innovative and adaptable to change as their smaller rivals (George, Joll & Lynk, 1991, p126). In fact, it can be argued that size is likely to impede a firm from responding quickly to new opportunities ahead of its competitors :

> Of course, larger integrated media companies, in theory, have the resources and inclination to invest in developing these new opportunities. But few of them are actually doing so. I think that the dilemma that large media companies have with new media is that the people who have to give the final view on it come from the generation before. So, unless you've got some people who have incredible insights (e.g. Bill Gates or Rupert Murdoch) *and* who control the company, to just reconfigure a company quickly, just like that (at the click of a finger), is very, very difficult.
> Most people see new media as a threat rather than an opportunity and are reacting against a threat rather than in favour of an opportunity. With that mindset, you tend to operate more opportunistically; you tend not to think strategically, you don't invest for the long-term. You'd rather kill it than develop it.
> New media is not about a lot of money. The most successful companies have been built on very little (e.g. Reuters, BSkyB, Microsoft, Netscape). Having the size may give you the resources but it does not necessarily give you the vision and the mindset and the environment in which people will think creatively...
> Our biggest inhibitors at EMAP are our top 60 managers, including myself, because we've got most to protect. It's much easier to say 'no' because you start off from a position where you think you've got everything to lose instead of something to go for...
>
> (Chris Innis, EMAP, 1997).

The suggestion that enlargement may breed a counter-productive internal inertia could apply to firms in any industry at any time. Business are founded by entrepreneurs but, as the scale of operations increases "inefficiencies may arise from delayed or distorted information flows and the intrusion of managerial subgoals" (Moschandreas, 1994, p126) including, as Chris Innis suggests, the goal of risk avoidance (George, Joll & Lynk, 1991,

p43). But flexibility and vision are especially important in the media at the present time because of the dynamism created by advancing technology. In addition, since the main opportunities for international expansion appear to centre on newly emerging communication infrastructures such as the Internet rather than "traditional" media products, it is difficult to see how encouraging domestic concentrations of ownership within these traditional sectors would necessarily play to the international competitiveness of the industry.

However, if the media ownership rule changes in the 1996 Act have little or no impact on the international performance of UK media suppliers, it may well be because, in reality, the "international competitiveness" dimension was dismissed at an early stage in the re-shaping of the rules and consigned thereafter to Ministerial rhetoric. Even while the 1995 Media Ownership Green Paper was being conceived, it was clear that domestic imperatives - although not necessarily those supported by an "economic" case - would be the key priority:

> Dorrell [then Secretary of State for NH] was .. deeply sceptical about a number of the economic arguments that had been produced and he thought that there was no evidence that extra consolidation would bring about overseas expansion. I think, for the most part, that the evidence so far supports that. He was anxious really, by the end, to get a pattern of regulation which responded to immediate domestic need and produced a defensible regulatory system. He wasn't excessively influenced by economic considerations and tended slightly to dismiss such economic research as we had.
>
> (Paul Wright, DNH, 1997).

9.3 Influence on policy-making of an expanding international media economy.

If the issue of "globalisation" was more a matter of Ministerial rhetoric than a genuine policy priority during the formulation of new media UK media ownership rules, the

Government was not entirely in a position to ignore developments at the European level. As discussed in chapter 5, the European Commission has been trying, at various intervals since 1992, to bring into shape a European-wide policy initiative on media ownership. Its failure to do so has, thus far, spared UK policy-makers any need to transpose European thinking into domestic UK media ownership legislation.

Bearing in mind the contradictory forces at work shaping the European Commission's efforts to initiate a policy in this area and, in turn, the unpredictable nature of any Directive which might have emerged from Europe, the main concern for DNH policy-makers at the time of the Green Paper and Broadcasting Bill was to avoid any politically embarrassing appearance of a clash between the UK and pan-European media ownership policy agenda:

> It was an issue that was very much around when we were doing the Green Paper because at that stage it looked as if publication of the Green Paper could almost exactly coincide with publication of a proposal from the Commission which would not be consistent with what the Government had put in the Green Paper.
> I recall that we had a lot of argument to and fro with Ministers as to whether it was better to publish our proposals in the hope that that would influence the European debate or to wait until the European proposals had come out, because otherwise it could be politically awkward for the Government if they had to backtrack from proposals they had already made. And it would play very badly into the Euro debate if, as it were, under pressure from Brussels, they had been forced to abandon what they had otherwise thought right for regulation in this country.
> In the event, we decided to push ahead with it. There was a legislative slot for the Bill and if we didn't do so we would have lost that. And events have obviously proved that right in terms of the much delayed and, apparently, much defective [European] proposals that have now come out.
>
> (Paul Wright, DNH, 1997).

Since no international or European-wide system of media ownership regulation is in place, such a dimension did not need to be incorporated within the drafting of UK media ownership rules in the 1996 Broadcasting Act. On the other hand, the boundaries

surrounding national political systems are "no longer impermeable to outside pressures and influences" (Parsons, 1995, p232). UK policy-makers are by no means insensitive to de-regulatory cross-currents at an international level and, indeed, these are alluded to in the Government's Green Paper on Media Ownership (DNH, 1995a, pp9-10). Even though (as discussed in section 9.2b above) concerns about international competitiveness were largely dismissed in favour of "immediate domestic needs", the existence of these concerns for many media companies left some impression on their successful case for de-regulation.

The international regulatory dimension will also re-surface eventually since any future European initiative would require a re-visitation of the media ownership provisions in the 1996 Act and, evidently, there is considerable determination in some quarters of the Commission to introduce such an initiative. But, as discussed in chapter 5, it is proving extremely difficult to achieve a consensus amongst all European Member States about the substance of such a European-wide policy, so the time scale for any re-visitation of the provisions set out in the 1996 Act is rather uncertain.

The DNH is responsible for responding to and working with the Commission on the shape of the new pan-European media ownership policy initiative. The position it is representing on behalf of the UK can be summarised as follows:

> There is a single market case for saying that these media ownership rules (over and above competition rules) in Member States ought to be of a relevant calibration and reasonable transparent and relevant (i.e. based on market share not nationality) .. [But] .. they have [in the most recent draft proposals] gone for quite *excessive* harmonisation ... In particular, why there should be the same percentage market share controls in all the various regional and national markets that exist in the EC escapes us. Why on earth should a country the size of the Netherlands or Portugal have the same aggressive interventions to ensure plurality as a country the size of Britain?
>
> ... Our view is we have the usual objections about subsidiarity and proportionality here, *in spades*. We don't deny the desirability of some more modestly specified initiative but the latest intelligence is that this is several years off, and they have a lot of work to do before they get all the Member States on-side.
>
> (Paul Bolt, DNH, 1997).

