

A Tale of Two Synergies: An Institutional Analysis of the Expansionary Strategies of News Corporation and AOL-Time Warner

Terry Flew and Callum Gilmour

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Abstract

This paper undertakes an institutional analysis of the recent strategies for corporate expansion undertaken by News Corporation and AOL-Time Warner. It outlines the central elements of an institutional approach to media analysis, noting its relationship to critical political economy. Observing that the core proposition of such an approach is that corporations seek control over their external environment, but questioning the proposition that enterprise size is itself a guarantee of such control, it contrasts the recent strategies of News Corporation and AOL-Time Warner, in relation to globalisation, cross-media platform development and synergistic expansion. It argues that News Corporation is a global media enterprise in ways that AOL-Time Warner is not, and that the key to this expansion has been a willingness to let go of control through strategic partnerships and joint ventures. By contrast, AOL-Time Warner's search for synergistic expansion through merger has largely proved illusory, whereas a 'network enterprise' strategy, that eschewed expansion and control in favour of strategic partnership, may have proved more successful.

Institutions and Institutionalism

Institutions have been the critical organizational innovation of the last one hundred years. With the dismantling of traditional forms of social life that has been a consequence of the rise of capitalist modernity, the concentration of economic resources into the form of corporations, and the growth of the nation-state as the principal regulator of economic, social and cultural life, institutions have become the organizational form most able to mediate relationships that exist in forms of mutual interdependence:

Social, political and economic institutions have become larger, considerably more complex and resourceful, and *prima facie* more important to collective life. Many of the major actors in modern economic and political systems are formal organizations, and the institutions of law and bureaucracy occupy a dominant role in contemporary life (March and Olsen, 1989, pp. 1-2).

W. Richard Scott has defined institutions in the following terms:

Institutions consist of cognitive, normative and regulative structures and activities that provide stability and meaning to social behaviour. Institutions are transported by various carriers – cultures, structures, and routines – and they operate at multiple levels of jurisdiction (Scott, 1995, p. 33).

Scott's definition of institutions brings out three related but distinct elements. First, institutions characteristically have a *regulative* element, as they are mechanisms for setting rules and establishing routines. Malcolm Rutherford has defined an institution as 'a regularity of behaviour or a rule that is generally accepted by members of a social group, that specifies behaviour in specific situations, and that is either self-policed or policed by external authorities' (Rutherford, 1996, p. 182). At the same time, individuals do not simply comply with rules on the basis of rewards or punishments, but because they conform to some sense of shared values. It is in this second sense that institutions possess a *normative* element that their members commit to, that creates the basis for their durability over time. Work on comparative public policy, for example, has drawn attention to the ways in which organizations acquire a degree of *path dependency* in their responses to the external environment, that are in turn shaped by ideas, values and commitments that have come to be shared by key individuals within the institution (Castles, 1988; Hall and Taylor, 1996; Peters, 1999). Finally, there is a *cognitive* dimension to institutions, as institutions confer identities, providing the conditions through which individuals construct a shared discourse, or ways of understanding and interpreting what they see around them.

A focus upon the importance of institutions as forms that both regulate individual conduct and enable collective action has been characteristic of institutionalism. Institutionalism has a long history as a methodology in the social sciences, existing alongside, and often in opposition to, other dominant discourses. In the field of economics in opposition to methodological individualism, or the assumption that societal outcomes can be derived from a series of axioms about the conduct of rational, maximising individuals. In this framework, also known as *neo-classical economics*, firms are treated as single decision-making units operating in a market context, whose conduct is shaped independently by consumer preferences, and whose behaviour can be understood as being relatively similar regardless of the differing size of actual firms and their relative power in markets (Hodgson, 1988, Chs. 3-5; cf. Stilwell, 2002, Ch. 20). By contrast, institutionalism gives a central role to the interplay between technology and organizations, the exercise of power in markets, and transformations in institutional behaviour and social organization over historical time. Geoff Hodgson describes the firm as 'an institution of power, rather than one that survives due to its cost-cutting efficiency' (Hodgson, 1988, p. 214), and observes that it functions in part as 'a kind of protective enclave from the potentially volatile and sometimes destructive, even ravaging speculation of a competitive market (Hodgson, 1988, p. 208).

