

CHAPTER

10

Issues in Transnational Media Management

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The transnational corporation is a nationally based company with overseas operations in two or more countries. One distinctive feature of the transnational corporation (TNC) is that strategic decision making and the allocation of resources are predicated on economic goals and efficiencies with little regard to national boundaries. What distinguishes the transnational media corporation (TNMC) from other types of TNCs is that the principal commodity being sold is information and entertainment. It has become a salient feature of today's global economic landscape (Albarran & Chan-Olmsted, 1998; Demers, 1999; Gershon, 1997, 2000; Herman & McChesney, 1997).

The TNMC is the most powerful economic force for global media activity in the world today. As Herman and McChesney (1997) point out, transnational media are a necessary component of global capitalism. Through a process of foreign direct investment, the TNMC actively promotes the use of advanced media and information technology on a worldwide basis. This chapter will consider some of the critical issues facing today's TNMC. Table 10.1 identifies the seven leading TNMCs, including information pertaining to their country of origin and principal business operations.

THE TNMC: ASSUMPTIONS AND MISCONCEPTIONS

During the past two decades, scholars and media critics alike have become increasingly suspicious of the better known, high-profile media mergers. Such suspicions have given way to a number of misconceptions concerning the intentions of TNMCs and the people

TABLE 10.1
The Transnational Media Corporation

<i>Companies</i>	<i>World Hdq.</i>	<i>Principal Business Operations</i>
Bertelsmann AG	Germany	Book & Record Clubs, Book Publishing, Magazines, Music and Film Entertainment
NBC Universal	USA	Television and Film Entertainment, Cable Programming, Theme Parks
News Corp. Ltd.	Australia/USA	Newspapers, Magazines, Television and Film Entertainment, Direct Broadcast Satellite
Sony	Japan	Consumer Electronics, Videogame Consoles, and Software, Music and Film Entertainment
Time-Warner	USA	Cable, Magazines, Publishing, Music and Film Entertainment, Internet Service Provision
Viacom	USA	Television and Film Entertainment, Cable Programming, Broadcast Television, Publishing, Videocassette and DVD Rental & Sale
Walt Disney	USA	Theme Parks, Film Entertainment, Broadcasting, Cable Programming, Consumer Merchandise

who run them. The first misconception is that such companies are monolithic in their approach to business. In fact, just the opposite is true. Researchers like Gershon & Suri, (2004), Gershon, (1997, 2000), Morley & Shockley-Zalabak (1991) and Bennis (1986) argue that the business strategies and corporate culture of a company are often a direct reflection of the person (or persons) who were responsible for developing the organization and its business mission.

The Sony Corporation, for example, is a company that was largely shaped and developed by its founders Masaru Ibuka and Akio Morita. Together, they formed a unique partnership that has left an indelible imprint on Sony's worldwide business operations. As a company, Sony is decidedly Japanese in its business values. Senior managers operating in the company's Tokyo headquarters identify themselves as Japanese first and entrepreneurs second (Sony, 1996). By contrast, Bertelsmann A.G. is a TNMC that reflects the business philosophy of its founder, Reinhard Mohn, who believed in the importance of decentralization. Bertelsmann's success can be attributed to long-range strategic planning and decentralization, a legacy that Mohn instilled in the company before his retirement in 1981.

A second misconception is that the TNMC operates in most or all markets of the world. While today's TNMCs are indeed highly global in their approach to business, few companies operate in all markets of the world. Instead, the TNMC tends to operate in preferred markets with an obvious preference (and familiarity) toward one's home market (Gershon, 1997, 2000). News Corporation Ltd, for example, generates 76% of its total revenues inside the United States and Canada followed by Europe 16% and Australasia

8% respectively (News Corporation, 2003, p. 6). Similarly, Viacom generates an estimated 84% of its revenues inside the United States and Canada (Viacom International, 2002, p. 2).

THE GLOBALIZATION OF MARKETS

The world has become a series of economic centers consisting of both nation states and transnational corporations. The globalization of markets involves the full integration of transnational business, nation-states and technologies operating at high speed. Globalization is being driven by a broad and powerful set of forces including: worldwide deregulation and privatization trends, advancements in new technology, market integration (such as the European Community, NAFTA, Mercosur, etc.) and the fall of communism. It is admittedly a fast-paced and uncertain world. The basic requirements for all would-be players are free trade and a willingness to compete on an international basis. According to German political theorist Carl Schmitt, "The Cold War was a world of friends and enemies. The globalization world, by contrast, tends to turn all friends and enemies into competitors" (Friedman, 1999, p. 11).

Foreign Direct Investment

Foreign direct investment (FDI) refers to the ownership of a company in a foreign country. This includes the control of assets. As part of its commitment, the investing company will transfer some of its managerial, financial, and technical expertise to the foreign-owned company (Grosse & Kujawa, 1988). The decision to engage in FDI is based on the profitability of the market, growth potential, regulatory climate and existing competitive situation (Behrman & Grosse, 1990; Grosse & Kujawa, 1988). The TNMC is arguably better able to invest in the development of new media products and services than are smaller, nationally based companies or government supported industries. There are five reasons that help to explain why a company engages in FDI. They include:

Proprietary Assets and Natural Resources

Some TNCs invest abroad for the purpose of obtaining specific proprietary assets and natural resources. The ownership of talent or specialized expertise can be considered a type of proprietary asset. Sony Corporation's purchase of CBS Records in 1988 and Columbia Pictures in 1989 enabled the company to become a formidable player in the field of music and entertainment. Rather than trying to create an altogether new company, Sony purchased proprietary assets in the form of exclusive contracts with some of the world's leading musicians and entertainers. The company also holds the copyright to various music recordings and films (Gershon, 2000).

Foreign Market Penetration

A second consideration is the obvious need to expand into new markets. Some TNMCs invest abroad for the purpose of entering a foreign market and serving it from that

location. The market may exist or may have to be developed. The ability to buy an existing media property is the easiest and most direct method for market entry. This was the strategy employed by Bertelsmann A.G. when it entered the United States in 1986 and purchased Doubleday Publishing (\$475 million) and RCA Records (\$330 million). One year later, Bertelsmann consolidated its U.S. recording labels by forming the Bertelsmann Music Group which is headquartered in New York City. Today, the United States is responsible for 24.4% of the company's revenues worldwide.

Research, Production and Distribution Efficiencies

The cost of research, production, and labor are important factors in the selection of foreign locations. Some countries offer significant advantages such as a well-trained workforce, lower labor costs, tax relief, and technology infrastructure. India, for example, is fast becoming an important engineering and manufacturing facility for many computer and telecommunications companies located in the United States. Companies like Texas Instruments and Intel use India as a research and development hub for microprocessors and multimedia chips. Similarly, companies like IBM and Oracle use Indian IT engineers to develop new kinds of software applications. By some estimates, there are more information technology engineers in Bangalore, India (150,000) than in Silicon Valley (120,000). Research studies performed by Deloitte Research and the Gartner Group report that outsourcing and work performed in India have reduced costs to U.S. companies by an estimated 40% to 60% ("The Rise of India," 2003, p. 69).