Thus, whereas ever-increasing instances of growth and international expansion by "foreign" media players may well continue to play into a deregulatory mindset in industrial (and, in turn, policy-making) circles, it seems unlikely that the arrival of a co-ordinated international policy response will, at any early stage, be the cause of re-opening the UK media ownership policy debate.

Chapter 10

Conclusions

10.1 Ownership of the Media Matters

The issue of who owns the media, and how much they may own, matters. But why these issues matter depends on the perspective from which they are approached: "En effet, les débats sur le pluralisme des médias proviennent des perspectives dimentionelles qui cantonnent les médias à des activités commerciales classiques ou à des systèmes techniques pour la transmission de l'information ou à des simples instruments politiques ou culturels" (Sánchez-Tabernero, 1993, p13).

Decisions about whether and how to regulate ownership of the media will call for reflection on what the consequences of concentrated media ownership might be, and *for whom*. Fundamental political questions arise as to whose interests a policy in this area ought to favour, and which regulatory design will best serve those interests.

A great many writers have focused attention on the fact that ownership of the media matters to individual consumers and to society at large (Murdock & Golding, 1977; Lange & Van Loon, 1991; Tunstall & Palmer, 1991; Sánchez-Tabernero, 1993; MacLeod, 1996; Humphreys, 1997). It matters to consumers because a number of potential harms may result from concentrated media ownership, including the abuse of political power by media owners or the under-representation of some important viewpoints (Murroni et al, 1996, p28). "Le type d'influence que la concentration des médias exerce sur la société et le public déterminera les décisions politiques à adopter" (Sánchez-Tabernero, 1993, p189). Individuals and societies have a need for diverse and pluralistic media provision.

Recognition of this *societal* need for pluralism has, historically, been the principal rationale for regulation of media ownership, in the UK as elsewhere.[140] However, ownership of the media matters to society, not only because of the need for pluralism, but also because ownership patterns may affect the way in which the media industry is able to manage the resources available for media provision. Restrictions on media ownership could, for example, result in duplication of resources which prevents the industry from capitalising on all potential economies of scale. This latter consideration is not solely a matter for broad societal interest, but is obviously of immense and particular concern to media firms.

This study has sought to address the question of what, if any, economic or commercial benefits may be associated with enlarged and diversified media firms. In the context of media ownership regulation, this question may be re-stated as: What are the economic and commercial opportunity costs of restricting media and cross-media ownership? A central focus for this research has been the perspectives of managers of commercial media firms as to why ownership matters. These are important witnesses, but their views should not be taken uncritically. The very reason why *industrial* perspectives have been the main subject for analysis here is precisely because little or no previous empirical research has been initiated to explain, substantiate or test such perspectives. Nor, in the mediation of such perspectives, has there been any evidence of an effort to distinguish between, on the one hand, the economic efficiency of the media industry (a matter of public interest) and, on the other hand, the financial prospects for particular commercial firms (a matter of interest for private shareholders).

Yet, even without any supporting research, industrial or 'economic' perspectives seem to have become increasingly influential in determining media ownership policies in the 1990s (MacLeod 1996; Humphreys, 1997; Schlesinger & Doyle, 1995). The elevation

[140] However, as discussed in Section 5.2 above, this has *not* been the case at the level of the EU. Since pluralism *per se* does not provide a legal basis for Community level intervention in media ownership regulation, the European Commission's efforts to bring forward an initiative in this area have instead been based on promoting the Internal Market.

of industrial interests may, at least in part, be attributed to "technological mystique" (Hitchens, 1995, p640) surrounding developments such as convergence and globalisation, and to the perception that somehow policy-making ought to help industry capitalise on such developments. However, any "rational" model of policy-making requires *de*-mystification of the issues as an essential and fundamental stage in the process (Carley, 1980, p11.; Hogwood & Gunn, 1984, pp44-7; Weimer & Vining, 1989, p183).

Ownership and control over the media raise special concerns which do not apply in the case of other sectors of industry. Now, as ever in the past, the question of why exactly ownership of the media matters is worthy of examination, and at its most fundamental level. In order to set goals for a media ownership policy in the late 1990s, there needs to be an informed understanding of what the non-economic and economic consequences of different patterns of media ownership might be. It may not be easy to reconcile non-economic and economic concerns within a single regulatory framework, but a good starting point would be to investigate these concerns thoroughly and to analyse how they might reasonably be weighed up against each other.

One of the most worrying findings of this study has been the dearth of such investigation or analysis. The ideology guiding media ownership policy in the UK appears to have shifted quite dramatically, but without any properly supported case for this shift. The public has been effectively "sold" the notion that the economic opportunity costs of restricting media and cross-media ownership in the 1990s have become too great to allow for the continuation or strengthening of previous measures to safeguard pluralism. But the precise nature and extent of such opportunity costs has remained shrouded in "technological mystique".

This research has aimed at drawing aside this shroud. The primary purpose of so doing has been to assess whether or not the arguments offered by industry provide a persuasive economic case in favour of de-regulating media ownership. A key finding of this

research is that, in terms of promoting economic efficiency, common cross-ownership across the traditional sectors of the media matters *little*. There are few if any real economic benefits to be had from cross-ownership of television broadcasting and newspaper publishing.

However, what lurks behind the shroud of technical mysticism is not merely a flawed and unsupported industrial case in favour of de-regulating media cross-ownership. What also emerges is, first, outright cynicism on the part of UK policy-makers as to the genuine merits of this case - notwithstanding the fact that the Government has professed to the public "obvious and natural synergies" between newspapers and broadcasters (DNH, 1995a, p20) - and, second, considerable indifference as to the public interest implications of changing policy to accommodate it.

This leads inexorably towards a third category of interests which are particularly affected by media ownership; namely, those of *politicians*. As many previous writers have suggested (including Humphreys, Murdock, Tunstall and Williams), the issue of who owns and controls the media, and how much they are allowed to own, matters to politicians. It matters because, as exemplified in the notorious case of the Berlusconi media empire in Italy (but, on a lesser scale, is frequently evidenced in the UK), media have the power to make or break political careers.

Although this research was inspired by an interest in the economic consequences of expansion by media firms, the discovery that empirical evidence contradicts economic claims in favour of de-regulation of media and cross-media ownership has drawn the emphasis of the investigation (and its key findings) from economics into policy analysis and political science. The evidence gathered in the course of this research demonstrates that, rather than either economic goals or socio-cultural concerns about pluralism, it is principally *political* objectives which have determined UK media ownership policy in the mid-1990s. The re-design of media and cross-media ownership policies has relied on no

objective investigation and analysis of the public interest in pluralism nor, indeed, has the public interest in improved economic and industrial efficiency been properly examined. Instead, with the primary motive of avoiding political discredit, politicians and policy-makers have apparently bent willingly to the wishes of particular self-interested media industry groups.

