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Media as Creative Industries

Conglomeration and globalization as accumulation strategies in an age of digital media

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Introduction: which media economics?

As the contributors to this collection have made clear, an understanding of the economic dynamics of media forms and industries matters. Questions arising from media ownership and organizational structure, private investment and the debt levels of media businesses, the changing nature of media markets, the globalization of media and cultural production as well as its products, and the impact of digital media technologies on the future of media jobs and professions, as well as media content, all draw out the profound and ongoing significance of economic analysis to understanding the media. But while the importance of understanding media from an economic point of view can be readily acknowledged, there are nonetheless limits to applying such insights in practice. One set of issues arises from the normative expectations we have of media. Whether understood in terms of the "Fourth Estate" watchdog on political power, as the putative site for a Habermasian public sphere (Dahlgren 1995), or as being "central to our capacity to define ourselves as citizens" (Schultz 1994), a prevailing view exists that there are many aspects of media structure, conduct, and performance that are too important to simply be determined by commercial markets. Consequently, extensive government regulation of media remains a priority as a safeguard for liberal-democratic politics and discourse.

Another issue is that media economics as a sub-branch of economic theory has often not been particularly helpful in understanding how actual media forms and markets operate. Influential texts in the field define media economics as "the study of how media industries use scarce resources to produce content that is distributed among consumers in a society to satisfy various wants and needs" (Albarran 1996: 5) and "how media operators meet the informational and entertainment wants and needs of audiences, advertisers, and society with available resources" (Picard 1989: 5). In these texts, media economics is essentially about the application of conventional neoclassical microeconomic theory, and to a lesser extent macroeconomic theory, to the media industries. Such accounts tend to take economics to be synonymous with the *neoclassical paradigm* as it has developed from the 1870s onward, particularly around its methodological individualism, its bracketing off of "markets" and "culture," and its understanding of the central economic problem as being primarily about how producers meet the needs and wants of consumers through the buying and selling of goods in the overarching context of scarce resources. As the cultural economist David Throsby has observed, "Despite its intellectual imperialism, neoclassical economics is in fact quite restrictive in its assumptions, highly constrained in its mechanics and ultimately limited in its explanatory power. It has been subject to a vigorous critique from both within and without the discipline" (Throsby 2001: 2). Such limitations have been pointed out by critical political economists such as Graham Murdock and Peter Golding, who argue that "while mainstream economics focuses on sovereign individuals, critical political economy starts with sets of social relations and the play of power" (Murdock and Golding 2005: 62), and Mosco (2009a), who argues that mainstream media economics has been "limited to taking up incremental change within one given set of institutional relations," and that "it tends to ignore the relationship of power to wealth and thereby neglects the power of institutions to control markets" (Mosco 2009a: 62).

A key moment in illustrating both the power of economic ideas in relation to media and the need to think beyond inherited orthodoxies was seen in British debates in the 1980s over the future of public service broadcasting. The Thatcher government's review into the current and future financing of the British Broadcasting Corporation (BBC)—the Peacock Committee chaired by the economist Professor (later Sir) Alan Peacock—was highly skeptical of arguments for a compulsory license fee as the primary basis of BBC financing, and considered privatization of the BBC, or at the very least a radical deregulation of British broadcasting to promote new competitors. Rather than defend the BBC in terms of its cultural value, Collins, Garnham, and Locksley (1988) instead responded to the Peacock Committee in economic terms, arguing that Peacock's framework of liberal welfare economics failed to adequately comprehend the specific features of the broadcasting commodity and how this shaped broadcasting markets and industries. Among the distinctive features of the broadcasting commodity they identified were the immaterial nature of the commodity and the intangible use-value that consumers derive from it, the public good attributes of broadcast programs and the near-zero marginal costs of distribution, and the high sunk costs in new programs as well as the need to generate continuous program innovation and product novelty (Collins *et al.* 1988: 6–10). Their argument for continuation of the compulsory license fee as the primary source of income for the BBC was made not on the basis of the institution's cultural superiority to "the Philistine influence of economic

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analysis" (Collins *et al.* 1988: 2) but rather upon applied economic analysis, albeit of a nature that did not simply replicate the assumprions of mainstream economics.