The relevance of institutional analysis to the study of global media arises from the centrality of the *corporate form* to media organization in the 20th and 21st century. Large-scale corporate organizations have come to dominate the media and related industries in the 20th century, as there has been both greater concentration of media

ownership, and the absorption of small-scale commercial media producers and distributors by larger corporate conglomerates. What is significant about media concentration and conglomeration is that they mark a period where the interests of those other than the direct producers of creative content prevail in the determination of organizational priorities, and where calculations based on criteria other than cultural value achieve primacy in decisions about what is and is not produced and distributed. In such corporate organizational cultures, the owners and executives of large corporations in the media and creative industries will seek to maximize the profits, revenue, market share, share price, etc. of their own particular enterprise (c.f. Hesmondhalgh, 2002, pp. 68-70).¹

The significance of media institutions taking a corporate form can also be seen in the ways in which work is organized. Richard Caves has argued that institutions come to prevail in the media and creative industries sectors as they provide the best means by which endemic risk and uncertainty about creative production and the demand for its final products can be managed, through the ‘internalization’ of multiple contracts within a single institutional entity (Caves, 2000, pp. 15-17). Hodgson points out that the firm provides ‘an institutional framework within which, to some extent, the very calculus of costs is superceded’ (Hodgson, 1988, p. 207). Davis and Scase (2000) have drawn attention to the rise of bureaucracy in both the commercial and publicly-supported creative industries sectors as a means of controlling and co-ordinating the creative process. In the bureaucratic model, the mechanisms of control and co-ordination are explicit and hierarchical, and creative people are motivated both by conventional measures of income and status within the organization, and by some degree of ‘internalized commitment’ to the organization and its values. Within commercial organizations, the internalization of contracts within the corporate form provides, as Caves (2000, pp. 10-14) has observed, a means of having access to creative content in ways that can internalize the risk and uncertainty associated with the capacity of such content to reach audiences and realize sales in cultural markets.

The corporate form of institutional organization in the media sector also has attached to it a series of legal and governance requirements. These include both generalized forms of law and regulation such as company law, workplace relations law, and competition policy, and specific forms of policy and modes of regulation applied specifically to media organizations as socially and culturally influential institutions. Price (1995), Streeter (1996) and Donald (1998) have observed, in relation to broadcast media, that both the nature of broadcasting property (the licence to broadcast) and broadcasting markets are artefacts of government policy, and the ways in which industry structure and conduct are shaped through law and regulation. Monroe Price prefers to refer to government *structuring* of broadcast television rather than regulation, since ‘government structuring refers to the specific efforts by governments to determine the ownership, management, and content of systems for the distribution of television signals and the associated aspects concerning the production of programmes’ (Price, 1995, p. 16). This structuring of the right to broadcast through government-sanctioned property regimes can be seen as an example of how ‘the state shapes an economy’s *organizational structure* – the different institutional arrangements that actors use to co-ordinate exchange and production’ (Campbell and Lindberg, 1990, p. 634). Broadcast media mark out a specific instance of what Campbell and Lindberg identify as a more generalized capacity of government

agencies to both define the nature of property rights and the legitimate domains through which they can be exercised:

Property rights define the institutional basis of power relations in production, exchange and accumulation, rather than just the relationship of actors to property. The ability to manipulate property rights affords the state important leverage over the balance of power among actors in the economy (Campbell and Lindberg, 1990, p. 642).

The institutionalist approach has much in common with that of critical political economy (Garnham, 1990; Golding and Murdock, 1991; Gandy, 1992; Mosco, 1996; Sussman, 1997). Both approaches have developed in media and communications research, and in the social sciences more generally, as alternatives to the orthodoxies of liberal economic and political thought, including post-WWII mass communication theory (c.f. Babe, 1993) Both approaches share a common critique of mainstream economic theory, summarised by Golding and Murdock (1991, pp. 17-22) as:

1. A focus on the interplay between economic organization and social, cultural and political life, as opposed to a compartmentalisation of economic theory from other domains;
2. A methodology which starts from an understanding between social relations and relations of power, rather than methodological individualism and consumer sovereignty;
3. A concern with the historical processes which underpin contemporary forms of economic organization, rather than an a-historical, comparative statics approach;
4. A concern with the relationship between corporate power and public intervention, seen not simply as the government regulation of commercial markets, but as entailing mediation of the relationship between capitalism and liberal democracy;
5. A demand that explicitly stated ethical principles, such as justice, equity and the public good, act as framers of intellectual practice, and a rejection of the positivist distinction between 'facts' and 'values'.