As Hitchens (1995, p629) has suggested, the absence of systematic research and analysis of policy options has important implications. The dearth of such analysis ahead of the 1996 Broadcasting Act certainly appears to have conferred some useful benefits as far the political body is concerned. Firstly, the submissions to the DNH from influential industry groups calling for de-regulatory measures had been packaged in an economic "veneer" which translated conveniently into triumphalist Ministerial rhetoric.[141] By not undertaking any further independent research, the probability of a mismatch between the findings or recommendations of such research and the policy agenda that those in power wished to pursue was avoided.

Secondly, the absence of systematic research leaves little evidence in the public domain against which the effectiveness of policy decisions can be judged (ibid.). The less that individual consumers and society at large are invited to understand and care about the ways in which media ownership genuinely matters to them, the less chance there is of the political body being called to account for the re-design of a regulatory structure which serves no obvious public benefit.

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[141] Virginia Bottomley, then Secretary of State for National Heritage, spoke of 'liberating British broadcasters to be world leaders in the 21st century' in her announcement of the new media ownership provisions in the 1995 Broadcasting Bill (DNH, 1995c).

10.2 Media are especially vulnerable to concentrations

Much of this study has been devoted to analysing the economics of media and cross-media ownership. The focus for this analysis has been the relationship between the configuration (i.e. size and vertical or diagonal structure) and the performance (i.e. profitability) of a sample of UK media companies. The purpose of this analysis has been to evaluate the case put forward by media industry participants in favour of de-regulation of UK monomedia and cross-media ownership restrictions. Ostensibly, such arguments have provided an "economic" rationale for the liberalising measures set out in the 1996 Broadcasting Act. In reality, the findings of this study show that this rationale is far from convincing.

Most contemporary writers on the subject of concentrations of media ownership have tended to brush over the economic aspects and implications of media ownership very fleetingly. The sort of factors which might encourage concentrations - such as economies of scale, synergies, etc. - are often mentioned or outlined briefly (Harcourt, 1996, p202; Humphreys, 1997, p3; Sánchez-Tabernero, 1993, pp201-2), but are usually not analysed nor supported by specific or detailed empirical evidence. More often than not, the central focus tends to be on the difficulty of safeguarding pluralism while encouraging industrial growth (MacLeod, 1996; Mounier, 1996).

Thus, this research set out to address a gap in current knowledge concerning the economics of media and cross-media expansion, particularly in traditional sectors of the media, and focusing on the UK. Since the Peacock Report (1986) inspired some limited work in this area (Cave, 1989) in the late 1980s, no detailed empirical research has been carried out into how the economic performance of the UK media industry might or might not be affected by media ownership policy. The absence of a robust body of independent research has been unfortunate, given the topicality of this theme for media policy-making in the 1990s. Indeed, this gap appears to have greatly favoured corporate interests whose

own interpretations of technological and market developments, and of the economic implications of these developments, have been allowed to dominate the policy agenda without any attempt at systematic empirical corroboration.

Through examining the recent performance of the selected sample of UK media firms, this research has tried to pinpoint exactly what, if any, economic and/or commercial advantages are available through monomedia and cross-media expansion. The broad findings of this research are that a range of advantages will favour television, radio or newspaper firms with a large monomedia (i.e. in one sector only) market share. Confirming what is generally suggested by industrial economic theory, the relationship between the market share and the efficiency of media firms depends largely on the availability of economies of scale (George, Joll & Lynk, 1991, p89; Martin, 1993, p21).

A crucial issue for monomedia firms operating in any of these media sectors is the extent of heterogeneity of output; the structure and extent of total costs will be affected not only by the firm's share of the market but also by the composition of that market share, in terms of how many different or similar products this represents. Single product media firms tend to enjoy significant scale economies as consumption (audiences or readership) of their product expands. Multi-product firms (e.g. EMAP, with its 17 local radio stations; or News International, with its 4 national newspaper titles) reap the benefit of both economies of scale and economies of scope, but the latter will vary, depending on what level of resources may be shared between "rival" products held in common ownership.

Common ownership is not, in all cases, the only route to deriving economies in the media industry. This research has found that, for broadcasters and newspaper publishers alike, rival owners may find it possible to share costs (e.g. components of media content, or support services) through agreement to co-operate with each other. Where the line should be drawn on sharing costs with competing media suppliers is a matter for divided

opinions, and the need for rival products to sustain a unique identity serves to constrain some forms of cost-sharing (even when "rival" products are held in common ownership).

In addition, rivalry about the terms for cost-sharing may impede consolidation of duplicated resources between separate owners, even where such consolidation would confer significant mutual benefits. Janet Walker, Finance Director of Granada Media Group, refers to an example of this problem within the ITV network of regional television broadcasters:

> Everyone [in ITV] is saying 'Can't we have one transmission centre and can't it be mine?' Its the classic ITV situation where everyone can see that basically its a good idea but nobody wants someone else to win so everybody ends up losing.
>
> (Janet Walker, Granada Media Group, 1997).

In a situation reminiscent of the problems which give rise to "non-cooperative equilibrium", all suppliers are left worse off because each firm's desire to maximise its own individual gains defeats the opportunity for joint profit maximisation (Lipsey, 1989, p243). Thus, collective ownership remains the key to many cost-efficiencies in the radio, television and newspaper sectors.

Previous theorising in industrial economics has drawn attention to the tendency towards concentration in any industry characterised by economies of scale (George, Joll & Lynk, 1991, pp142-9; Martin, 1993, p234). Clearly, media are no exception. As this research has shown, because of the presence of economies of scale and scope, and because size or "critical mass" tends to confer other important advantages (e.g. political influence, negotiating power over advertisers, improved access to capital), there has always been a strong incentive for broadcasters or newspaper firms to seek to increase their share of their respective markets. Consequently, the industry is particularly vulnerable to concentrations of monomedia ownership.

The industry is also prone to concentrations of cross-media ownership, but whether strategies of cross-media expansion may be attributable to economic motives is, in some cases, highly questionable. Whereas it is clear that a supplier operating in *one or other* of the television broadcasting, radio broadcasting or newspaper publishing sectors may find ways of reducing costs (per unit of consumption of output) and improving its general economic efficiency as its overall share of the market expands, it is not clear that this will also hold true in the case of diagonal expansion into other media product markets. Certain combinations of diagonal cross-sectoral integration would tend to yield significant cost-efficiencies for media owners; for example, print and electronic publishing (using the same content), or joint telecommunications and television broadcasting provision (using the same distribution infrastructure). However, this research has found little evidence of such synergies between the traditional sectors of the UK media.