Overcoming Regulatory Barriers to Entry

Some TNCs invest abroad for the purpose of entering into a market that is heavily tariffed. It is not uncommon for nations to engage in various protectionist policies designed to protect local industry. Such protectionist policies usually take the form of tariffs or import quotas. On October 3, 1989, the European Community (EC), in a meeting of the 12 nations' foreign ministers, adopted by a 10 to 2 vote the *Television Without Frontiers* directive. Specifically, EC Directive 89/552 was intended to promote European television and film production. The plan called for an open market for television broadcasting by reducing barriers and restrictions placed on cross-border transmissions. The EC was concerned that the majority of broadcast airtime be filled with European programming. The *Television Without Frontiers* directive required member states to insure, where practical and by appropriate means that broadcasters reserve for European works a majority of their transmission time excluding the time allocated for news, sports and games (Cate, 1990; Kevin, 2003).

For TNMCs (and other television and film distributors), the EC Directive was initially viewed as a form of trade protectionism. In order to offset the potential effects of program quotas, TNMCs and second tier television and film distributors adjusted to the EC Directive by forming international partnerships and/or engaging in coproduction ventures. By becoming a European company (or having a European affiliate), a TNMC is able to circumvent perceived regulatory barriers and is able to exercise greater control over international television/film trade matters (Litman, 1998).

Empire Building

Writers like Bennis (1986) contend that the CEO is the person most responsible for shaping the beliefs, motivations, and expectations for the organization as a whole. The importance of the CEO is particularly evident when it comes to the formation of business strategy. For CEOs like Rupert Murdoch (News Corp.), Sumner Redstone (Viacom), and John Malone (Liberty Media), there is a certain amount of personal competitiveness and business gamesmanship that goes along with managing a major company. Success is measured in ways that go beyond straight profitability. A high premium is placed on successful deal making and new project ventures. Today's generation of transnational media owners and CEOs are risk takers at the highest level, willing and able to spend billions of dollars in order to advance the cause of a new project venture. Viacom's Sumner Redstone, for example, is known for his aggressive leadership style and his tenacity as a negotiator. He is a fierce competitor. Redstone's competitive style can be seen in a comment he made in *Fortune* magazine.

There are two or three of us who started with nothing. Ted Turner started with a half-bankrupt billboard company. Rupert Murdoch started with a little newspaper someplace in Australia. I was born in a tenement, my father became reasonably successful, and I started with two drive-in theaters before people knew what a drive-in theater was . . . So I do share that sort of background with Rupert. People say I want to emulate him [Murdoch]. I don't want to emulate him. I'd like to beat him . . . ("There's No Business," 1998, p. 104)

The Risks Associated with FDI

The decision to invest in a foreign country can pose serious risks to the company operating abroad. The TNC is subject to the laws and regulations of the host country. It is also vulnerable to the host country's politics and business policies. What are the kinds of risks associated with FDI? There are the problems associated with political instability including wars, revolutions, and coups. Less dramatic, but equally important, are changes stemming from the election of socialist or nationalist governments that may prove hostile to private business and particularly to foreign-owned business (Ball & McCulloch, 1996). Changes in labor conditions and wage requirements are also relevant factors in terms of a company's ability to do business abroad. Foreign governments may impose laws concerning taxes, currency convertibility, and/or impose requirements involving technology transfer. FDI can only occur if the host country is perceived to be politically stable, provides sufficient economic investment opportunities, and if its business regulations are considered reasonable. In light of such issues, the TNC will carefully consider the potential risks by doing what is called a country risk assessment before committing capital and resources.

TRANSNATIONAL MEDIA AND BUSINESS STRATEGY

The main role of strategy is to plan for the future as well as to react to changes in the marketplace. Strategic planning is the set of managerial decisions and actions that

determine the long-term performance of a company or organization. A competitive business strategy is the master plan, including specific product lines and approaches to be used by the organization in order to reach a stated set of goals and objectives. Porter (1985) argues that a firm's competitive business strategy needs to be understood in terms of scope, that is, the breadth of the company's product line as well as the markets it is prepared to serve. Strategy formulation presupposes an ongoing willingness to enlarge and improve the flow of a company's products and services.

Strategic planning presupposes the use of environmental scanning to monitor, evaluate, and disseminate information from both the internal and external business environments for the key decision makers within the organization. Researchers like Wheelen and Hunger (1998), suggest that the need for strategic planning is sometimes caused by triggering events. A triggering can be caused by changes in the competitive marketplace, changes in the management structure of an organization, or changes associated with internal performance and operations.

The Purpose of a Global Business Strategy

Most companies do not set out with an established plan for becoming a major international company. Rather, as a company's exports steadily increase, it establishes a foreign office to handle the sales and services of its products. In the beginning stages, the foreign office tends to be flexible and highly independent. As the firm gains experience, it may get involved in other facets of international business such as licensing and manufacturing abroad. Later, as pressures arise from various international operations, the company begins to recognize the need for a more comprehensive global strategy (Gershon, 1997; Robock & Simmonds, 1989). In sum, most companies develop a global business strategy through a process of gradual evolution rather than by deliberate choice.

Understanding Core Competency

The term *core competency* describes something that an organization does well (Hitt, Ireland, & Hoskisson 1999). The principle of core competency suggests that a highly successful company is one that possesses a specialized production process, brand recognition, or ownership of talent that enables it to achieve higher revenues and market dominance when compared to its competitors (Daft, 1997). Core competency can be measured in many ways, including: brand identity (Disney, ESPN, CNN), technological leadership (Cisco, Intel, Microsoft), superior research and development (Sony, Philips), and customer service (Dell, Amazon.com). Sony Corporation, which specializes in consumer electronics, is a good example of core competency. Consumer electronics represent 60% of Sony's worldwide business operations.

Historically, the TNMC begins as a company that is especially strong in one or two areas. At the start of the 1980s, for example, Time Inc. (prior to its merger with Warner Communication) was principally in the business of magazine publishing and pay cable television, whereas News Corporation Ltd. (News Corp.), parent company to Fox Television, was primarily a newspaper publisher. Today, both companies are transnational in scope with a highly diverse set of media products and services. Over time, the

TNMC develops additional sets of core competencies. News Corp., for example, has become the world's preeminent company in the business of direct broadcast satellite communication. News Corp. either fully owns or is a partial investor in five DBS services worldwide.

Global Media Brands

Branding has emerged as a specialized field of marketing and advertising, and the burgeoning field of business literature reflects this pattern. Aaker's seminal work, *Managing Brand Equity* (1991), suggests that a highly successful brand is one that creates a strong resonance connection in the consumer's mind and leaves a lasting impression. According to Aaker, brands can be divided into five key elements: brand loyalty, brand awareness, perceived quality, brand associations, and proprietary brand assets. Global media brands, like Sony, Disney, HBO, Microsoft, and MTV, represent hardware and software products used by consumers worldwide. Such products are localized to the extent that they are made to fit into the local requirements (i.e., language, manufacturing, marketing style) of the host nation and culture. To that end, a successful brand name creates a resonance or connection in the consumer's mind toward a company's product or service.