An institutional approach draws attention to the strategies used by corporations to achieve *control over the external environment*, arguing that the corporate form has been a necessary institutional development for the exercise of such power, particularly in light of the scale and cost of new technologies, and the risks associated with the application of new technologies in order to produce new products for mass markets (e.g. Galbraith, 1973). To this end, corporations are forced to plan, and to exercise control over market variables such as costs, prices, relations with suppliers, consumer demand, and, indeed, over the regulatory environment in which they operate. Stilwell (2002, pp. 230-235) has identified four levels at which corporate planning involves the exercise of power in order to achieve greater control over the external environment:

1. *Power within the corporation*: there must be alignment between the interests shareholders, corporate boards, and managers within the corporation;
2. *Power between corporations*: large corporations in oligopolistic markets (i.e. those with relatively few suppliers) will characteristically minimise the extent

of potentially destructive competition with one another, while at the same time exercising power in relations with suppliers and distributors, who are typically in more competitive market environments and become dependent upon the large corporations. For Galbraith, this has generated a *dual economy*, between those large corporations that he terms a part of the *planning system*, and smaller corporations who continue to operate in the more conventionally-defined market system;

3. *Power over consumers*: in contrast to mainstream neo-classical economics, where consumer preferences drive production, Galbraith argued that large corporations employ an increasing share of their resources to the creation of new consumer wants, and the management of consumer demand, through advertising and other sales promotion activities;
4. *Power over state agencies*: large corporations invest heavily in the development of industry associations, and the building of lobbying networks, in order to ensure that state regulatory agencies come, ideally, to share their views on what is best for the industry.

The question which needs to be asked is to what extent they succeed in achieving such control over their external environment. It has been argued that institutional analysis has often assumed too much control by institutions over their external environment, and given insufficient weight to the factors which constrain institutional conduct. According to Graham Murdock (1982) institutionalism has tended to overestimate the power and autonomy of large corporations, and to understate the continuing significance of competition as a constraining force upon corporate institutional power. Murdock (1982) has observed that institutional theories tend to be strongly influenced by ‘managerial revolution’ theories, which assume that control over large corporations has passed from owners to managers, who prioritise corporate growth and control over the external environment over profits.

This focus upon external constraints also challenges the tendency of institutionalists to equate competitiveness with size, and to assume that large corporations face less competition than smaller businesses. Such an approach is consistent with recent empirical work on competition, which stresses that it is the scope to restrict the entry of new players into an industry, rather than the structure of an industry *per se*, or the size of the largest corporations in an industry, that determines the degree of competitiveness in a market (Collins and Murrioni, 1996, pp. 59-60). Clifton (1977) has also argued that competition is in fact greater in advanced capitalism than in earlier eras, as the development of global capital markets maximises the scope for financial capital to move freely in search of the highest rates of return, which in turn acts as a powerful disciplining force upon corporate behaviour.²

An attempt to synthesise the institutionalist and Marxist perspectives in order to understand contemporary capitalist enterprises can be found in the theory of *monopoly capitalism*. In his influential development of this theory, Paul Sweezy argues that while monopolization (the concentration and centralization of capital) was anticipated in Marx’s own writings, its subsequent development meant that there had been a transition from competitive to monopoly capitalism in the 20th century (Sweezy, 1987). The monopoly capitalist theory holds that large corporations in monopolistic or oligopolistic markets have acquired a substantial degree of control over their external environment, to the extent that a permanent hierarchy of profit

rates can be maintained that correlates to the concentration of industries (Sweezy, 1987, p. 302).

The theory of monopoly capitalism is important in an understanding of contemporary global media as it informs some of the most influential work in the political economy of communications. Most notably, it provides the conceptual underpinning for the critiques of media concentration and the expansion of global media found in the work of Robert McChesney, Edward Herman (Herman and McChesney, 1997; McChesney, 1999; McChesney, 2002). In a recent appraisal of the operations of global media markets and the restructuring of economic ownership, McChesney observes that:

The global media system is fundamentally non-competitive in any meaningful economic sense of the term. Many of the largest media firms have some of the same shareholders, own portions of one another, or have interlocking boards of directorates ... the global media market more closely resembles a cartel than it does the competitive marketplace found in economic textbooks (McChesney, 2002, pp. 155, 156).