The findings of this research suggest that relatively few opportunities to make better use of collective resources will arise as a direct result of cross-ownership between the radio, television and newspaper sectors. Because distribution techniques tend to be entirely different between these sectors, common ownership would not yield any of the economic efficiencies available, say, in diagonal integration between a cable television and a telephony supplier. Likewise, production techniques are different for radio, television and newspapers so, unless there happens to be an especially strong common content specialism, there will be few opportunities for economising through transplanting or "repurposing" of content (Albarran & Dimmick, 1996, p43).

On the other hand, individual media firms may themselves derive some commercial or strategic benefits through cross-ownership across traditional sectors of the media. Risk reduction may be the incentive for diagonal expansion (Martin, 1993, p278). For example, newspaper publishers stand to benefit from diversifying out of their own relatively mature sector into the faster growth areas of commercial radio or television

broadcasting. Highly cash-generative television broadcasters may choose to cross-invest in newspapers because there is a lower perceived risk in diversifying within than outside the media industry.

The opportunity to cross-promote existing products is another acknowledged advantage of media cross-ownership. As with risk-reduction strategies, the sorts of benefits which accrue to the firm as a result of the opportunity for cross-promotion have less to do with increased efficiency *per se*, than with maintaining and increasing individual firms' market power or dominance. The evidence considered above suggests that diagonal expansion may, in some cases, reflect individual managerial utility functions (George, Joll & Lynk, 1991, pp324-25) - i.e. the personal benefits or gratification achieved by managers of the media as a consequence of conglomerate expansion. The avoidance of a hostile takeover bid is commonly perceived as a significant managerial incentive for diagonal media expansion.

The crucial point, as far as policy-making is concerned, is that such benefits as arise through cross-ownership across traditional sectors of the media tend *not* to involve improved use of the limited resources available for the provision of media output, or any other economic gains which recognisably favour the interests of consumers or society at large. Instead, benefits tend to be of a corporate nature, primarily favouring the private interests of shareholders in specific media firms or, in some cases, managers of these firms.

This distinction between, on the one hand, the private interests of the owners and managers of commercial firms and, on the other hand, the wider economic interest is important. The two do not always overlap and clearly it is the latter - society's interest in achieving the most efficient possible usage of resources - which is, or ought to be, the concern for public policy. Profitability has been adopted as the most convenient comparative quantitative measure of economic performance for this study. Since the

achievement of higher profits may occasionally diverge from serving the wider economic interest (e.g. where, rather than reflecting improved efficiency, it simply reflects exploitation of a dominant market position), the analyses above has sought not just to trace but also to investigate and pinpoint the reasons why profitability may or may not vary in response to different sorts of media ownership configurations.

The insights which have emerged from this study into the nature of the economic advantages or disadvantages arising through monomedia and cross-media expansion may be informative in the design of corporate strategies involving media and they may, also, be informative for media ownership policy-making. However, the scope of this investigation has been limited in many ways and it should be seen as representing a starting point for further more detailed research. A case may be argued in favour of extending the focus of future economic research into media ownership as far as non-traditional sectors of the media which are becoming increasingly important in commercial terms and which may need to be incorporated within the structure of media ownership regulation. In addition, as horizontal expansion at an international level becomes more prevalent, comparative research into the economics of media and cross-media ownership in different countries would be of considerable value.

Also, as discussed in section 6.5 above, the focus in this study has been on "profitability" as a measure of economic performance, but this is by no means a comprehensive indicator of performance, especially in the context of media or cultural provision. The relationship between ownership configurations and economic performance could be more fully illuminated by further research into how all the most appropriate elements of the economic "performance" of media firms can be incorporated into an appropriate analytical model.

10.3 Systemic problems with the Mechanism for Regulating Media Concentrations

"Such a Difficult Political Minefield ..."

> ... It would be idle to pretend that we instituted properly rigorous scientific /economic analysis specifically to buttress our policy conclusions ... This is too political a market to regulate primarily because of economic objectives, although the latter will set the parameters of what you think you are trying to do. If we read the market badly wrong, then we will be shown that our [new measures] were just whistling in the wind.
> But, I think what I would probably say, if I had to justify my lamentable failure to do proper scientifically derived policy formulation, would be that I was actually operating in *such a difficult political minefield,* having to dodge my way through what would get through - and remember, the size of the Cabinet's majority when most of this Bill went through was *one* - that I didn't have that much scope to impose what I might have thought, even if I had been in a position more accurately to know what was the most precisely calibrated solution.
>
> (Paul Bolt, DNH, 1997).

The words of Paul Bolt, Head of the Broadcasting Policy Unit at the Department of National Heritage, point to a flaw in the mechanism by which concentrations of media ownership are supposed to be regulated. In theory, curbs on concentrated media ownership would safeguard democracy by protecting against unhealthy alignments between corporate media power and political power. But in practice, the pre-existence of these alignments serves to impede the instigation of such curbs. The links between the machinery of Government and the wider political system are inescapable (Levin, 1997, p51) and sectional interests in the media evidently form an important component of this wider system. Because politicians want to, or increasingly feel they need to, accommodate the needs of particular or influential media groups, there is little will to investigate or champion competing public interest goals for media ownership policy.

This problem is by no means confined to the UK. Peter Humphreys (1997) points out that the recent "symbolic" re-regulation of media ownership in Germany and in Italy, has

actually been very de-regulatory. For Humphreys, the de-regulation of media ownership in Germany and Italy, as well as the UK, "can be taken as classic illustrations of the degree of political power exercised by powerful media corporations in capitalist democracies" (Humphreys, 1997, p9). His conclusion, that "the main determinant of media policy in the 1990s seems to be policy makers' perception of what is in the economic interest" and that "the 'economic interest' conforms with the said corporations' interests" (ibid., p19) is backed up the findings of this study.

It is important to distinguish between corporate commercial objectives and societal "economic" objectives. Policy measures which advance the commercial interests of particular media firms cannot be equated with measures which enhance the general economic efficiency or competitiveness of the industry. Humphreys' reference to the coalescence between corporate and economic interests does not involve any elaboration on how these concepts might be distinguished. But confusion between these concepts is precisely what has legitimised policy-making that, at its root, is based purely on political factors rather than any public interest.

Humphreys' suggestion that "the main determinant of media policy in the 1990s *seems to be* policy makers' perception of what is in the economic interest" (ibid; my emphasis) is correct. However, as the findings of this study demonstrate, policy-makers' real beliefs about what is in the economic interest may differ significantly from what they choose to present to the public as their perception on this matter. What is presented publicly legitimises, on economic grounds, the case for given policy recommendations. Such legitimisation is essential, in order to deflect attention from the fact that policy recommendations have been formulated in accordance with what is in the political interest, but it may be based on an entirely fictitious interpretation of economic realities.