A second major area in which economic analysis has had an impact on media srudies in the 2000s has been in the debates surrounding *creative industries*. From this perspective, media and design are moving to the center stage of knowledge economies in an era of globalizarion (Venturelli 2005), and the arrs are increasingly serving as incubators of creativity and repositories of cultural value (Throsby 2008). This has given rise ro a great deal of attention on the specificities of the creative industries and the policy implications of idenrifying such economic features (see Flew 2011 for an extended discussion of creative industries policy discourses). Richard Caves (2000) utilized new institutional economics to consider the pervasiveness of contracts as a defining feature of the creative industries, characterized by endemic risk, profound demand uncertainty, and the high sunk costs associated with complex team-based production processes and the need for continuous product novelty. Potts and Cunningham (2008) have also drawn upon Schumpeterian innovation economics to propose rhat, rarher than being secrors rhat are subsidized from the "real economy" to achieve cultural or social goals, the value of creative industries increasingly lies in their role as generators of new ideas and processes that have impacts across the economy as a whole. In this accounr, rhe more that economies become higher income, postindustrial, and technology driven, the greater the size and significance of the creative industries within them become. As the German economist Ernst Engel observed as early as the 1850s, the proporrion of income spenr on basics such as food tends to fall as incomes rise, suggesting that the balance of spending flows more toward specialist goods and services as incomes rise. This insight has been applied more recently by Andy Pratt (2009), who observes the resilience of Britain's creative industries since the onset of the global financial crisis in 2008. In other words, the development of the creative industries is not simply an ourgrowth of the boom times that prevailed in the UK financial sector in the 2000s, but are now a core part of the base of the British economy.

An important feature of creative industries, first identified by Garnham (1990) in relation to media, is the *hourglass structure* of these sectors. They are characrerized by a high number of cultural producers and an infinite number of consumers, but they have historically been consrrained by the high costs associated with content distribution, meaning thar economic power resides with rhose firms thar conrrol disrriburion and rhe delivery of culrural conrent ro markets. Furthermore, high barriers to entry have enabled those firms that control distribution channels to exert monopoly or oligopoly power over other aspecrs of rhe media industries. With rhe rapid adoption of fast-evolving digiral media technologies that substantially reduce these distributional bottlenecks, a major question arising out of creative industries theories is whether the economic power conferred by control over distribution channels and networks is diminishing over time or is being reconfigured around alternative sources of economic rents, such as highly restrictive copyright and intellectual property regimes (Benkler 2006). The debate about whether economic power in the creative industries is shifting over rime toward producers and consumers and away from corporations, or whether new monopolies are emerging in the sphere of distribution, is one with substantial implications for the future development of political economy in media srudies.

The curse of bigness: monopoly, competition, and the media

As nored above, the limitations of mainstream media economics have been readily observed by the *critical political economy* school of media theorists. Vincent Mosco contrasts political economy to mainstream economics, proposing that political economy involves analyzing "the social relations, particularly the power relations, rhar mutually constitute the production, distribution, and consumprion of resources," as part of a broader "study of control and survival in social life" (Mosco 2009a: 24–5). Janet Wasko also observed that "a primary concern of political economists is wirh the allocation of resources (material concerns) wirhin capitalisr societies. Through studies of ownership and control, political economists document and analyze relations of power, a class system, and structural inequalities" (Wasko 2004b: 311). These definitions indicate how a concern with corporate power and how the concenrration of ownership and control in media indusrries and markets impacts—largely in a negative sense—upon the role played by media in public communication, particularly in liberal-democraric capitalist societies. Murdock and Golding (2005) summarize the argument in these terms:

> Media production has been increasingly commandeered by large corporations and moulded to rheir interests and strategies. This has ... been considerably extended in recent years by the sale of public assets to private investors (privatizarion), the introduction of competition into markets thar were previously commanded by public monopolies (liberalization), and the continuing squeeze on publicly funded cultural instirurions. Corporations dominate rhe cultural landscape in two ways. Firstly, an increasing proportion of cultural production is directly accounted for by major conglomerares with inrerests in a range of sectors, from newspapers and magazines ro television, film, music and leisure goods and services. Secondly, corporations that are nor directly involved in the culrural industries as producers can exercise considerable control over rhe direction of cultural activity rhrough their role as advertisers and sponsors. (Murdock and Golding 2005: 64)

It is the firsr of rhese two propositions that I wish to critically inrerrogate here. The media conglomerate wirh its vast, sprawling tentacles insidiously spread across the political, economic, and culrural landscapes is an enduring feature of

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our times, as the all-powerful and sinister media mogul has reigned supreme in popular consciousness, from the central figure of *Citizen Kane* to the Bond villain of *Die Another Day* who bore a strange resemblance to Rupert Murdoch. The media conglomerate is one of a number of "big" institutions that can inspire populist outrage, along with bankers who give themselves excessive bonuses or the "out of touch" political elites of Washington, Westminster, Brussels, and elsewhere. But on the case of media, the concerns about concentrated and unaccountable power exist alongside a set of assumptions about how the existence of large, diversified corporations in the industry landscape impacts upon how media markets operate, which require both explication and some empirical evaluation.

Both the neoclassical and critical political economy paradigms draw upon *industrial organization theory* in order to understand how the level of competition in different media and creative industries markets shapes the behavior of firms in that industry. Industrial organization theory has made use of what is known as the *structure–conduct–performance* (SCP) model to determine how the number of firms in a market, the types of products they produce, and the extent of barriers to entry for new competitors, shape a range of conduct and performance variables in that industry. A model of the SCP framework is provided in Figure 3.1.