In their well-known books, *The Global Media: The New Missionaries of Global Capitalism*, Edward Herman and Robert McChesney argue that media globalisation is, in effect, the relentless dynamic of giant media corporations in monopoly capitalism expanding their operations onto a world stage. They propose that 'the global media market is dominated by ten or so vertically integrated media conglomerates ... [which] operate in oligopolistic markets with substantial barriers to entry' (Herman and McChesney, 1997, p. 104).

The question of whether the global media has become concentrated to such a point that competition is being gradually eliminated in the media sector has recently been the subject of debate on the Web site *openDemocracy* www.opendemocracy.org. McChesney's argument that 'there are now fewer and fewer companies controlling more and more' (McChesney, 2001) has been contested by Benjamin Compaine, author of *Who Owns the Media* (Compaine and Gomery, 2000). Compaine argues that: the share of the top 50 media companies over total U.S. media revenues in 1999 is comparable to that of 1986; there has been significant movement within the 'league table' of major media companies; the Internet has introduced new forms of competition to traditional media giants; and that the competitive advantages associated with conglomeration and globalisation need to be weighed up against new forms of risk and possibilities to accrue losses that such expansionary activities can lead to (Compaine, 2001). While more sympathetic to the politics of McChesney than the position of Compaine, David Hesmondhalgh has also acknowledged that there are limits to assuming that 'every takeover or merger and every announcement of a corporate alliance is presented as if it were evidence of terminal decline' (Hesmondhalgh, 2001), and has pointed to the limits of conflating concentration of ownership with a lack of diversity of content, or with a loss of autonomy for creative personnel.

Media Corporations and the External Environment: Concentration and Conglomeration

From the analysis developed so far, it can be anticipated that media corporations will adopt strategies of expansion as the principal means of achieving greater control over their external environment. Expansion in the media sector not only involves competitive strategies to expand market share within particular industries and geographical markets, but may also take five other forms:

1. *Horizontal expansion*, through takeovers, mergers and acquisitions of competitors within the industry in which they are dominant, or the development of new products and services within that industry;
2. *Vertical expansion*, or takeovers, mergers and acquisitions of related production and distribution interests within the industry supply chain, or the development of new enterprises in these related areas;
3. *Diagonal expansion*, or *conglomeration*, which involved expansion into complementary activities, either through mergers and acquisitions or the development of new enterprises, that enable productive synergies to be developed;
4. *Diversification*, or expansion into non-media activities (or, correspondingly, non-media companies expanding into media industries);
5. *Globalisation*, or the expansion of production or distribution into other national or regional markets.

The last decade has been an intense one in media-related merger and acquisition activity. As Table 1 shows, expansion through conglomeration or diagonal expansion was at least as important as direct media mergers through horizontal or vertical expansion.

Table 1

Major Media Industry Mergers and Acquisitions 1989-2000

Year	Acquiring firm	Acquired firm (new name in brackets)	Price \$US billion	Type of strategic expansion
1989	Time Inc.	Warner Communication	14.1	Diagonal (publishing with film/broadcasting/music)
1994	Viacom	Paramount Communication	8.0	Diagonal (broadcasting/cable with publishing, film and theme parks)
1994	Viacom	Blockbuster	8.5	Vertical (distribution control)
1995	Disney	Capital Cities/ABC	19	Vertical (linking content creation, packaging and distribution in TV broadcasting)
1995	Time Warner	Turner Broadcasting	7.4	Vertical (linking content and distribution across broadcast/cable TV)
1995	Seagram	MCA (Universal)	5.7	Conglomeration (spirits distiller moves into diversified media)
1995	Westinghouse	CBS	5.4	Conglomeration (general conglomerate moves into broadcasting)