Profiling the Sony Walkman

Through the years, Sony has introduced a number of firsts in the development of new communication products. In some cases, the products were truly revolutionary in terms of a planning and design concept (Beamish 1999). Words like *Trinitron*, *Walkman*, and *Playstation* have become part of the public lexicon of terms to describe consumer electronics. Yet several of these products are more than just products. They have contributed to a profound change in consumer lifestyle. This, more than anything else, has contributed to Sony's brand identity.

The creation of Sony's highly popular Walkman portable music player was highly serendipitous in its origins. From 1966 onward, Sony and other Japanese manufacturers began the mass production of cassette tapes and recorders in response to growing demand. At first, cassette tape recorders could not match the sound quality of reel-to-reel recorders and were mainly used as study aids and for general purpose recording. By the late 1970s, audio quality had steadily improved and the stereo tape cassette machine had become a standard fixture in many homes and automobiles (Nathan, 1999).

It so happened that Masaru Ibuka (who was then honorary Chairman of Sony) was planning a trip to the United States. Despite its heaviness as a machine, Ibuka would often take a TC-D5 reel-to-reel tape machine when he traveled. This time, however, he asked Sony President, Norio Ohga for a simple, stereo playback version. Ohga contacted Kozo Ohson, general manager of the tape recorder business division. Ohson had his staff alter a Pressman stereo cassette by removing the recording function and had them convert it into a portable stereo playback device. The problem at that point was to find a set of headphones to go with it. Most headphones at the time were quite large. When Ibuka returned from his U.S. trip he was quite pleased with the unit, even if it had no recording capability (Gershon & Kanayama, 2002).

Ibuka soon went to Morita (then Chairman) and said, "Try this. Don't you think a stereo cassette player that you can listen to while walking around is a good idea?" (Sony, 1996, p. 207). Morita took it home and tried it out over the weekend. He immediately saw the possibilities. In February 1979, Morita called a meeting that included a number of the company's electrical and mechanical design engineers. He instructed the group that this product would enable someone to listen to music anytime, anywhere.

Akio Morita was the quintessential marketer. He understood how to translate new and interesting technologies into usable products (Gershon & Kanayama, 2002; Nathan, 1999). After rejecting several names, the publicity department came up with the name "Walkman." The product name was partially inspired by the movie *Superman* and Sony's existing *Pressman* portable tape cassette machine (Sony, 1996). The Walkman created a totally new market for portable music systems. By combining the features of mobility and privacy, the Walkman has contributed to an important change in consumer lifestyle. Today, portable music systems have become commonplace ranging from major urban subways to health and recreation facilities to city parks worldwide.

Profiling MTV

Music Television channel (MTV) is an advertiser supported music entertainment cable channel that began as a joint venture between American Express and Warner Amex Communications; then a subsidiary of Warner Communications. It was conceived by John A. Lack in 1980 who was then vice president of Warner Amex. Lack recruited Robert Pittman (who would later oversee the AOL/Time Warner merger) to assemble a team responsible for developing the MTV concept. MTV was launched on August 1, 1981. By 1983, MTV had become successful and achieved profitability a year later. MTV's originator, John Lack, left the network in 1984. Robert Pittman rose to the position of president and CEO of MTV before leaving in 1986. In March 1986, MTV, Nickelodeon, and VH1 were sold to Viacom for \$513 million. Shortly thereafter, Viacom CEO Sumner Redstone appointed Tom Freston as CEO. Freston was the last remaining member of Pittman's original development team. MTV's global success is in part due to the innovative management and programming strategies that Freston implemented early on in his tenure (Ogles, 1993).

In 1987, MTV launched its first overseas channel in Europe, which was a single feed consisting of American music programming hosted by English-speaking artists. MTV soon discovered that although American music was popular in Europe, it could not offset differences in language and culture and an obvious preference for local artists. European broadcasters, however, quickly understood the importance of MTV as a new programming concept. They soon adapted the MTV format and began broadcasting music videos in various languages throughout the whole of Europe. This, in turn, negatively affected MTV's financial performance in Europe.

In 1995, MTV was able to harness the power of digital satellite communications in order to create regional and localized programming. MTV's international programming draws on the talent, language, and cultural themes from localized regions which are then satellite fed to that same geographic area. Approximately 70% of MTV's content is generated locally. MTV airs more than 22 different feeds around the world, all tailored to their respective markets. They comprise a mixture of licensing agreements, joint

ventures, and wholly owned operations, with MTV International still holding the creative control of these programs (“Sumner’s Gemstone,” 2000).

Today, the music video has become a staple of modern broadcast and cable television. Presently MTV has a huge market share in Asia, Europe, China, Japan, and Russia. MTV International is organized into 6 major divisions, including MTV Asia (Hindi, Mandarin), MTV Australia, MTV Brazil (Portuguese), MTV Europe, MTV Latin America (Spanish), and MTV Russia (“Sumner’s Gemstone,” 2000). The management of MTV’s international operations is highly decentralized, which allows local managers the ability to develop programming and marketing strategies to fit the needs of each individual market.

Vertical Integration and Complementary Assets

There are several ways that a major corporation can strategically plan for its future. One common growth strategy is vertical integration, whereby a company will control most or all of its operational phases. In principle, the TNMC can control an idea from its appearance in a book or magazine, to its debut in domestic and foreign movie theaters, as well as later distribution via cable, satellite, or DVD (Albarran, 2002). The rationale is that vertical integration will allow a large-size company to be more efficient and creative by promoting combined synergies between (and among) its various operating divisions. To that end, many of today’s TNMCs engage in cross-media ownership, that is, owning a combination of news, entertainment and enhanced information services. Cross-media ownership allows for a variety of efficiencies, such as news gathering as well as cross licensing and marketing opportunities between company-owned properties.

Profiling News Corporation Ltd

The desire to control most or all of a company’s operational phases and thereby create internal synergies is a primary goal for any company or organization. Rupert Murdoch is a master of the vertical integration game. In April 1987, Murdoch’s Australian based News Corporation Ltd. launched the Fox Television Network with 108 affiliates. In the process, Murdoch became a U.S. citizen. In the years that followed, Murdoch steadily improved the position of Fox television by combining a steady source of programming with greatly improved distribution outlets (Lee & Litman, 1991). In 1993, for example, News Corp. acquired the rights to televise the National Football League (NFL). The NFL established Fox as a highly credible player in the field of television entertainment. Shortly thereafter, News Corp. negotiated with New World Communications for partial ownership of 12 VHF stations in key markets throughout the United States, thus improving Fox Network’s affiliation and direct viewer access. News Corp. has taken the philosophy of vertical integration (and complementary assets) to a whole new level by producing films and television programs that can be seen worldwide, including the Fox Television Network (USA); British Sky Broadcasting (U.K & Ireland); Star Television (Asia), 40 program services in 7 languages in 53 countries; and DirecTV (USA). According to Peter Chernin (2003), News Corp’s COO:

About 75% of the world’s population is covered by satellite and television platforms we control . . . mostly in Asia . . . We believe that in this period of global expansion, there are some important strategic bets to make. And we’ve been making them. (p. 92)