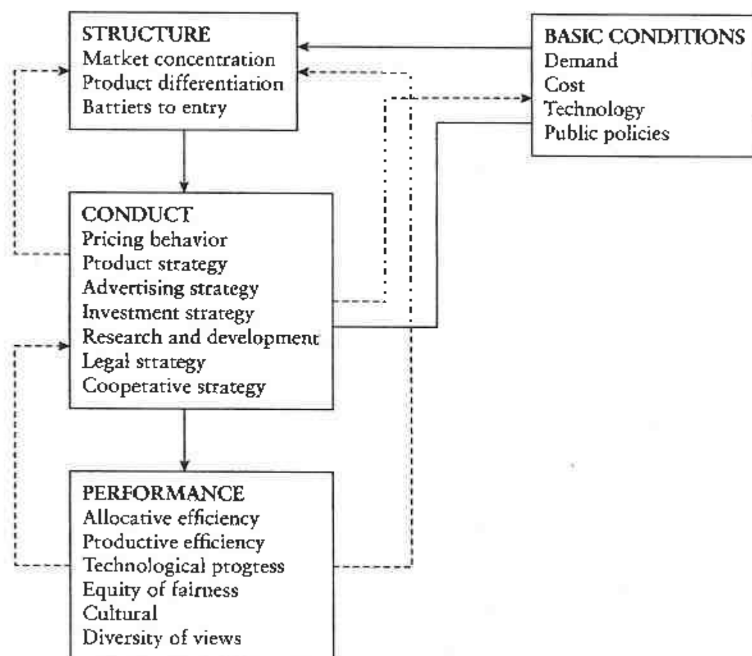

Figure 3.1 Industrial organization framework
Source: Hoskins *et al.* (2004: 145).

This SCP framework generates different types of market structures based on number of firms and type of product, ranging from pure monopoly (one supplier only) to oligopoly (few suppliers, homogeneous product), monopolistic competition (few to many suppliers but differentiated products), and perfect competition (many suppliers, homogeneous product).

The important point that arises from indusrrial organization theory is that most media and media-related industries are oligopolies, where a very small number of firms account for the majority of market share. Industry economists use what are known as *concentration ratios* to measure market concentration, such as the percentage of total market share accounted for by the four largest firms (CR4) and that accounted for by the eight largest firms (CR8). Based on an examination of trends in the United States in the mid-1990s and again during the first decade of the twenty-first century, Albarran and Dimmick (1996) and Noam (2009) found that the US media and media-related industries are characterized by oligopoly or monopolistic competition, with the broadcast television, cable/pay TV, film, and recorded music industries all having CR4 ratios of over 60 percent (i.e. the four largest firms accounted for over 60 percent of total market share). Indeed, all of the industries they surveyed, except for the newspaper and magazine industries, had CR8 ratios of over 70 percent. Noam also argues that trends over the past decade have been toward somewhat greater concentration and that new media (internet service providers, search engines, internet advertising, web browsers, etc.) are not immune to the forces of consolidation either. Similar evidence of market concentration can be found in most other advanced industrial economies. According to the SCP model, we can expect this market structure to influence aspects of *market conduct* (including pricing behavior, product development strategy, advertising strategy, and new product strategy as well as the propensity to cooperate or compete), and this has further market performance implications that may warrant government regulation to deal wirh consequences of imperfectly competitive markets, notably over-investment in similar products alongside underinvestment in others (e.g. specialist programs and those of interest to minorities) or the potential for political power to arise from excessive market power (Picard 1989: 94–9).

While industrial organization theory provides a starting point to understanding media markets, and particularly the much-discussed question of whether there is greater concentration of media over time, it has some significant limitations. One concerns the direction of causality. As Hoskins, McFayden, and Finn observe, activity that is associated with market conduct, such as heavy advertising or predatory pricing, could constitute a barrier to entry, although it is not directly related to market structure (Hoskins *et al.* 2004: 152). Moreover, concentration ratios have traditionally only measured media concentration within industries, whereas the dominant strategies of the largest media corporations have been to operate across multiple industries,

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generating market advantages arising from vertical integration (e.g. ownership of both film studios and television networks) or expanding their range of operations through diversification or conglomeration. Winseck addresses the question of whether concentration ratios continue to be useful in an era of media conglomeration in Chapter 6.

The SCP paradigm is a product of neoclassical economics and its approach to competition. At tbe core of the neoclassical model are individual producers and consumers, whose interactions in markets determine the formation of prices and the allocation of resources. In this model, the optimal state is held to be that of *perfect competition*, where no individual consumer or firm can have market power, and where prices are set purely by these interactions. The paradox of neoclassical theories as they developed from the mid-nineteenth century onward was that, as the theory of perfect competition was progressively refined ar a theoretical level, the evolution of capitalist economies worldwide was increasingly toward the rise of large corporations and the concentration of industries, along with the rise of industries and practices that were clearly associated with strategies to shape market outcomes—the rise of advertising being an obvious and highly visible case (McNulty 1967). As a result, theories of perfect competition have always been open to the charge of being unrealistic in relation to how competition is actually occurring in markets and industries today.