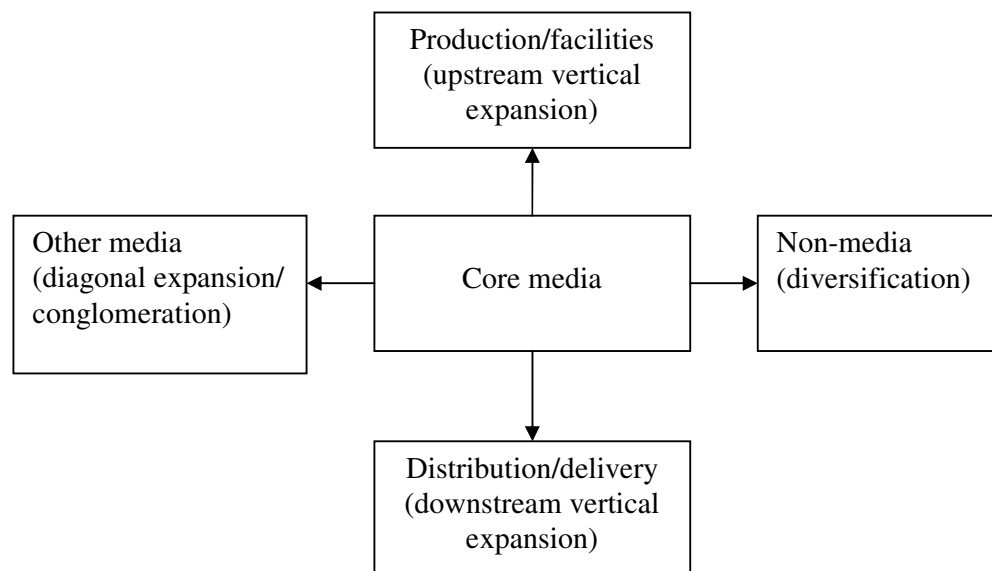
1998	AT&T	TCI/Liberty Media	48	Diagonal (telecoms-media convergence)
1998	Seagram	PolyGram	10.6	Diversification
1999	Carlton	United	8	Horizontal (merger of European media groups)
1999	Viacom	CBS	22	Vertical (consolidation of broadcast/cable media interests)
2000	Vivendi	Seagram/Universal	35	Conglomeration (diverse European conglomerate with media and non-media interests buys into US-based media interests)
2000	AOL	Time-Warner	128 ³	Diagonal (merger of Internet service provider with media conglomerate)

Source: Hesmondhalgh, 2002, p. 136.

We can make sense of these expansionary strategies in the following manner:

Figure 1

Expansion Strategies of Media Corporations



Source: Sanchez-Taberner *et al.*, 1993, p. 66.

From the point of view of individual media corporations, the benefits associated with expansion through concentration and conglomeration are as follows:

1. Increased size offers substantial opportunities to realise *economies of scale*. As the marginal costs of reproduction of media products and services are typically low, approaching zero in industries such as broadcasting, the capacity to

increase profitability through the expansion of market share is substantial. Gillian Doyle has documented a strong correlation between the size of market share and operating profit margins in the United Kingdom's television broadcasting, television production, radio broadcasting and newspaper industries (Doyle, 2002, pp. 46-60);

2. The size of media institutions, and their operation across multiple media, enables *economies of scope* to be realised, as diversification of output allows for a greater degree of product differentiation, to meet highly diverse audience tastes. Caves (2000, p. 6) observes that creative outputs are both *vertically differentiated* (i.e. there are distinct and recognisable differences in format, genre etc. within the product range), and *horizontally differentiated* (i.e. there are differences within a format, genre etc. that are recognizable to consumers and inform their consumption decisions – both Vin Diesel and Steven Seagal may make 'action' films, but the differences in style for an action film *connoisseur* are considerable);
3. The advantages of *critical mass* in providing leverage in deals with suppliers, buyers and advertisers, particularly if this is seen as having the potential to be linked to future expansion;
4. There is scope for *cost reduction* through vertical integration in particular, as they offer the opportunity to reduce transaction costs through the 'internalization' of information about market requirements and product development strategies, and reduce the time and cost associated with contract negotiation and content acquisition. The national networking of broadcast TV and radio stations can be understood as a cost reduction strategy along these lines;
5. There is also scope for *risk reduction*, as the uncertainty of consumer demand for individual creative and media products – what Richard Caves terms the 'nobody knows' principle (Caves, 2000, p. 3) – can be minimized through the devotion of greater resources to market research, and through the capacity to operate across multiple media, thereby 'covering all bases' in case of significant changes in consumer preferences (e.g. a switch from cinema to TV, as occurred in the United States in the 1950s, or a switch towards home-based entertainment, or accessing content through the Internet);
6. Vertical integration provides ready access to content streams over time, by securing a link between the content production, content packaging and content distribution elements of the media supply chain;
7. Finally, and most tantalisingly, media conglomeration has offered the opportunity for cross-promotion of media content and the realisation of *economic rents* across multiple media. Disney has been a master of achieving such product synergies across its movie production and distribution, publishing, merchandising and theme park divisions (Wasko, 2001), and attempts to realise such cross-media synergies have been many and varied over recent years.