Since there *is* a public interest case in favour of promoting the economic efficiency and competitiveness of the media industry, this research has attempted to highlight the

difference between benefits (arising from media or cross-media expansion) which conform with these "legitimate" economic aspirations and those which do not. As discussed above, empirical quantitative and qualitative evidence gathered from the sample of UK media firms firmly refutes the suggestion that cross-ownership between the television and newspaper industries enhances the economic efficiency or international competitiveness of the media industry. Thus, drawing on the distinction between economic and corporate aspirations, this research finds that the case presented by policy-makers to the public in favour of de-regulating cross-ownership between the television and newspaper sectors has no legitimate economic basis.

This research also finds that the policy-makers who were responsible for drafting the recent revisions to UK media ownership policy are well aware of this distinction and are openly sceptical about the "economic" case in favour of the measures they were introducing:

> What can I say? These were *political* decisions at root. Where it was convenient to try and have a veneer of an economic case, that case was deployed. But I certainly wouldn't want to leave the impression that it was economic arguments, rigorously constructed, that determined policy.
>
> (Paul Wright, DNH, 1997).

Previous writers have raised concerns about the process by which UK policy on media ownership has been formulated. The evidence presented in this study corroborates concerns that a "comprehensive rationality" approach has not been undertaken (Hitchens, 1995). "Comprehensive rationality" is, of course, a somewhat idealistic model - perhaps even "unrealistic or impracticable" (Hogwood & Gunn, 184, p47) - and there may be very few examples of this approach operating to perfection in any area of public policy-making. Even so, virtually all approaches to policy analysis stress the fundamental importance of information and knowledge (Parsons, 1995, p427-8). Thus, lack of effort to assemble information, or to distinguish fact from opinion, can only be seen as a crucial

shortcoming of the process by which recent media ownership policy changes were determined.

In addition, concerns that corporate interests have been able to exert an unhealthy pressure over the policy-making process (Williams, 1996) are clearly shown to be well-founded by the evidence considered in the course of this study. These findings tend to underline more general concerns raised by political science theorists about the influence wielded by powerful "elites" - particularly corporate interests - on the decision-making processes of liberal democracy. Dahl and Lindblom (1976) suggest that politics, although pluralistic, is not played out on a level playing field, because the demands of business interests tend to dominate over the demands of other less-powerful and less well-resourced groups. For Dahl, Lindblom and others (Parsons, 1995, pp253-4) the solution to this problem lies in reform: "a shift towards a more knowledge-based political process" in which decision-making is based on well-informed and rational analysis. Thus, in theory as in practice, there appears to be an inverse relationship between the extent to which the techniques deployed in policy determination involve information-seeking and rational analysis and, on the other hand, the ability of powerful interest groups to predominate over decision-making.

The process of de-regulation of UK media ownership rules was characterised, almost entirely, by a cynical indifference to the public interest. No proper analysis was carried out of what the economic or socio-political or cultural consequences of de-regulation might be. This failing has been attributed to "the time-scale involved", to the fact that Ministers were "not interested" in independent research and to the "difficult political minefield" that civil servants were operating in. It would be unfair to describe as incompetence a failure by DNH policy-makers to carry out research which they very well knew might contradict the recommendations that Ministers wished to put forward. Rather, the absence of explicit analysis seems, in this case, to be consistent with the need to obscure underlying political motives and to leave the public unaware of the actual

implications of policy changes (Levin, 1997, p231). Even accepting that some degree of "exerting of pressure" and "bargaining" may be inevitable and common-place in the world of public policy-making (ibid, p45), that measures translated into law were, for political convenience, knowingly based on wholly specious lines of argument seems to warrant particular concern.

This study finds that the policy-making mechanism which is supposed to safeguard democracy by curbing the political influence of media owners simply cannot and does not work. Excesses of media power already exist in the UK to the extent that any curbs over it have to firstly be negotiated with the industry. The 1996 Broadcasting Act involves a number of de-regulatory concessions intended to "buy off" the majority of media owners so that some relatively weak safeguards for pluralism could be sustained. Existing levels of political influence on the part of media owners mean that policy is predicated *not* on the public interest but on the industry's requirements.

This must be recognised as a problem, and as one which seems to be systemic rather than localised. Political battles which waged during the passage of the 1995 Broadcasting Bill (effectively concerning which media owners should be favoured by de-regulatory concessions) amply demonstrate the indifference of politicians in both of the major UK political parties to the more fundamental public interest considerations surrounding concentrations of media ownership. And, despite acknowledging the ability of media owners to manipulate the climate of public opinion in favour of their own ends (Weimer & Vining, 1989, p111-2), UK policy-makers refrained from taking any special steps to stimulate an informed or balanced public debate on media ownership policy. It seems that a continuation of alignments between corporate media and political interests suits all of those who are empowered to instigate change. Therefore the "problem" rarely surfaces in channels likely to bring it to public attention; namely, media or political discourse.

Precisely because media ownership is "such a difficult political minefield", the design of a regulatory structure needs to be robust, equitable and squarely aimed at legitimate public policy objectives. Instead, the recent re-design of UK media ownership policy seems unstable, uneven, and aimed at accommodating particular corporate interests. Since the need for policy-makers to "buy off" the media was, demonstrably, already present even before the de-regulatory measures introduced in the 1996 Broadcasting Act, how much certainty can there be that public policy in any other area will not be shaped and determined by powerful media interests?

Further examination and analysis of the policy formulation process is needed to establish the extent to which recent experiences at the DNH may or may not typify the circumstances and conduct of policy-making more generally. Additional research would help to establish whether shortcomings that this case study has begun to uncover are, indeed, characteristic of a wider systemic flaw in the regulatory process for curbing media concentrations and to what extent they pose a threat to democracy. Thus, future research in the communications policy field could usefully build upon this particular case study by investigating more broadly the conduct of policy making at the DNH, and/or by interrogating the process through which policies relating to ownership of the media are formulated in other countries.

10.4 The 1996 Broadcasting Act

Just as consolidations of media ownership have different implications for different constituencies, so also may the de-regulation of media ownership in the UK be a subject for divided opinions. The relaxation of previous restraints on cross-ownership between newspapers and terrestrial television was "certainly a triumph of lobbying for the British Media Industry Group" (Snoddy, 1995b). For firms who have or who wish to exploit the

possibility of expansion and diversification within traditional sectors of the media, the flexibility to do so is clearly welcome. And, for shareholders in many UK media companies, the speculation and corporate activity stimulated by changing media and cross-media ownership rules has created a welcome bonanza (Price, 1995; Leonard & Garfield, 1997).