One line of response has been theories of *imperfect competition*, where firms have some control over prices and outputs but not as much as a monopolist would have. The SCP paradigm is based on the "how much control" question and posits an inverse relationship between market structure (as measured by concentration ratios) and firm behavior: The more concentrated the market, the more capacity firms have to exert control over it (Auerbach 1988: 13–22). Many radical critics of corporate media rely on a similar approach but derive their views of imperfect competition from Marxian theories of *monopoly capitalism*. This theory, originally associated with Rudolf Hilferding and V.I. Lenin, has subsequently been applied in its contemporary form by economists such as Paul Sweezy and journals such as *Monthly Review* (Sweezy 1968; Baran and Sweezy 1966; Foster 2000). This latter work has transformed theories of imperfect competition into the more far-reaching Marxist critique of capitalism. The key argument from this perspective is that large corporations have become increasingly able to "tame" the capitalist market and insulate themselves from competitive forces through corporate planning and the use of advertising and marketing, among other things, to manage consumer demand. John Bellamy Foster describes this process as follows:

> With the rise of the giant firm, price competition ceased to take place in any significant sense within mature monopolistic industries. ... In this strange, semi-regulated world of monopoly capital, there is no longer a life-or-death competition threatening the survival of the mature capitalist enterprise. ... Rather, the giant corporations that dominate the contemporary economy engage primarily in struggles over market share. ... It remains a competitive world for corporations in many respects, but the goal is always the creation or perpetuation of monopoly power—that is, the power to generate persistent, high, economic profits through a mark-up on prime production costs. (Foster 2000: 6–7)

A complicating factor in these debates arises from two quite divergent approaches to competition in economic theory. While Adam Smith and the Classical economists identified competition as being central to an understanding of capitalism, this was subsequently interpreted in two quite distinct ways. The dominant neoclassical approach understood competition as generating a system of relative prices and resource allocation. It is from this tradition that media economics has developed (Albarran 2010) and from wbich the concept of monopoly emerges as the negation of competition. The concentration ratio, for instance, aims to track the degree of divergence from a perfectly competitive market, where CR = 0 when there is perfect competition and CR = 1 in cases of pure monopoly. This is quite different to the second, minority, tradition that focuses upon *competition as a process*. This latter conception sees competition as "the attempt to out-do one's rivals in securing goods or customers or revenue or profit" (High 2001: xiv) and is less interested in questions such as relative prices than in the relationship between competition and innovation or competition and regulation. The view is also closer to how business people themselves have understood competition. It was also central to Joseph Schumpeter's conception of capitalism as a dynamic economic system driven by intermittent episodes of *creative destruction* (Schumpeter 1950) and figures largely in the economics of Friedrich von Hayek and the Austrian economists. For Schumpeter, the problem with neoclassical models of competition and their emphasis on equilibrium price settings was that they failed to focus on the dynamic and often cutthroat nature of tbe competitive process, being "like *Hamlet* without the Danish prince" (Schumpeter 1950: 86). Interestingly, there is also a tradition in Marxist political economy that differs from the monopoly capitalism thesis, arguing that competition and monopoly are not diametrically opposed concepts but rather that competition for capital itself acts as a force on firms requiring them to engage in competitive behavior in ways not primarily determined by concentration ratios or market structures (Eatwell 1982).

These views have also been given new life in the work on *competitive strategy* associated with business economists such as Michael Porter (1980). Understood this way, we have the possibility that competition may increase over time, driven by disruptive forces such as technological change, developments in capital and financial markets, and economic globalization (Auerbach 1988). This is not to say that the results will better achieve social or cultural outcomes—they may be less likely to do so—but it is to say that there is no simple movement from competitive to monopolistic markets in the media sector.

Conglomeration as a media corporate strategy

Any listing of the wotld's largest media corporations teveals that they are complex entities that often operate actoss multiple industries and markets. Winseck (2008) has demonstrated the extenr to which these corporations operate as media conglomerates, and it is increasingly the case, as Dimmick observes, that "the media firm that produces a single product in a single market is largely a relic of the 19th century" (Dimmick 2006: 357). For all of the empirical observation of such ttends, however, the amount of actual teseatch into media conglomerates is surprisingly thin and typically based atound single companies, such as Wasko's (2001) pioneering analysis of Disney. One thing behind the rise of large media corporations has been the process of *horizontal expansion*, where the potential to obtain economies of scale and scope can be considerable. Furthermore, "first-mover" advantages and the "high sunk" costs of investment in both media infrasrructure and content can also present significant barriers to new would-be competitors. The case for *conglomeration*, or what Albattan and Dimmick (2006) refer to as "multiformity" and Doyle (2002b) calls "diagonal expansion," is even more complex and harder to define. At rhe heart of this latter sttategy, however, is rhe much used (and abused) rerm "synergy." A concept that tefers to five hypothetical possibilities for a corporation to derive economic benefits from conglomeration across media and media-related industries.