Notwithstanding all of these potential benefits arising from media concentration and conglomeration, there are a number of economists who are sceptical of the claims that 'bigger is better', and that the growth of the size of media corporations necessarily entails the diminution of competition. Taking the latter proposition first, there is an argument that large diversified media conglomerates are most likely to be the new players in markets characterised by long-established oligopolies and significant

barriers to entry. The most obvious example is the development by News Corporation of the Fox Network as a direct competitor to the ‘Big Three’ U.S. commercial broadcasters in the mid-1980s. There seems to be little doubt that, with the development and growth of cable and satellite TV, and the emergence of new broadcast networks such as Fox and UPN, the three major broadcast networks in the United States – CBS, NBC and ABC – have faced a much more competitive environment in U.S. television than was the case in the 1970s.

More generally, dangers exist in corporate expansion in the media industries based upon vertical integration and conglomeration. Compaine (2000) draws attention to the *paradox of vertical integration*, where the guarantees of ready access to content assured through such strategies may lead to ongoing access to the ‘wrong’ content in terms of market demand, while better content is developed outside of the organization. From the point of view of media content producers, there are dangers associated with being too closely linked to a single media distributor, that arise from both the potential to get more financially remunerative contracts from competitors, and the potential constraints upon creative autonomy.

There is also a long history in the media industries of corporate bankruptcies resulting from the pursuit of spurious synergies, and exposure to new forms of risk by entry into industries that the parent company had little knowledge of. A far too literal belief in the rise of the knowledge economy, for example, led one Australian media entrepreneur – the now-jailed beer and boating tycoon Alan Bond – to invest in both a private university and a commercial TV broadcaster, on the spurious belief that the former may provide content to the latter! (O’Regan, 1993, p. 45). More recently, virtually all significant media corporations in the late 1990s made an investment in Internet-related stocks, or developed new online enterprises, on the back of the ‘dot.com’ boom on the NASDAQ, only to either sell shares at a substantial loss or quietly absorb these loss-making ventures back into the parent company, as the early 2000s revealed the hype surrounding Internet enterprises to be substantially overstated. Richard Caves is sceptical about the potential for expansion of media corporations and the achievement of greater control over their external environment through conglomeration, observing that ‘the synergies they pursue are probably illusory ... [and] they at best offer defensive value when they unite media content with distribution channels’ (Caves, 2000, p. 328).

A Tale of Two Synergies: News Corporation and AOL-Time Warner

News Corporation and AOL-Time Warner represent two global corporate media giants through whom we can test some of these arguments. They are both clearly in the ‘top tier’ of global media corporations, with AOL-Time Warner having global revenues of \$40.96 billion in 2002, and News Corporation having revenues of \$29 billion in 2002. They are two parts of what McChesney (1999, p. 91) terms the ‘Holy Trinity of the global media system’, the third being Disney Corporation. Both exemplify a strategy of expansion through vertical and diagonal integration, and have indeed been central to its most critical moments: News Corporation’s acquisition of 20th Century Fox and the Metromedia broadcasting stations in 1985 marked the first big merging of film studios with television interests, and created a competitor in U.S. broadcast markets for the ‘Big Three’ television networks, while the merger of Time

Inc. and Warner Communication in 1991 marked the first major development of the recent conglomeration boom. The 2001 merger of America OnLine and Time-Warner, as well as being the largest merger in corporate history, also involved the most dramatic attempt to develop productive synergies between traditional print and broadcast media and the dynamism of new media and the Internet to generate truly convergent media platforms and content.