The Strategic Necessity of Owning Both Software and Distribution Links

The once clear lines and historic boundaries that separated media and telecommunications are becoming less distinct. The result is a convergence of modes, whereby technologies and services are becoming more fully integrated. The main driving force behind convergence is the digitalization of media and information technology. Digital technology improves the quality and efficiency of switching, routing, and storing of information. It increases the potential for manipulation and transformation of data. As researcher Ithiel de Sola Poole (1990) writes, the organization that owns both software content as well as the means of distribution to the home represents a formidable player in the new world of telecommunications and residential services. Today's TNMC wants to own both software and the means of distribution into people's homes. A clear example of this was Viacom's 1999 decision to purchase CBS for \$37 billion. For Viacom, the purchase of CBS represented an opportunity to obtain a well-established television network as well as a company that owned more than 160 U.S. radio stations (i.e., Infinity Broadcasting). For its part, Viacom already owned several well-established cable network services, including MTV, Nickelodeon, and Showtime. So, the purchase of CBS provided it with a steady distribution outlet for Viacom programs and offered it numerous cross licensing and marketing opportunities (Gershon & Suri, 2004).

Broadband Communication

The term *broadband* communication is used to describe the ability to distribute multichannel information and entertainment services to the home. The goal for both cable operators and local exchange carriers is to offer consumers a whole host of software products via an electronic supermarket (i.e., broadband cable) to the home. Broadband is also a term used to describe the delivery of high speed Internet access via a cable modem or digital subscriber line (DSL). The issue of convergence becomes an important consideration in describing the ability to deliver information and entertainment services to the home using a variety of information delivery platforms, including cable television, telephony, and direct broadcast satellite as well as combined multimedia formats, the Internet, Web TV, online videogames, etc. (Chan-Olmsted & Kang, 2003). The future of tomorrow's so-called "smart home" will allow for the full integration of voice, data and video services and give new meaning to the term *programming*.

Diversification

Diversification is a growth strategy that recognizes the value of owning a wide variety of related and unrelated businesses. In principle, a company that owns a diverse portfolio of businesses is spreading the risk of its investment. Thus, a downturn in any one business during a fiscal year is more than offset by the company's successful performance in other areas. The disadvantage, however, is that some companies can become too large and unwieldy in order to be properly managed. The General Electric Corporation, for example, is consistently ranked as one of the world's leading TNCs. The company is comprised of 11 major divisions including GE Consumer Industrial (appliances, home electronics),

GE Healthcare (medical imaging and diagnostics equipment), GE Commercial Finance and NBC Universal (television and media entertainment) to name only a few.

As a business strategy, diversification can also occur within the parameters of a general product line (Albarran & Dimmick, 1996). Accordingly, some TNMCs are more diverse than others; the differences being a matter of product relatedness and geographical location. In one study performed by Chan-Olmsted & Chang (2003), the authors examined the diversity of product line and geographical operations among seven leading TNMCs. Companies like Vivendi Universal and Bertelsmann were found to be more diverse in terms of product line than companies like Disney and Viacom, which were considered less diverse. Non-U.S.-based companies like Bertelsmann, Sony, and News Corp. were found to be the most geographically diverse. The same study points to the fact that the North American market is especially important from the standpoint of FDI and creating strategic alliances.

News Corp. is an example of a highly diverse TNC, but whose product line falls within the general scope of media news and entertainment. It is also a company whose FDI strategies reflect an abiding philosophy of preferred markets (see Table 10.2).

TRANSNATIONAL MEDIA AND GLOBAL COMPETITION

The decades of the 1990s and the early 21st century have witnessed a new round of international mergers and acquisitions that have brought about a major realignment of business players. Concerns for antitrust violations seem to be overshadowed by a general acceptance that such changes are inevitable in a global economy. The result has been a consolidation of players in all aspects of business, including banking, aviation, pharmaceuticals, media and telecommunications (Albarran & Chan-Olmsted, 1998; Compaine & Gomery, 2000; Gershon, 1997, 2000). The communication industries, in particular, have taken full advantage of deregulatory trends to make ever-larger combinations. Some of the more high-profile mergers and acquisitions include: Viacom's purchase of CBS for \$37 billion (in 1999), America Online's (AOL) purchase of Time Warner for \$130 billion (in 2001) and Comcast's \$54 billion purchase of AT&T Broadband in 2002 (Compaine & Gomery, 2000). The goal, simply put, is to possess the size and resources necessary in order to compete on a global playing field. Table 10.3 identifies the major mergers and acquisitions of media and telecommunications companies for the years 1999 to 2005.

When Mergers and Acquisitions Fail

Not all mergers and acquisitions are successful. As companies feel the pressures of increased competition, they embrace a somewhat faulty assumption that increased size makes for a better company. Yet on closer examination, it becomes clear that this is not always the case. Often, the combining of two major firms creates problems that no one could foresee. A failed merger or acquisition can be highly disruptive to both organizations in terms of lost revenue, capital debt, and decreased job performance. The inevitable result is the elimination of staff and operations as well as the potential for bankruptcy. In addition, the effects on the support (or host) communities can be quite

TABLE 10.2
 News Corporation Ltd.
 Primary Media News and Entertainment Divisions (2004)
 (Select Examples)

Filmed Entertainment	20th Century Fox 20th Century Fox International
Television	Fox Television Studios Fox Broadcasting Company Fox Sports Australia Fox Television Stations Foxtel
Cable Television	Fox Movie Channel Fox News Channel Fox Sports Digital Fox Sports en Espanol
Direct Broadcast Satellite	BSkyB DirecTV FoxTel Sky Italia Star TV
Magazines and Inserts	Gemstar TV-Guide International The Weekly Standard Smart Source News America Marketing
Newspapers	AUSTRALASIA Daily Telegraph Sunday Herald Sun Post Courier The Australian UNITED KINGDOM News International News of the World The Sun The Sunday Times The Times
Books	HarperCollins Publishers
Other Assets	National Rugby League

Source: News Corporation Ltd.

destructive (Wasserstein, 1998). There are four reasons that help to explain why mergers and acquisitions can sometimes fail. They include: the lack of a compelling strategic rationale, failure to perform due diligence, post-merger planning and integration failures, and financing and the problems of excessive debt (“The Case Against Mergers,” 1995).