First, there ate advantages associated with *diversification* and the spreading of risks and opportunities across multiple industries and markets. While this is a clear feature of some companies that have rheir origins in media but have evolved into something quite different, such as Richatd Branson's Virgin Group (which started as a record company), the most significant expansions of this sort have been between media and telecommunications companies, as the convergence of digital content and platforms have brought these hitherto distincrive industries—e.g. cable television, internet portals, and conrenr for mobile phones—ever closer together over the 1990s and 2000s. Second, there is rhe scope to tepurpose media content fot multiple platforms, patticularly as the digitization of content significantly reduces the costs associated with teusing content in another format. As Nicholas Negroponte observed in *Being Digital*, "Companies are determined to repurpose their (digital) bits at a seemingly small marginal cost and at a likely large profit" (Negroponre 1995: 63). Third, there is scope to cross-promote media content across platforms, such as a television starion promoting new films being produced by another division of the company and music on a company's recotd label being promoted by radio and TV stations owned by the company. Fourth, *branding* media contenr means that successful media, and the characters associated with it, can be exploited across multiple media and nonmedia platforms. As *The Economist* observed,

> The brand is a lump of content ... which can be exploited through film, broadcast and cable television, publishing, rheme patks, music, the internet and metchandising. Such a sttategy ... is [like] a wheel, with the brand ar the hub and each of the spokes a means of exploiting it. Exploiration produces both a stteam of revenue and furrher srrengthens the brand. (Wasko 2001: 71)

Disney has historically been the master of cross-promotional synergy for its media brands and properties. Content digitization and the identification of ever more tightly defined consumer niches have both seen media conglomerates such as Disney evolve from, as Simone Murtay puts ir, "a household brand to a house *of* btands" (Murray 2005: 422). This relates to the fifth potential advantage of conglomeration, which is rhe ability to exploit *subsidiary rights* that, as anyone with young childten would be particularly aware, can operate across a plethora of nonmedia products, from clothes to lunch boxes to bed sheets. It must be noted that this is often driven as much by the artists as it is by the companies involved: Established musical acts such as The Rolling Stones, AC/DC, and KISS are among those who have demonstrated a capacity over many years to generate revenue stteams from subsidiary merchandising that sit very enticingly alongside the income they generate from sales of their music and concett tickets (Doyle 2008). What Winseck refets to in this volume as the "law of relatively constant media expenditures" indicates that generaring products and services that sit over the rop of media content serves to minimize the inhetent risks associated with the development of new forms of media content.

Does conglomeration work?

So does media conglometation work? Caves (2000) makes the point that critics of media conglomerates see them as agglomerations of barely constrained marker power, while those heading the conglomerates themselves have images of these businesses as "inexhaustible cash machines," extracting economic rents across multiple platforms. These claims are premised upon a proposition that conglomeration works, which is not necessarily borne out by the evidence of media conglomerates in practice. It is frequently the case, in fact, that all parties would do better from arm's-length contractual arrangements than from exclusive dealings within one organization, and this is mote true the more successful the media product.

The strategies of three of the latgest media corporations in the world—Time Warner, Disney, and News Corporation—ptovide insights into rhe pros and cons of conglomeration sttategies in the media sector. It is often the case that media conglomerates that grow through takeovers and mergers bring togethcr management teams that lack compatibility or have expettize in related fields. The merger of America Online (AOL) and Time Warner was

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the most conspicuous case of this; it created an entity whose combined value was estimated at US$350 billion, but it ultimately proved almost impossible in practice to achieve the much-vaunted content synergies across the two very distinct corporate entities. By the time that AOL was quietly spun off from Time Warner at the end of 2009 as a separate public company, its value was a fraction of what it had been at the time of its famous 2001 merger with Time Warner (Arango 2010).

Another example of how the benefits of conglomeration can be illusory is seen with the hit TV comedy *Seinfeld*. *Seinfeld* was produced by Castle Rock Entertainment, which was acquired by Time Warner, but first runs of the program were screened on the NBC network rather than Time Warner's own WB network or one of Time Warner's cable channels. The reason is not surprising: NBC was at that time the highest rating US television network, and *Seinfeld* was an integral part of this ratings success. All parties did much better out of the program screening on NBC than would have been the case had it run on WB, which has smaller audiences and less audience reach, or on one of Time Warner's many other cable channels. To take another example, in 2001 Time Warner's largest advertising client was in fact Time Warner, with US$468 million worth of advertising being spent to cross-promote the company's products on one or another of Time Warner's many media platforms (Fine and Elkin 2002). While this may be presented as evidence of synergy in action, it is in fact revenue foregone, as this churn of money within the organization is an alternative to bringing in real money from other advertisers for the sale of these slots (Flew and Gilmour 2003). Time Warner continued to face the question of whether it should be both a distribution company and a content company, and in 2009 it divested itself of AOL and Time Warner Cable, focusing more upon its perceived core strengths in media content.