An enlightened aspect of the new approach to constraints on media ownership has been the shift in emphasis away from the number of products owned to the aggregate audience addressed by a media owner. The previous system under the 1990 Broadcasting Act of limiting television ownership by reference to a fixed number of broadcasting licences was clearly questionable, given that some broadcasting licences were capable of addressing much larger audiences than others. The new system introduced by the 1996 Act of limiting ownership by reference to a common ceiling on share of the national television audience, is both more logical and more equitable.

Yet, the changes in UK media ownership policy brought about by the 1996 Act also create much cause for concern and criticism. This thesis would argue that, taken as a whole, the de-regulation of media ownership has delivered relatively few enhancements to the economic efficiency or prospects of the UK media industry while, at the same, has engendered a considerable welfare loss through lower safeguards for pluralism.

Hitchens (1995) has suggested that the character and conduct of the process through which UK media ownership policy was re-designed exhibited many serious deficiencies right from the outset. The findings of this research concur with this view and underline, as a particular concern, the failure to ever raise or analyse the most fundamental questions about why concentrated media ownership is a matter of public concern.

As a consequence of the fact that policy changes were determined, first and foremost, by political concerns (i.e. the desire to accommodate powerful self-interested media lobbies),

and because no account was taken of inconsistencies between these political concerns and the public interest, the outcome has little to commend it except from the perspective of successful industrial lobbyists. Inasmuch as media interests have had the political power to shape the re-design of media ownership policy to their own ends, they have also been uniquely well-placed to sustain a climate of public indifference to the potentially negative consequences of these policy changes (Parsons, 1995, pp106-15).

The important effects of the new measures introduced in the 1996 Act are to allow significantly higher levels of monomedia television ownership, and significantly higher levels of cross-ownership between the traditional sectors of the media; radio, television and the press. Ostensibly, these de-regulatory measures are intended to improve the economic efficiency and international competitiveness of UK media firms. The findings of this research are that higher monomedia television ownership should, indeed, foster some additional economies. (But whether cost-efficiencies will, as the DNH seems to hope, benfit consumers through enhanced television output, as opposed to shareholders, is an open question.) On the other hand, cross-synergies are not a particular feature of the broadcasting and newspaper sectors, so few efficiency gains may be expected through allowing cross-ownership. As far as international competitiveness is concerned, none of the media firms in the UK sample group expect their exports performance to be affected by the new rules. Indeed, policy-makers themselves now concede that there is little or no evidence to support the idea that domestic consolidation would bring about any overseas expansion or additional exports.

So, as far as promoting economic objectives are concerned, Chris Innis provides a useful summation:

> I don't think the new rules make any difference to the economic prospects for the sector and I think the world has moved on ...
>
> (Chris Innis, EMAP, 1997).

But before the world moves on, it is worth considering the other major effect of de-regulating media and cross-media ownership; namely, on pluralism. The effect of allowing significantly higher levels of monomedia television ownership (and, through secondary legislation, higher cross-ownership between broadcasting and programme-making) is that existing UK television services will be supplied by a narrower range of suppliers than before. Since the commencement of de-regulation, access to mass television audiences in the UK has fallen into the hands of progressively fewer and fewer commercial media owners. Likewise, the effect of allowing cross-ownership between terrestrial television and the press has been to narrow the range of firms responsible for supplying mass media to British consumers. Even though technological advances in the 1990s may have gradually eased market access in the traditional sectors of the media, the specific and inescapable outcome the 1996 Broadcasting Act is that the provision of mass media in the UK is open to increased domination by large diversified media conglomerates.

As has been discussed in many previous studies (e.g. Lange & Van Loon, 1991) it is difficult to evaluate precisely the relationship between concentrations of media ownership and pluralism. This study has not set out to specifically quantify the socio-political and cultural consequences of recent amendments to UK media ownership. Yet it is incontrovertibly clear from the evidence presented in this research that concentrations of media power can be, and have been, used to shape public policy. Political pluralism is vitally important for democracy but, of course, concentrated media ownership also has negative implications for the diversity of cultural representations in the media. Another important direction for future empirical research would be to examine more closely the impact of de-regulatory measures in the 1996 Broadcasting Act on political and cultural pluralism in the UK.

10.5 Media Ownership Regulation in the Future

An important conclusion which emerges from this research is that the system through which decisions on media ownership policy in the UK are taken is in critical need of reform. It strikes at the very heart of democracy when elected politicians and public servants choose to formulate policy in pursuit of objectives other than the public interest. (Carley, 1976, p28) But, since media perform an increasingly influential role in political destinies, it is difficult to see how the problem of alignments between corporate media and political interests can be overcome (Levin, 1997, p51). Democracy is subverted when the policies determined by elected public representatives are aimed at accommodating the interests of an elite, corporate media or otherwise, (Parsons, 1995, pp248-71), but it would also be diminished if responsibility for the determination of public policy were removed from elected public representatives.

One potential solution to this situation is the possibility that, at some stage in the future, regulation of media ownership will become unnecessary. As barriers to market entry diminish and as more and more new avenues for distribution of media (including electronic) become available, it is suggested that a diversity of political and cultural representations will flourish without any need for special ownership restrictions. The case put forward to UK policy-makers in favour of recent de-regulatory measures included the argument that "the logical basis for ownership restrictions as a means of preserving diversity (scarcity of resources) is outdated. Diversity is now sufficiently guaranteed by proliferation of outlets, with a further expansion as digital broadcasting is introduced" (DNH, 1995a, p11).

Whilst this argument may well gain ground as technological changes continue to expand the opportunities for provision of media, it cannot be said that the situation has arrived where pluralism is a natural feature of the markets for mass media. In the UK today, the dominant media remain terrestrial television (5 channels) and national newspapers (12

daily titles), and some 63% of the latter market is controlled by just two commercial owners (see appendix 1). The advent of cable, satellite and digital broadcasting as well as the Internet are gradually adding to diversity of media provision but, even with these "new media", concerns about the impact on pluralism of concentrated ownership (e.g. gatekeeper monopolies) remain as valid as ever.

The notion that the only justification for special rules on ownership of the media has been scarcity is, as Hitchens has suggested, a "fallacy" (1995, p635). Restrictions on media and cross-media ownership are there to encourage diversity but, most especially, are to do with avoiding an unhealthy domination of the media by individual owners. The economic and commercial incentives which encourage concentrations of ownership exist for new as well as traditional media. As is suggested by the speed with which the owners of traditional media are moving to secure their positions within newly developing technologies, the future is unlikely to eliminate fundamental societal concerns about concentrated media power.