The Lack of a Compelling Strategic Rationale

In the desire to be globally competitive, both companies go into the proposed merger (or acquisition) with unrealistic expectations of complementary strengths and presumed

TABLE 10.3
Mergers and Acquisitions: Media and Telecommunication Companies
(1999–2005)

<i>Company Name</i>	<i>Description</i>	<i>Price</i>	<i>Date</i>
Verizon and MCI	Verizon will purchase long distance carrier MCI and expand both its local and long distance telephone service.	\$6.7 Bil.	2005 pending
SBC and AT&T	SBC will purchase long distance carrier AT&T and expand both its local and long distance telephone service.	\$16.7 Bil.	2005 pending
NewsCorp and DirecTV	News Corp. paid Hughes Communication \$6.1 billion in order to obtain the DirecTV satellite network.	\$6.1 Bil.	2004
NBC and Universal	NBC acquired Universal Studios from Vivendi Inc. for \$3.8 billion.	\$3.8 Bil.	2004
Comcast and AT&T	Comcast acquired AT&T Broadband (cable) for \$54 billion. The combined company is now the largest cable television operator in the U.S.	\$54.0 Bil.	2002
Vivendi S. A. and Seagrams (Universal and Polygram)	French media group Vivendi S. A. purchased Seagrams which owns Universal Studios and Polygram Records for \$43.3 billion.	\$43.3 Bil.	2001
America On-line and Time Warner	AOL acquired Time Warner Inc for \$130 billion. This was the first combination of a major ISP with a traditional media company.	\$130.0 Bil.	2001
Verizon Bell Atlantic and GTE	Bell Atlantic purchased independent telephone Company GTE for \$52.8 billion. The combined company was later renamed Verizon.	\$52.8 Bil.	2000
Viacom and CBS	Viacom purchased CBS Inc. for \$37 billion. Viacom has major investments in cable programming and film production.	\$37.0 Bil.	2000
AT&T & TeleCommunications Inc. (TCI)	AT&T purchased TCI Inc. for \$48 billion thus enabling AT&T to offer cable television, local and long distance telephone service.	\$48.0 Bil.	1999
SBC Communications & Ameritech	SBC purchased RBOC Ameritech for \$62 billion which allowed SBC to increase its telephone network in the midwest and eastern US.	\$62.0 Bil.	1999

Sources: R. Gershon and Company Reports

synergies. As Ozanich & Wirth (1998) point out, once a target company has been identified, a price level must be established. The challenging aspect to this is the valuation to be placed on the target company. Once negotiations are underway, there is sometimes undue pressure brought to bear to complete the deal. Unwarranted optimism regarding future performance can sometimes cloud critical judgment. The negotiation process suffers from what some observers call *winners curse*. The acquiring company often winds up paying too much for the acquisition. In the worst case scenario, the very issues and problems that prompted consideration of a merger in the first place become further exacerbated once the merger is complete.

Failure to Perform Due Diligence

In the highly charged atmosphere of intense negotiations, the merging parties will sometimes fail to perform due diligence prior to the merger agreement. Both companies only later discover that the intended merger or acquisition may not accomplish the desired objectives (“The Case Against Mergers,” 1995). The lack of due diligence can result in the acquiring company paying too much for the acquisition and/or later discovering hidden problems and costs. An example of this problem can be seen in AT&T’s 1998 acquisition of TCI Cable for \$48 billion. The stock and debt transaction would give AT&T direct connections into 33 million U.S. homes through TCI-owned and affiliated cable systems. For AT&T, the merger agreement represented an opportunity to enter the unregulated business of cable television. It was an intriguing strategy that earned Armstrong respect from all quarters of the telecommunications field for its sheer breadth of vision. The plan, however, did not work out as originally conceived. In October 2000, CEO Michael Armstrong, in a stunning reversal of strategy, announced plans to discontinue AT&T’s original broadband strategy by dividing the company into four separate companies (“Armstrong’s Vision,” 2000). In the final analysis, AT&T was unable to surmount the continuing decline in long distance revenues coupled with the enormous costs of transforming TCI’s cable operation into a state-of-the-art broadband network. In 2001, AT&T agreed to sell its broadband division to Comcast Corporation for \$54 billion.

Postmerger Planning and Integration Failures

One of the most important reasons that mergers fail is due to bad postmerger planning and integration. If the proposed merger does not include an effective plan for combining divisions with similar products, the duplication can be a source of friction rather than synergy. Turf wars erupt and reporting functions among managers become divisive. The problem becomes further complicated when there are significant differences in corporate culture.

The postmerger difficulties surrounding AOL and Time Warner, for example, demonstrate the difficulty of joining two very different kinds of organizational culture. AOL typified the fast and loose dot-com culture of the 1990s, whereas Time Warner demonstrated a staid, more button down approach to media management. The AOL–Time Warner merger was promoted as the marriage of old media and new media. In the end, the once hoped for synergies did not materialize, leaving the company with an unwieldy

structure and bitter corporate infighting. Once the value of AOL stock began to plummet, Time Warner soon took control of the company, and those people associated with AOL were quickly overlooked when it came to strategic decision making. Adding to the tension were new questions about AOL's accounting practices and the way ad revenues were recorded ("You've Got New Management," 2002).

Financing and the Problem of Excessive Debt

In order to finance the merger or acquisition, some companies will assume major amounts of debt through short-term loans. If or when performance does not meet expectations, such companies may be unable to meet their loan obligations. The company may then be forced to sell off entire divisions in order to raise capital or, worse still, default on its payment altogether.

Rupert Murdoch, president and CEO of News Corp. Ltd., is unique in his ability to structure debt and to obtain global financing. The Murdoch formula was to carefully build cash flow while borrowing aggressively. Throughout the early 1980s, Murdoch's excellent credit rating proved to be the essential ingredient to this formula. Each major purchase was expected to generate positive cash flow and thereby pay off what had been borrowed. Each successive purchase was expected to be bigger than the one before, thereby, ensuring greater cash flow. In his desire to maintain control over his operations, Murdoch developed a special ability to manage debt at a higher level than most companies (Gershon, 1997).

The problem with News Corp's debt financing, however, reached crisis proportions in 1991 when the company was carrying an estimated debt of \$8.3 billion. The problem was compounded by the significant cash drains from Fox Television and the BSkyB DBS service. All this came at a time when the media industries (in general) were experiencing a worldwide economic recession. Murdoch was finally able to restructure the company's debt after several long and difficult meetings with some 146 investors. He nearly lost the company. Murdoch was able to obtain the necessary financing but not before the divestment of some important assets and an agreement to significantly pare down the company's debt load. In summarizing Murdoch's business activities and propensity for debt, the *Economist* magazine wrote, "Nobody exploited the booming media industry in the late 1980's better than Mr. Rupert Murdoch's News Corporation—and few borrowed more money to do it" ("Murdoch's Kingdom," 1990, p. 62).

Profiling the AOL Time Warner Merger

On January 10, 2000, AOL, the largest Internet service provider in the United States, announced that it would purchase Time Warner Inc. for \$162 billion. What was particularly unique about the deal was that AOL, with one fifth of the revenue and 15% of the workforce of Time Warner, was planning to purchase the largest TNMC in the world. Such was the nature of Internet economics that allowed Wall Street to assign a monetary value to AOL well in excess of its actual value. What is clear, however, is that AOL president Steve Case recognized that his company was ultimately in a vulnerable position. Sooner or later, Wall Street would come to realize that AOL was an overvalued company with little in the way of substantive assets.

At the time, AOL had no major deals with cable companies for delivery. Cable modems were just beginning to emerge as the technology of choice for residential users wanting high speed Internet access. AOL was completely dependent on local telephone lines and satellite delivery of its service; nor did AOL have any real content. As a company, AOL pursued what Aufderheide (2002) describes as a “walled gardens” strategy, whereby, the company attempted to turn users of the public Internet into customers of a proprietary environment. In looking to the future, AOL needed something more than a well-constructed first screen experience. Time Warner was well positioned in both media content as well as high speed cable delivery. In principle, an AOL–Time Warner combination would provide AOL with broadband distribution capability to Time Warner’s 13 million cable households. AOL Time Warner cable subscribers would have faster Internet service as well as access to a wide variety of interactive and Internet software products (Faulhaber, 2002).