Disney is generally seen to be the exemplar of a media company that successfully achieves cross-platform synergies for its media products, and Janet Wasko has traced how it became "the quintessential example of synergy in the media/entertainment industry" (Wasko 2001: 71). There are, however, important differences between its internally generated synergies—best seen in its tightly managed branded products that range from *High School Musical* to *Cars* to *Disney Fairies*—and its mergers and acquisitions strategy. The acquisition of Capital Cities/ABC in 1996 has only generated mixed results, and the successes or failures of the US ABC Network have only a tangential connection to its relationships to Disney. By contrast, the acquisition of the animation company Pixar is widely credited with putting new creative life into Disney's animated products, which had become formulaic and reflective of a factory-like concept development process, unlike the director-driven approach that had brought so much success to Pixar ("Magic Restored" 2008). The success of the Disney–Pixar partnership can be seen as reflective of the fact that animation is clearly in the core capabilities of Disney; in fact, they pioneered the development of business models to bring animated material to mass markets.

This sense of mergers and acquisitions working best when they build upon established core capabilities is also seen with News Corporation. The 2007 takeover of the *The Wall Street Journal* has provided News Corp. with a significant masthead from which to pursue its strategy of shifting access to online news from advertiser financing and free access to "paywall" models and subscription-based access, which News intends to base all of its online publications around. At the same time, while its takeover of social media site MySpace was hailed in 2005 as a case of News Corp.'s owner Rupert Murdoch finally "getting" new media, in practice it has presented greater corporate losses for News than its much more debated "old media" assets such as newspapers. In the fast-moving world of social networking sites, the number of unique hits on MySpace fell from 61.2 million to 42 million between March 2008 and March 2010, while those for Facebook went from 25 million to 117 million over the same period, and Twitter hits were 24 million in March 2010, having barely existed in the public realm in 2008 (Friedman 2010).

The literature on the role of managers in corporations indicates that they frequently identify their own interests as being in the expansion of companies for its own sake, as their salaries are frequently tied to share market performance, which can be connected to the perceived benefits of expansion, even if this is contrary to the longer term interests of shareholders or the firm itself (Fama 1980). Foster and McChesney believe that this has become an economy-wide phenomenon in the current phase of US capitalism in particular (Foster and McChesney 2009). With such a focus on managers as engineers of corporate growth, a great deal of attention is given to the original decision to expand a media corporation or take over another, and far less attention is given to how the merged entity actually performs, meaning that we may well be prone to overstate the success of conglomeration strategies in the media and entertainment industries. Indeed, as Richard Caves concludes,

> The basic traits of creative industries cast a pall of skepticism over the growth of entertainment conglomerates. The synergies they pursue are probably illusory when they seek to improve on the rent-extracting power of auctions. They at best offer defensive value when they unite media content with distribution channels. To create greater value from their integration of functions requires complex collaboration in the development of creative inputs, which requires a water-and-oil mixture of creative talents with bureaucratic planners. (Caves 2000: 328)

Globalization of media corporations: myths and legends

It is frequently taken as a given that the largest media corporations have either become or are becoming truly global entities and that global expansion has been

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a highly profitable option for them, driven primarily by access to new markets and cheaper labor. Robert McChesney has observed that "global media giants are the quintessential multinational firms, with shareholders, headquarters, and operations scattered across the globe" (McChesney 2001: 16). Manfred Steger also argues that "[t]o a very large extent, the global cultural flows of our time are generated and directed by global media empires that rely on powerful communication technologies to spread their message ... [and] a small group of very large TNCs [transnational corporations] have come to dominate the global market for entertainment, news, television and film" (Steger 2003: 76).

The available evidence on these points, however, is far less clear-cut than is commonly assumed. Part of the problem is a tendency to overstate the extent to which the operations of these companies are truly global. Using the UNCTAD (United Nations Conference on Trade and Development) Transnationality Index, my own research found that, in 2005, companies such as Time Warner, Viacom, and Disney were deriving about 20 to 25 percent of their revenue from outside of North America (Flew 2007: 86–7). While this is a moderate level of globalization—certainly higher for all of these firms than was the case 10–15 years earlier—it is not high enough to justify classifying these firms as "functionally integrated global corporations"; rather they are what economic geographer Peter Dicken refers to as "national corporations with international operations" (Dicken 2003: 225). The outrider here, and the company with the strongest claims to being a truly global media corporation, is News Corp., which generates 44 percent of its revenues outside of North America. But the picture here is complicated, as News was until 2004 an Australian company, generating over 90 percent of its revenues outside of its home country (Flew 2007: 85–8), indicating that the size of the home market is a relevant variable in determining how "global" media companies actually are. Even in the case of News, however, it still needs to be made clear that much of its corporate success continues to be in English-speaking countries; by contrast, the long struggle to establish a base in China has cost the company billions (Curtin 2005; Dover 2008).