The extent to which both AOL-Time Warner and News Corporation operate across multiple media industries and platforms can be seen from the table below:

Table 2

Media Interests of AOL-Time Warner and News Corporation 2002

	AOL-Time Warner	News Corporation
Net Revenue 2002 (\$US bn)	\$40.9bn	\$29bn
Country of Origin/ Corporate HQ	United States	United States/Australia
Broadcasting & Cable/ Satellite TV	CNN, Turner Broadcasting, Cartoon Network, WB Television Network	Fox Broadcasting, Sky Global, Fox Sports, BSkyB (UK), FOXTEL (Aust.), STAR TV (Asia), ZEE TV (India), Canal Fox (Latin Am.)
Movie Production & Distribution	Warner Communications, New Line Cinema, Hanna-Barbera, Castle Rock	Twentieth Century Fox, Fox Filmed Entertainment
Newspapers & Magazines	Time Inc., Time-Life, DC Comics	TV Guide, Weekly Standard, New York Post (US), The Times, The Sun, News of the World (UK), The Australian and various (Aust.),
Publishing	Little, Brown & Co., Warner Books	Harper Collins, Morrow/Avon
Recorded Music	Atlantic, Elektra, Maverick, Rhino, Warner Music, WEA	
Multimedia	America Online (AOL) incl. Netscape, CompuServe, ICQ	EA.com (partial), Healtheon/ WebMD, TheStreet.com (with New York Times), Gemstar-TV Guide International
Other Interests	Sporting teams (eg. Atlanta Baseball, Hawks Basketball)	Sports teams (eg. LA Dodgers baseball), National Rugby League (Aust.-50%), Newspoll (Aust.- 50%)

Just as the case of News Corporation and AOL-Time Warner display important similarities as strategies for expansion through vertical integration and conglomeration, they also display very important differences. Three stand out: (1) News Corporation's globalisation strategy and its linkages to a 'network enterprise' model; (2) the pros and cons of cross-platform synergy, particularly between film studios, television networks, and cable systems and channels; and (3) the spurious nature of synergistic expansion when it simply involves cross-subsidisation within the conglomerate enterprise, and the scope for organisational friction in the newly-merged AOL-Time Warner.

a) News Corporation as a Global Network Enterprise

In his polemic with McChesney, Compaine argues that there is only one truly global media enterprise, and that is News Corporation. News Corporation generates 24.4 per cent of its revenues outside of the United States, as compared to 20.3 per cent for AOL-Time Warner.⁴ More importantly, 32.2 per cent of News Corporation's assets are held outside of the United States, with 11.1 per cent in the United Kingdom and Europe, 9.7 per cent in Australasia (Australia, New Zealand and the Pacific), and 11.4 per cent held in Asia and Latin America. By contrast, AOL-Time Warner does not list its assets located outside of the United States in its Annual Report since the overwhelming bulk of its international revenues are derived from the sale of U.S. copyrighted products abroad.

In terms of globalisation theory, the difference is crucial. While AOL-Time Warner is largely engaged in what U.S.-based media corporations have done since the 1920s – selling creative products to the rest of the world – News Corporation has been systematically engaged in the building of a geographically dispersed assets base through direct foreign investment, strategic partnerships, and mergers and acquisitions. Indeed, its entry into the United States film, broadcasting and cable markets in the 1980s from its home base in Australia marked it out as a media corporation that was developing a truly global market strategy. Dunning (2001) argues that it is this activity to accumulate a geographically dispersed assets base, and to seek competitive advantage in multiple national and regional markets through foreign investment, rather than simply marketing product on an international scale, which enables us to speak of the current era as one of an emergent *global capitalism*.

News Corporation's globalisation strategy has also been marked by the significant role played by joint ventures and strategic partnerships in its investments outside of its three 'home bases' of the United States, Australia and Britain. Outside of the area of newspapers and magazines – where News Corporation has no significant holdings outside of the US, Britain and Australasia – and outside of the activities of Fox Filmed Entertainment and Fox Television in the United States, joint ventures and strategic partnerships have indeed been the norm. In its investments in Asia and Latin America in particular, News Corporation has displayed the characteristics that Dunning (2001) identifies as increasingly characterising the foreign investment strategies of multinational enterprises (MNEs):

1. A sequential relationship between foreign portfolio investment (in the form of joint ventures, strategic partnerships, and mergers and acquisitions) preceding

foreign direct investment, as part of the *network enterprise* (Castells, 1996, 2001) or *alliance capitalism* (Dunning, 2001) strategy, that emphasises inter-firm networking;