The AOL Time Warner merger may well be remembered as one of the worst mergers in U.S. corporate history. The first signs of trouble occurred in the aftermath of the dot-com crash beginning in March 2000. AOL, like most other Internet stocks, took an immediate hit. AOL’s ad sales experienced a free fall and subscriber rates flattened out. By 2001, AOL Time Warner stock was down 70% (“AOL, You’ve Got Misery,” 2002). AOL’s Robert Pittman was assigned the task of overseeing the postmerger integration.

In the weeks and months that followed, the economic downturn and subsequent loss of advertising had a strong, negative impact on AOL’s core business. AOL found itself financially weaker than it was a year earlier because of rising debt and a falling share price that left it without the financial means to pursue future deals. In the end, Time Warner CEO Gerald Levin bet the future of the company on the so-called marriage of old media and new media, leaving employees, investors, and consumers questioning his judgment as well as having to sort through the unintended consequences of that action. Why didn’t the board of directors at Time Warner Inc. question (or challenge) the strategy in the first place? According to one senior AOL Time Warner official, “Gerry had a firm grip on the board” (“AOL’s Board Digging In,” 2002).

This deal was a big leap of faith, says a person who was at the meeting. Yet the board jumped, assured by Time Warner CEO Gerry Levin that convergence of new and old media and the growth it would produce were real. (p. 46)

In the aftermath of the AOL Time Warner merger, the company’s new board of directors has overseen a dramatic shake-up at the senior executive level, including Levin’s retirement from the company and Pittman’s forced resignation in July 2002 (“Failed Effort,” 2002). In January 2003, Steve Case stepped down as Co-CEO claiming that he did not want to be a further distraction to the company. In their place, company directors installed Richard Parsons as Chairman and CEO and two longtime Time Warner executives as his co-chief operating officers. In January 2003, AOL Time Warner reported a \$99 billion loss from the previous year making it the highest recorded loss in U.S. corporate history. Perhaps the most symbolic aspect of AOL Time Warner as a failed business strategy was the decision in September 2003 by the company’s board to change the name AOL Time Warner back to its original form, Time Warner Inc.

TRANSNATIONAL MEDIA AND GLOBAL COMPETITION

Global competition has engendered a new competitive spirit that cuts across nationalities and borders. A new form of economic Darwinism abounds, characterized by a belief that size and complementary strengths are crucial to business survival. As today's media and telecommunication companies continue to grow and expand, the challenges of staying globally competitive become increasingly difficult (Dimmick, 2003). The relentless pursuit of profits (and the fear of failure) have made companies around the world vigilant in their attempts to right-size, reorganize, and reengineer their business operations. Thus, no company, large or small, remains unaffected by the intense drive to increase profits and decrease costs.

The Deregulation Paradox

In principle, deregulation is supposed to foster competition and thereby open markets to new service providers. The problem, however, is that complete and unfettered deregulation can sometimes create the very problem it was meant to solve; namely, a lack of competition. Researchers like Mosco (1990) call it the "mythology of telecommunications deregulation." Other writers such as Demers (1999) refer to it as the "great paradox of capitalism." This author simply calls it the deregulation paradox. Instead of fostering an open marketplace of new players and competitors, too much consolidation can lead to fewer players and, hence, less competition (Demers, 1999; Gershon, 2000; Mosco, 1990). As Demers points out:

The history of most industries in so-called free market economies is the history of the growth of oligopolies, where a few large companies eventually come to dominate. The first examples occurred during the late 1800s in the oil, steel and railroad industries . . . Antitrust laws eventually were used to break up many of these companies but oligopolistic tendencies continue in these and most other industries. (p. 1)

In all areas of media and telecommunications, there has been a steady movement toward economic consolidation. The exponential increase in group and cross-media ownership is the direct result of media companies looking for ways to increase profits and achieve greater internal efficiencies. The TNMC of the 21st century is looking to position itself as a full service provider of media and telecommunication products and services (see Table 10.4). The same set of transnational media companies are prominent in each of the six categories listed.

CORPORATE AND ORGANIZATIONAL CONDUCT

The challenges and difficulties faced by today's media and telecommunications companies call into question some basic assumptions regarding deregulation and the principle of self-regulation. This reality challenges several decades of conventional wisdom about the efficiency of free markets (Kuttner, 2002). The primary difficulty is that market discipline

TABLE 10.4
Transnational and Second Tier Media Companies Cross-Media Ownership
in the U.S. by Area

Top 10 Television Broadcast Groups

(by market reach)

- **Viacom Inc.** (CBS Television Network)
- **News Corp. Ltd.** (Fox Television Network)
- Paxson Communications Corp.
- **General Electric Co.** (NBC Tel. Network)
- Tribune Co.
- **Walt Disney Co.** (ABC Television Network)
- Univision Communications Inc.
- Gannett Company
- Hearst Corp. (Hearst-Argyle Television, Inc.)
- Trinity Broadcasting Network

Top 10 Radio Broadcast Groups

(by revenue)

- Clear Channel Communications, Inc.
- **Viacom Inc.** (Infinity)
- Cox Enterprises, Inc. (Cox Communications)
- Entercom Communications Corp.
- **Walt Disney Co.** (ABC Radio)
- Citadel Communications Corp.
- Radio One, Inc.
- Cumulus Media Inc.
- Univision Communications Inc.
- Emmis Communications Corp.

Top 7 Film Production Companies

(by revenue)

- News Corp. Ltd. (20th Century Fox)
- **Viacom Inc.** (Paramount Pictures)
- **Sony Corporation** (Columbia TriStar)
- **Walt Disney Co.** (Walt Disney Pictures)
- **Sony Corporation** (Metro-Goldwyn-Mayer)
- **NBC Universal** (Universal Studios)
- **Time Warner, Inc.** (Warner Bros.)

Top 15 Cable Network Services

(by subscribers)

- **Time Warner, Inc.** (TBS)
- **Walt Disney Co.** (ESPN)
- (C-SPAN)
- (Discovery Channel)
- (USA Network)
- **Time Warner, Inc.** (CNN)
- **Time Warner, Inc.** (TNT)
- **Disney** (Lifetime Television)
- **Viacom Inc.** (Nickelodeon)
- **Disney** (A&E Network)
- **Time Warner, Inc.** (Spike TV)
- (The Weather Channel)
- **Viacom Inc.** (MTV)
- (QVC)
- **Walt Disney Co.** (ABC Family Channel)

Top 10 Cable Operating Systems

(by subscribers)

- Comcast Corporation
- **Time Warner, Inc.** (Time Warner Cable)
- Charter Communications, Inc.
- Cox Enterprises, Inc. (Cox Communications)
- Adelphia Communications
- Cablevision Systems Corp.
- Bright House Networks
- Mediacom Communications Corp.
- Insight Communications Company, Inc.
- Washington Post Co. (Cable One, Inc.)