There are three issues to be considered in assessing the implications of the globalization of media corporations:

1. The relative significance of reducing costs to internationalization strategies.
2. The relationship they have to nation-states in the host countries.
3. The extent of competition faced from nationally based media corporations.

Theories based on the new international division of cultural labor model, most famously developed by Miller, Govil, McMurria, and Maxwell (2001) and inspired by Frobel, Heinrichs, and Kreye (1980), propose that the ownership advantages possessed by multinational corporations (MNCs), such as their globally integrated supply chains and high-profile brands, would see them triumph over nationally based competitors. They also view their foreign investment activities as being primarily a mix of factors such as access to primary resources, access to new markets, the availability of low-cost labor, and incentives, such as tax incentives or lower levels of worker or environmental regulation, being offered by governments. In this scenario, economic globalization is seen as a "race to the bottom," disadvantaging governments and workers in both their home countries and the host countries, as corporations "increasingly ... play workers, communities, and nations off against one another as they demand tax, regulation, and wage concessions while threatening to move" (Crotty, Epstein, and Kelly 1998: 118).

An issue raised in recent work on the economic geography of MNCs (Dunning 2001; Dicken 2003) was *why* such large firms would undertake such foreign direct investment in the first place, given that they understand these markets less well than their home base, skilled local labor is harder to recruit, and there are a range of potential political risks. There are other, less risky, options open for large corporations to access new markets and/or unique resources that do not involve the direct investment of physical capital, including equity investment in local partners, import/expott arrangements with local distributors, and various forms of strategic partnerships. Dunning (2001) proposed that what had not been given much consideration in earlier models of MNC investment behavior was the role of what he referred to as *internalization advantages* or the ability to capture local sources of knowledge as part of developing a more global knowledge base for the corporation. Such advantages can include organizational learning, cultural awareness, new innovation opportunities, and opportunities to augment existing intellectual assets and minimize the problems of "cultural distance" that act as barriers to the promotion of global products and brands. Dunning's key point was that the primary goal of MNCs in international expansion has been shifting over time from one driven primarily by the oppottunities to extract more profits from existing assets (e.g. by lowering labor costs) to strategies that focus upon "the creation, as well as the use, of resources and capabilities ... [to] organize their activities in order to create future assets" (Dunning 2001: 100).

Once we incorporate this perspective into questions of why media corporations expand their international operations—noting the earlier caveat of simply assuming that they are global media corporations—three research questions present themselves. The first relates to the type of product and the forms of production process involved. Michael Storper (1997, 2000) has argued that what he refers to as *deterritorialization*, or the offshoring of production of generic commodities in order to develop a lower cost global value chain, is only one of the possible features of global production systems, one characterized by *flow-based production systems* where resources are

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easily substitutable between one place and another, and assets can, therefore, be distributed across multiple locations. This is contrasted to *territorialized economic development*, defined as "economic activity that is dependent on territorially specific resources" (Storper 1997: 170), including specific practices, routines, and relationships that have evolved over time in particular locations. The argument is that these are not disappearing with economic globalization: On the contrary, as the locational dimensions of innovation are recognized (as in the literature on economic clusters), and as demand is generated for "de-standardized" commodities, or those products that can attract a price premium based upon real or implied distinctiveness, space can become more, not less, significant as an economic variable in the context of globalization. Little work has taken place that considers the implications of this for the economic geography of global media, but we can note the questions that Goldsmith and O'Regan (2003) have asked about the assumption that cost factors are the primary drivers of international film production decisions as well as the consideration given in the work of Michael Curtin (2007, 2009) to the rise of Asian media capitals as competitors to "Global Hollywood."

The second set of research questions concerns the relationships between media corporations and nation-states. The assumption that these companies simply "roll over" governments by virtue of their global reach is not supported by either the recent literature on MNCs (e.g. Dicken 2003; Rugman and Brewer 2003) or that on global production networks (Ernst and Kim 2002; Henderson, Dicken, Hess, Coe, and Yeung 2002). Rather, this work suggests a series of ongoing game-like relationships, where the relative strength of each party varies over time and across countries. The "race to the bottom" scenario is only one of a range of possibilities, with ongoing knowledge and technology transfer being another. It is also important to note that MNCs are at their strongest at the point prior to an investment decision being made, but that power and influence accrues to the host country the more the fixed capital is invested and production relationships become embedded. It also makes little sense to be seeing nation-states as diverse as, say, China and Honduras as being in equivalent bargaining positions vis-à-vis foreign media corporations. The study of such media policy issues requires consideration of different levels of state capacity in bargaining with MNCs, as it does in other business fields. Keane (2006) has begun to map the relationship between global media and the emergence of new production centers in East Asia, drawing attention to a spectrum of possible outcomes between being simply a "fly-in/fly-out" component of cost-driven "world factory" audiovisual production on the one hand, and developing sustainable agglomeration advantages associated with being a "creative cluster" or "media capital" on the other.