Since a regulatory mechanism for curbing unhealthy concentrations of media ownership remains essential, at least for the foreseeable future, the question also remains of how this mechanism can be made to work more effectively. The de-regulatory measures introduced in the 1996 Broadcasting Act now seem to be a *fait accompli*, but whether it should be accepted that the course of UK media ownership policy will continue, in the future, to be determined by political factors (and corporate interests) is another matter.
The case of the de-regulation of UK media ownership in the 1990s serves to highlight a broader question - albeit, one whose solution lies well beyond the scope of this thesis. That is, how can the conditions be created which would introduce democracy, and questions about how this can be ensured, as a meaningful issue in contemporary UK political and media discourse?

The increasing importance of "Europe" may offer some hope here. It has been argued that "the British political space has been steadily "Europeanised", whatever the resistances that this may occasion in some quarters" (Schlesinger, 1997, p1). The perceived drift of political power from the nation-state to the European Union has, and would continue to, raise special concerns about democracy (ibid., p14). It would, perhaps, be hoping for too much to expect that concerns about political accountability within the EU would also engender meaningful introspection on the question of deficiencies in the democratic process at nation-state level. On the other hand, the progress of European integration offers some possibility that media ownership, as a specific regulatory issue, would be removed from the national to a transnational policy-making forum.

If media ownership policies were decided at a transnational European rather than a national level then the scope for specific national corporate media interests to determine policy outcomes might be reduced. What is perceived to be a "democratic deficit" within the EU - i.e. the "lack of interaction between civil society and government" at the European level (ibid., p14) - also implies, whether for better or for worse, less political potency for individual media interests at this level. Because of a lack of engagement between voters and those empowered to determine and negotiate policy outcomes at the European level and because concentrations of media ownership in Europe are predominantly national as opposed to pan-European, there is not the same supporting logic for alignments between corporate media and political interests at the European level as there is at the national level. Ironically, the "democratic deficit" within the EU can therefore be seen as conducive to the possibility that, at this level, the interests of its citizens in democracy can be fostered - i.e. lack of accountability provides the best chance of a pro-democracy outcome.

This is not to overlook the importance of industrial lobbying efforts at the European level. Collective organisations such as the European Publishers Council (EPC) can and do seek

to influence the course of media ownership policy formulation at EU level, both by persistent campaigning at the Commission and also through lobbying of national Ministers and Members of the European Parliament. Nonetheless, this thesis would argue that a system for determining policy at the transnational level, and consensually, is unlikely to be as vulnerable to coercion by specific corporate interests as the process for policy-formulation at European member state level.

However, even if a transnational mechanism for media ownership policy-making is less prone to the fatal systemic problem of alignments between political and corporate media interests, it cannot be assumed that a new pan-European policy initiative would capitalise on or reflect this advantage. A major limitation for any media ownership policy initiated at the level of the EU is that no legal basis exists for predicating such a policy on European citizens' entitlement to pluralism. Instead, the justification for harmonisation of European media ownership law would be so as to promote the proper operation of the European single market. So, even if the EU is better placed than national governments to by-pass corporate media interests in favour of the principle of promoting democracy, it seems that the EU will not be able to prioritise democracy, because member states have not agreed to award the Commission competence to pursue this objective.

The evident inability of national governments to withstand de-regulatory pressure created by domestic media owners in the 1990s would argue in favour of now extending the EU's remit to protection of pluralism. However, a solution is not as simple as this. Firstly, the paradox remains that to remove responsibility for media ownership rules to a political body which is less susceptible to the power and influence of the "free press" would also, inevitably, make the process of policy determination more remote from and less accountable to the public. This may seem like a small price to pay, since it is highly improbable that systemic problems in the national mechanism for media ownership policy-making will be self-correcting. On the other hand, the EU itself is frequently a

battleground for contradictory policy aspirations and this also appears to be the case as far as media ownership is concerned.

What seems most problematic about media ownership regulation at the national level is the tendency for public interest objectives to become overshadowed because of alignments between corporate media and political interests. While the latter may be a less potent threat at the EU level, it does not follow that Europe's collective policy-making institutions would naturally form a consensus about which goals and whose interests media ownership policy ought to pursue. The Commission itself is by no means clearly and cohesively wedded to any single ideology and, so far, its efforts to bring forward a media ownership policy initiative have been characterised by controversy and indecision.

Secondly, even if member states were to reach agreement that media ownership restrictions aimed at protecting *pluralism* should be determined at the European level (and many, such as the UK, are fundamentally opposed to this idea), there remain serious practical obstructions to implementation. The root of this problem is that resources available for media provision are spread unequally across the different markets of Europe. The findings of this study suggest that a policy intended to protect pluralism by sustaining a common minimum level of diversity of media ownership in all European markets can only work if there is an accompanying commitment to accommodate the circumstances of smaller European markets, e.g. through cross-subsidisation of media provision. But the scale of the intervention required to sustain equal levels of pluralism for all European citizens raises political and economic questions which are highly sensitive and divisive.

Therefore, it would be unrealistic to expect 'Europe' to bring about any speedy or radical solution to the deficiencies surrounding recent media ownership policy revisions at member state level. In addition, for as long as the legitimisation of an EU initiative

remains 'the Internal Market' rather than pluralism, there is relatively little prospect of fundamental questions about the role of media ownership rules in safeguarding democracy receiving a proper airing.

In short, there are no ready means of overcoming deficiencies in the current system through which decisions on media ownership policy in the UK are made. Although future research in this area might usefully take account of the shortcomings uncovered in the course of this study, the outstanding challenge is to conceive of practical steps which would guarantee that the interests of citizens and society at large are firmly impressed upon the design of UK media ownership policy.

A first stage along the route towards reform would be public recognition of the fact that the 1996 Broadcasting Act has served to *reinforce* rather than curb the political influence of UK media proprietors. Arguably, ever more blatant abuses of excessive media power could not escape public recognition but, as the recent case of Berlusconi's political ascent in Italy has exemplified, the dawning of such recognition may come too late (NUJ, 1994, p10). Since it would suit neither the UK media nor politicians to acknowledge the damage inflicted on democracy because of an alignment between their interests, it seems imperative that future academic research succeed in creating public awareness of this issue and of its full implications.

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Appendix 1.

Ownership data for major UK media companies in the newspaper, television and radio sectors.

(Source: Annexe 2 to *Media Ownership; The Government's Proposals* (DNH, 1995a, pp33-35)).