Satellite (by subscribers)

- **News Corp. Ltd.** (DIRECTV)
- EchoStar Communications (Dish Network)

Sources: NCTA, NAB, MPAA

and self-regulation noticeably failed in several instances when it came to unscrupulous deal making, failed business strategy and deceptive accounting practices. During the high-water mark years of the 1990s, investors went along for the ride, delighted as long as stock performance kept rising. U.S. regulators and corporate boards were unwilling (or unable) to spot and regulate fraud when it occurred. And given the respect accorded

deregulation and the low esteem placed on government regulation, the U.S. Congress would not permit regulatory agencies (i.e., the FCC, SEC, and FTC) to challenge the activities of corporate America (Crew & Kleindorfer, 2002).

Today, falling markets and accounting scandals have tarnished the once iconic image of the chief executive officer. The self-dealing that characterized a handful of CEOs has fostered public resentment and called into question a system that would allow senior level executives to pursue high-risk strategies and personal enrichment schemes at the public's expense. As Charran & Useem (2002) point out, management decision-making, under such circumstances, becomes an incremental descent into poor judgment.

Corporate Governance

The role of a corporate board of directors is to provide independent oversight and guidance to a CEO and his or her staff of senior executives. This can involve everything from approving new strategic initiatives to reviewing CEO performance. Corporate boards provide a level of professional oversight that embodies the principles of *self regulation*. One of the important goals of corporate governance should be to prevent significant mistakes in corporate strategy and to ensure that when mistakes happen, they can be corrected quickly (Pound, 2002). The problem occurs when a corporate board of directors ignores its fiduciary responsibility to company stockholders and employees by failing to challenge questionable corporate strategy and/or by permitting unethical business practices to occur. More problematic, is when a corporate board loses its sense of independence. In recent years, many CEOs have tended to operate with corporate boards that have proven highly compliant rather than objective. This was the case with the Walt Disney Company where major investment groups criticized the company's board for failing to challenge (or hold accountable) the financial performance of the company and its CEO, Michael Eisner. There are several contributing reasons that help to explain why corporate governance systems sometime fail. They include: (a) senior management providing corporate boards with limited information; (b) the pursuit of sub-goals by senior managers that are contrary to the best interests of the company or organization; (c) corporate cultures of intimidation where questioning senior management is met with unremitting resistance and the possibility of job loss; and (d) corporate board members who provide consulting services and are, thereby, beholden to senior management (Monks & Minow, 1996; Siebens, 2002). In the worst case scenario, failures in corporate governance can lead to what Cohan (2002) describes as a diffusion of authority, where neither company nor person is fully aware of or takes responsibility for the actions of senior management.

The Walt Disney Company and Corporate Governance

Events surrounding Walt Disney Corporation call into question the rights of investors and the obligations of a corporate board of directors to provide responsible corporate oversight. Throughout the decade of the 1980s and well into the 1990s, Disney's Michael Eisner was a highly respected CEO. Starting in 1984, he had managed to take an otherwise under-managed company and transform it into one the most highly successful media

companies in the world. For the first 8 years, Michael Eisner and President Frank Wells were praised for their executive leadership and marketing savvy. In April 1994, Wells was killed in a helicopter skiing accident in Nevada. His death left Eisner with a personal loss and a difficult void to fill.

One possible choice to fill that vacancy was Jeffrey Katzenberg, then head of Disney Studios. In September 1994, after a long and difficult power struggle, Katzenberg resigned his position and left the company in a highly visible and emotionally charged departure. He later sued Disney for moneys owed him, and eventually reached an out-of-court settlement of \$250 million. Over the next few years, things would go from bad to worse as the company's financial performance did not improve. In 1992, the Walt Disney Company unveiled its Euro Disneyland theme park (later re-named Disneyland Paris). The park was beautifully designed but proved to be a huge financial drain on the company. In 1995, the Walt Disney Company acquired Cap/Cities ABC for \$19 billion. Shortly thereafter, ratings at the newly acquired ABC television network plummeted. Gate admissions at the company theme parks were falling, and the company's overall financial performance lagged behind several of its peer TNMCs. The one bright spot was the financial performance of its cable sports subsidiary, ESPN.

That same year, Eisner hired his long-time friend, Michael S. Ovitz, as president, and agreed to pay him a \$140 million severance package 14 months later when things didn't work out. The Walt Disney Company was later sued in 2004 and 2005 by a group of investors who felt that the company had been derelict in its financial handling of assets. Testimony during the trial has included a number of depositions revealing several embarrassing facts, including \$2 million given to Mr. Ovitz for office renovation; \$76,413 for limousines and rental cars; and \$6,100 for a home X-ray machine. According to an internal financial audit, Mr. Ovitz spent \$48,305 of the company's money for a home screening room and \$6,500 for Christmas tips.

Throughout Eisner's tenure at Walt Disney, the company's board of directors has been routinely criticized for its lack of independence. In both 1999 and 2000, *Business Week* named the Disney board of directors the worst board in America ("The Best and Worst Corporate Boards," 2000). In May 2003, while deciding whether a shareholder lawsuit challenging the \$140 million payout to Michael Ovitz should go forward, Delaware Chancellor William Chandler noted several governance failures by the Disney board, including:

1. Allowing CEO Michael Eisner to unilaterally make the decision to hire Ovitz, who was a close personal friend of Eisner. They did not get involved in the details or consider Mr. Ovitz's fitness for the position.
2. Failing to exercise proper oversight of the process by which Ovitz was both hired and later terminated, including the \$140 million severance package (In *The Walt Disney Company Derivative Litigation*, 825 A.2d 275, 289 (Del. Ch. 2003))

According to UCLA Law Professor, Stephen Bainbridge:

The facts suggest that Eisner hired his buddy Ovitz, fell out with Ovitz and wanted him gone, cut very lucrative deals for his friend Ovitz both on the way in and on the way out,

all the while railroading the deals past a complacent and compliant board. The story that emerges is one of cronyism and backroom deals in which preservation of face was put ahead of the corporation's best interests ("Disney, Ovitz's Compensation," 2004).

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The aforementioned problems were further exacerbated in 2004 when Eisner unilaterally turned down a \$54 billion offer to acquire Disney by Comcast, Inc. Finally, under Eisner's leadership, the Disney company has also estranged its relationship with Steven Jobs's Pixar Animation Studio officials; producers of *Toy Story*, *Finding Nemo*, *Monsters, Inc.* and *The Incredibles*. In 2004, the computer-animation giant elected not to renew its contact with Disney When its distribution deal expires in 2005.

The question should therefore be asked: Why was Disney's corporate board of directors so negligent in performing its duties? The answer, in part, has to do with what Collins (2001) describes as the problem of charismatic leadership and strong personalities. As Collins points out, highly successful CEOs are sometimes used to getting their way. To that end, Eisner was very adept at selecting board members who would prove compliant, including various friends and acquaintances. According to *Business Week*:

Disney's sagging fortunes have turned up the pressure on CEO Eisner, who has tried to soothe critics by making several governance changes . . . Eisner has steadfastly refused to rid Disney's board of his many friends and acquaintances. The board still includes Eisner's attorney, his architect, the principal of an elementary school once attended by his children, and the president of a university that received a \$1 million Eisner donation. That's why many view the changes as token gestures, rather than real reform ("The Best and Worst Corporate Boards," 2000).