Finally, the question remains of whether we have been too quick to use globalization theories to write off nationally based media. Just as the extension of access to "global" media content does not lead to a homogeneous global media culture (Tomlinson 2007), and the vast bulk of the world's media content remains local or national in its circulation (Tunstall 2008), nationally based incumbent media continue to have significant advantages in their own markets, regardless of the superior resources and brand leadership of the big global media companies (Straubhaar 2008). These include accrued knowledge of local audiences, the absorption of sunk costs associated with establishing the service, the most recognized local media personalities, and long-standing links to political parties and government decision-makers. It can be too easy to assume that globalization entails a unilinear shift from the local to the national to the international, rather than a complex, multiscalar set of processes in which the space of the nation retains a vital economic, political, and sociocultural significance (Amin 2002).

Conclusion

In this chapter, I have aimed to draw upon diverse strands of media economics to tell a slightly counterintuitive tale. As we have watched the largest media corporations become larger, more internationalized, and more diversified, there is a tendency to presume that this points to an inexorable expansion of their market power and a resultant diminution of competition in media markets. I have pointed to three reasons why this may not necessarily be the case. The first is that understanding competition primarily in terms of the number of competitors in a particular market is only one way of thinking about the competitive process, and there are influential traditions that focus more upon competitive strategy and the dynamics of technological innovation and what Jospeh Schumpeter termed "creative destruction." It is no surprise that these nonmainstream traditions in competition research are becoming more significant at the present time, as we are in an era of fundamental change in the techno-economic paradigms that underpin media industries, associated with convergence, digitization, and network economics: Some of these dynamics are captured in the emergent creative industries' analytical framework (see Flew, 2011, for further discussion).

Second, I have pointed to a series of potential downsides of media conglomeration that needs to be considered in any account of the phenomenon and the risks of assuming that we can take corporate media managers at their word on proclaiming the success of media synergies. As *The Economist*, the international bible of the corporate world has put it, when these media giants start talking about synergies, "run to the hills" ("Media Companies' High Spirits" 2010). There is very often a gap between what is presented as the favorable outcomes of such strategies at the time of their gestation (e.g. when mergers are proposed or initial stock offerings occur), and what actually materializes in practice. While we talk of the successful application of synergies

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in a company such as Disney, we forget the many instances where such ventures simply fail because corporate history tends to focus upon instances of success rather than those of failure or even mixed results.

Finally, I have argued that the proposition that the internationalization strategies of large media corporations need to be subjected to more empirical analysis, to better understand the motivations that underpin international expansion, the relative success of these strategies, the relationships that emerge with the nation-states of the host countries, and the effectiveness of the competition they face from local incumbents. Much recent work in economic geography suggests that older paradigms that saw the MNC as all-powerful against its local competitors have underestimated the advantages that accrue to local incumbents. This is particularly important in media industries, where significant cultural discount applies to the consumption decisions made around nonlocal media content. In all of these cases, the arguments I have put forward point to the need for more empirical work, and a greater degree of circumspection, in relation to claims about the economic power of the global media giants than has hitherto been the case in global media and communication studies.

4

The Structure and Dynamics of Communications Business Networks in an Era of Convergence

Mapping the global networks of the information business

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Disney Corporation boasted a market capitalization of US$63.7 billion, employed 144,000 employees around the world, and earned US$37.8 billion in revenue in 2009.[1] It owns the major movie studios Walt Disney Pictures, Miramax, Pixar Animation, and Touchstone Pictures and television channels available in 190 countries, including the Disney Channel, ABC networks, ESPN, SOAPNet, Lifetime (37.5 percent), Jetix (Latin America and Europe), SuperRTL (Europe), and Hungama (India). In addition to these media outlets, Disney maintains theme parks, resorts, and cruise lines and produces merchandise ranging from books to home décor. What can we infer from this long list of properties? Are large communications conglomerates like Disney, News Corp., and Time Warner worthy of consideration because they own countless numbers of studios and television stations in countries and markets around the world? Or should we evaluate their power in terms of how much money they make, their political influence, or their market share?

A number of scholars have documented the increased size, market concentration, and vertical and horizontal integration of global communications business conglomerates.[2] This chapter takes a slightly different approach by examining the implications of media ownership concentration through the theoretical lens of networks. Scholars such as Eli Noam (2001) and Yochai Benkler (2006) have wrestled with the transformational power of computer-mediated networks. However, there has been little substantive engagement by political economists with the body of theoretical and empirical work that considers networks as a set of socially embedded processes and the defining feature of contemporary social organization rather than an exogenous variable (e.g. Castells 2000, 2009; Latour 2005). As this chapter will argue, technological and accompanying

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