Table 1: Share of total television audience

Company	Licence area	Share (%)
BBC1	–	33.6
BBC2	–	11.0
Channel 4/S4C	–	10.0
Central	East, West and South Midlands	6.0
Granada	North-West England	4.6
Yorkshire	Yorkshire	4.0
Carlton	London weekday	3.4
Meridian	South and South East England	3.1
HTV West and Wales	Wales and West of England	2.8
Scottish Television	Central Scotland	2.6
London Weekend Television	London weekend	2.6
Anglia	East of England	2.3
Tyne Tees	North-East England	1.9
Ulster	Northern Ireland	1.1
Westcountry	South-West England	1.0
Grampian	North of Scotland	0.7
Border	Borders and the Isle of Man	0.5
Channel	Channel Islands	0
GMTV	National breakfast-time	1.6
BSkyB	–	4.0
Other	–	3.2

Source: ITC/BARB (December 1994)

Table 2: Share of total national newspaper circulation

Newspaper Group	Share (%)
News Corporation *The Sun, Today, The Times, News of the World, The Sunday Times*	37
Mirror Group *Daily Mirror, Daily Record, Sunday Mirror, Sunday Record, The People, The Independent, The Independent on Sunday*	26
United Newspapers *Daily Express, Daily Star, Sunday Express*	13
Daily Mail and General Trust *Daily Mail, The Mail on Sunday*	12
The Telegraph Plc *Daily Telegraph, Sunday Telegraph*	7
Guardian Media Group Plc *The Guardian, The Observer*	3
Pearson Plc *Financial Times*	1

Source: Based on ABC audited figures Jan-Dec 1994 adjusted to take account of Sunday newspapers and rounded to the nearest whole number.

Table 3: Major radio groups showing number of local licences held and percentage of total points scored on Radio Authority points system

Company	Share of total points (%)	Number of local licences
Capital Radio	9.93	15
GWR	9.83	20
EMAP Radio	9.47	9
Metro	6.91	12
Golden Rose Communications	5.07	3
Virgin Radio	4.86	1
Scottish Radio Holdings	3.91	10
Classic FM	3.84	0
Reuters	3.84	2
Chiltern Radio	3.73	9
Chrysalis Group	3.53	2

Source: Based on the Radio Authority Points Scheme (May 1995)

Appendix 2 (a).

General Format of Interviews with UK Media Companies.

[Company Name; Interviewee; Date; Time; Venue]

1. Configuration

Current spread of media activities:

Sector A
Sector B
etc.

Market share by sector (methodology):

	'93	'94	'95	'96	'97e	'98e

2. Relationship between Size and Performance, by sector of activity

(i) Sector A:
Advantages of horizontal expansion:
- revenues?
- costs?
- other benefits/ operational synergies?

(ii) Sector B: etc

3. Cross-Ownership Structure and Performance, by sector of activity

(i) Vertical Integration: *(e.g.Sector A plus Sector B)*
- revenues?
- costs?
- other benefits/ operational synergies?

(ii) Diagonal Integration *(e.g.Sector A plus Sector D)*
- revenues?
- costs?
- other benefits/ operational synergies?

4. Profits Performance

Historic operating margins by activity:	'93	'94	'95	'96	'97e	'98e
Sector A						
Sector B						
etc						

Causality of Size/ Structure?
Factors other than Size/ Structure affecting economic performance?

5. New Technology

Role of (the desire to take advantage of) "new technology" in media ownership strategy?

New opportunities arising through technology advances (e.g. "digital") for cross-synergies/ economies of scope/ scale in current spread of activities?
Is size/ structure positively correlated with rate of adoption of (investment in) new technologies?

6. Other Factors (economic or non-economic) guiding corporate strategy?

7. UK Media Ownership Rules

How (if at all) has UK media ownership regime affected (e.g. constrained) your corporate strategy?
View on (need for) protection of pluralism?
View on changes introduced in 1996 Broadcasting Act? Are current sector-specific and cross-media restrictions set at an appropriate level? Why?
How (if at all) will recent policy changes affect your domestic operating performance? Economic prospects for sector?
How (if at all) will recent policy changes affect your international performance (exports? /international competitiveness)? Int'l prospects for UK media sector?
Design of current regulatory framework adequate/ ideal? Sufficiently sympathetic to needs of industry?
Focus of Rules correct? (e.g. Conditional Access monopolies)

8. International Policy Dimension

What (if any) role should European Union play in regulation of media ownership? What should the aims for an EU policy be? View on implementation problems?

Appendix 2 (b).

General Format of Interviews with UK Policy-Makers.

[Institution; Interviewee; Date; Time; Venue]

1. Arriving at policy aims:

Role of public consultation in setting the priorities for Media Ownership policy in 1996 Broadcasting Act?
Arrangements for consultation? Special steps taken to counteract possible media bias in public debate?
Distinguishing opinion from fact? Sources of information drawn upon? Use of independent research?

How were views from consultation exercise analysed/ weighed up against each other/ translated into policy aims?
Other factors bearing on policy formulation? Influence of lobbying groups? Political allegiances?

2. Check: **Aims?**

3. Socio-Political objectives:

(a) Pluralism

How did DNH go about investigating the effect of MO rule changes on pluralism? Evaluation criteria? Policy options considered?

View taken on minimum number of media owners consistent with preserving pluralism? Different criteria (higher ceilings) at local level?

(In)consistency between actual changes in the rules and objective of promoting diversity and pluralism?

(b) Effective and equitable constraints on any single owner's media power

Why no upper limit on share of ownership of national newspapers?
Why is the ownership ceiling for commercial TV higher than for radio?

4. Economic/Industrial objectives:

(a) Competition in domestic media markets
To what extent an influence in designing MO rules?

(b) Economic efficiency of media firms
How did DNH go about investigating the effect of possible MO rule changes on economic efficiency and competitiveness of UK media sector? Steps taken (e.g. independent research) to obtain data for an objective assessment?

Expected economic benefits arising from allowing higher monomedia television ownership? Why set TV ownership ceiling at 15% (rather than 10 or 20%)? Why higher than radio?

Expected economic benefits arising from allowing cross-ownership between newspapers and terrestrial television? Operational synergies between television and radio broadcasting? Economic case for allowing cross-ownership? Evidence?

What steps were taken to obtain an objective assessment of the economic impact of new technologies / "convergence" etc (and possible role of MO rules in promoting economic prospects for sector)?

Consistency between economic policy aims and likely impact of recent MO rule changes? Alternative motivations?

(c) International Competitiveness
Influence of expanded media economy on design of "new" rules? Criteria used to evaluate impact of rule changes on the international competitiveness of UK sector? Consistency between design and aims?

5. Other economic or non-economic objectives (motivations/ pressures) shaping recent media ownership rule changes?

6. Europe
How (if at all) did 'Europe' affect the re-design of UK media ownership policy in the 1996 Act? What role should the EU play in the formulation of media ownership policy? DNH view on current developments regarding a pan-European policy initiative?

6. Future of Media Ownership Regulation
Views on future organisation of media policy? Factors (if any) likely to bring about early revisions to media ownership provisions in the 1996 Broadcasting Act (e.g. impact of a Labour Government)?