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Most of Disney's outside directors board did not have direct access or get involved with the company's day-to-day business operations. They had little or no contact with company employees other than during presentations at board meetings. When problems did occur, most of the board members felt powerless or were so beholden to CEO Eisner, that no one felt confident to come forward and raise the kinds of questions that needed asking concerning the company's business practices and finances. In response to the *Business Week* article and outside investor lawsuit, the company did undergo some reforms of its corporate governance structure. Yet, it becomes clear that Eisner managed to turn those reforms to his own advantage. Roy Disney was forced out by a mandatory retirement provision and the only other persistent critic, Stanley Gold, was kept off key committee assignments because of his business dealings with the firm. Both men subsequently resigned from the Disney board and in a sign of protest created a Web site called SaveDisney.com. In the final analysis, shareholder activism failed because it never made a serious dent in the board's complacency. Eisner was good at boardroom politics and was able to use such reforms to further secure his own position.

The problems associated with Eisner's leadership reached its culmination point in May 2004 at the company's annual stockholders meeting in Philadelphia. Never before in corporate America have shareholders expressed such an enormous loss of confidence in a CEO. Before a highly vocal crowd of more than 3000 investors—some wearing Disney costumes and handing out anti Eisner pamphlets—the company announced that

43% of the nearly two billion votes cast by investors withheld support for Eisner in his post as Disney chairman (“Disney Strips Chairmanship,” 2004). According to Christiana Wood, chief investment officer for the California Public Employees Retirement System, “The fact is, we have just lost confidence in Michael Eisner.” (“Now its Time to Say Goodbye,” 2004, pp. 31–32). In an effort to placate angry shareholders, the board voted to keep Eisner in place as CEO while taking away his title as chairman of the board. Former Maine Senator (and Disney board member) George Mitchell was appointed to the position of chairman. The board was correct in recognizing the need to separate the two top positions, including the decision to appoint a new chairman. That said, 24% the company’s investors also withheld their support for Mitchell: a clear indication that many don’t think he’s the man for the job either. In 2004, Eisner agreed to relinquish his position as CEO in 2006, at the board’s urging.

SUGGESTIONS FOR FUTURE RESEARCH

Research in the field of transnational media management has increased markedly during the past decade. Such studies have tended to focus on strategic planning questions as well as market entry strategies (Hollifield, 2001). Until recently, there were only a select number of studies that looked at the TNMC in terms of cross-cultural personnel management, supply chain management, leadership, corporate conduct and governance issues, etc. This is beginning to change. As Hollifield (2001) points out,

[It is necessary] to begin moving away from simply describing and discussing the global expansion of media enterprises and toward an increased focus on developing models of organizational and managerial behavior that are grounded in theory and can be used to explain and predict the behavior of media enterprises in transnational markets. (p. 142)

As we look to the future, the study of transnational media management and strategic decision making will change in light of two emerging trends. The first trend is the growing importance of the second tier TNMC that now provides an abundance of the world’s media information and entertainment product. In Europe, Asia, and Latin America, the demand for new sources of programming has increased dramatically given worldwide privatization trends and new media technologies. In the past, the purchase of U.S.- and TNMC-made television and film products represented a less costly approach than producing one’s own programs. Today, this is no longer the case.

In Europe alone, U.S.-made television programs account for less than 3% of primetime programming and less than 1% worldwide (Chernin, 2003). Although the TNMC is still a major player in the export of television and film products, several research studies have noted the continued increase in regional production capability in both Latin America (Anatola & Rogers, 1984) and Asia (Waterman & Rogers, 1994). If given the choice, most television consumers prefer programs that are nationally and/or locally produced. Straubhaar (1991, 2003) refers to this as the principle of cultural proximity; that is, a desire for cultural products that reflect a person’s own language, culture, history, and values. Language is often the most important criteria in a host nation’s decision to import

foreign television programming (Wildman & Siwek, 1988). In Austria, for example, almost 12% of the country's television imports come from neighboring Germany. Similarly, Belgium and Switzerland are both major importers of French programming (Kevin, 2003). The principle of cultural proximity holds equally true in Latin America. The Dominican Republic imports a large percentage of its television programs from Mexico-based Televisa, a major producer for the Latin American market.

The second important trend is the demassification of media and entertainment product made possible by the Internet and advanced recording and storage technologies. For marketers, the steady shift from mass to micromarketing is being driven by a combination of technological change as well as strategic opportunity. Increasingly, consumers now have the ability to compile, edit, and customize the media they use. This does not bode well for traditional mass media and the companies who own them (Napoli, 2001). From a marketing standpoint, the value of broadcasting (and large circulation newspapers) are no longer seen as the primary or best means of advertising to smaller niche audiences.

Instead, more and more companies are using the Internet to create Web experiences for a younger generation of users. As Chan-Olmsted (2000) points out, the Internet's interactive capability changes the basic relationship between the individual and media, challenging marketers to shift their emphasis from persuasion to relationship building. "As communication channels continue to proliferate and fragment, successful media firms will have to focus on consumers, rather than on systems of distribution or types of media content" (p. 112). One indication of this trend was a comment made by Coca Cola President, Steven J. Heyer, when he declared that Coke was moving away from broadcast television as "the anchor medium" toward more direct experience-driven marketing (Heyer, 2003). At the same time, the Internet offers complementary opportunities for business organizations to extend their brand as is the case with personalized marketing and online shopping. Perhaps most important, the Internet dramatically changes the traditional business supply chain by allowing information to flow in all directions, thereby enabling faster communication and improved exchange efficiency (Porter, 2001). For researchers, understanding the underlying strategy and full impact of the Internet and micromarketing is still very much in the beginning stages.

Finally, a few research questions researchers should consider in conducting future studies focused on this area of inquiry include:

- To what extent do geographical location and cultural differences affect the ability of TNMCs to implement strategy on a local level?
- To what extent does intelligent networking affect supply chain management in the production and distribution of media products and services by TNMCs?
- During the past decade, researchers like Straubhaar have shown that audiences prefer locally produced television and film products. How do we gauge the growing importance of the second-tier media companies in satisfying the wants and needs of local audiences? To what extent can we expect increased partnership agreements between TNMCs and such second-tier media companies?
- The demassification of media and entertainment products, made possible by the Internet and advanced recording and storage technologies, will likely change the business of TNMC marketing and production. What are some of the likely new marketing and

production strategies TNMCs can be expected to employ in the years ahead? How will these new business strategies affect the profitability and operational efficiency of TNMCs?

- As mentioned earlier, TNMCs are not as global as they would seemingly appear. For companies like Viacom and Time Warner who do a disproportionate share of their business in North America, there will be increased pressure to become more global in scope. Researchers may want to consider some of the important emerging markets for the future and what it means from a strategy standpoint. Researchers should also evaluate the impact of increased globalization of this type on the overall business strategy of TNMCs.

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