2. An increasing importance being attached to *strategic asset seeking* investments that better enable MNEs to internalise local advantages in terms of organizational learning, cultural awareness, innovation opportunities, and opportunities to augment knowledge assets in a variety of national and regional markets, as compared to *cost-reducing* investments aimed at lowering production costs in products intended for distribution in world markets;
3. Foreign investments aimed at acquiring greater access to knowledge assets and intellectual capital rather than direct production resources (land, capital, labour, resources), in order that an MNE can ‘organize its activities in order to create future assets, rather than optimize the use of its existing assets’, and better engage in ‘the creation, as well as the use, of resources and capabilities’ (Dunning, 2001, p. 100).⁵

Table 3

**News Corporation’s Strategic Partnerships and Joint Ventures,
2002**

	UK & Europe	Asia	Japan	Latin America	Australia & New Zealand
Broadcasting, Cable/ Satellite TV	BSkyB (36%) Stream (50%) Balkan News Corp. (75%)	STAR TV Channel [V] (87.5%) Phoenix Satellite TV (37.6%) ESPN STAR Sports (50%) Vijay TV (51%) Viva Cinema (50%) Zee Telefilms (3.9%) Space Shower Networks (10%) Taiwan Cable Systems (20%) Hathway Cable and Datacom (26%)	SKY PerfecTV! (8.1%) News B’casting Japan (80%) JSky Sports (14.3%) Sky Movies (50%) Nihon Eiga Satellite B’casting (15%)	Cine Canal (22.5%) Sky Latin American DTH Platforms * Mexico-Innova (30%) * Brazil – NetSat 36%) * Sky Multi-County Partners (30%)	FOXTEL (25%) Fox Sports Aust. (50%) Sky Network TV (30%)

Movie Production & Distribution				Fox Studios Baja Canal Fox Telecine (12.5%)	
Other Interests	NDS (79%) Broadsystem The Wireless Group (19%) Sky Radio (71.5%) Radio 538 (42%) News Outdoor Group (75%)	Beijing PDN Xinren Information Technology (69.6%) 21CN Cybernet Crop (41%) UTV Software Comm (19.9%) Digiwave Infrastructure (50%) Yesky.com (20%)			News Interactive Festival Records Newspoll (50%)

Louw (2001) has identified News Corporation's global business model as being that of the *global network enterprise*, where:

We can find multiple (and proliferating) styles of control and decision-making being tolerated in different parts of the network, so long as those at the centre of the web can gain from allowing a particular practice and/or organisational arrangement to exist in a part of their networked 'empire' (Louw, 2001, p. 64).

Louw is drawing here upon Manuel Castells' (1996, 2001) account of the network enterprise as the emergent form of business organisational practice in the global network-based economy, as it possesses the advantages of scalability on a global scale (i.e. it can be expanded or contracted through entry into/withdrawal from partnerships, rather than direct investment in physical capital), managed flexibility, and the benefits of co-branding and common access to a pool of content. As will be indicated below, News Corporation's networked, partnership-based form of expansion has proved to possess advantages that have not been found in strategies of synergistic expansion through mergers, as AOL-Time Warner has pursued.

Cross-Platform Synergies

Both News Corporation and AOL-Time Warner have reinvented themselves as corporate entities through mergers and acquisitions. Through the acquisition of Fox and other strategies to become a global film and television giant, News Corporation went from being an enterprise whose assets were overwhelmingly in newspaper and magazine publishing in the 1980s to one that now has 63.7 per cent of its total corporate assets in the areas of film, television, and cable/satellite network programming. The Time-Warner merger of 1989 brought together the strength in publishing of Time Inc. with the longstanding presence in film, music and television

production of Warner Communication, and this was further expanded into the cable television area with the acquisition of Turner Broadcasting in 1996.

The strength of cross-platform synergies is most clearly seen in the relationship between film studios, television networks and cable/pay television platforms. It is in this area that the synergistic possibilities of control across the media supply chain are most apparent.

Figure 2

The Media Supply Chain



Source: Doyle, 2002, p. 18.

The four major U.S. based media players – AOL-Time Warner, News Corporation, Disney and Viacom – have all moved aggressively in this direction, particularly in their US operations, principally through mergers and acquisitions:

Table 4

Vertical Integration of Film Studios, TV Networks and Cable Platforms

	AOL-Time Warner	News Corporation	Disney	Viacom
Film Studio	Warner Bros	Fox Filmed Entertainment	Disney	Paramount (acquired 1994)
TV Network	WB Network	Fox TV	ABC (acquired 1995)	CBS (acquired 1999) UPN
Pay TV platform	Time Warner Cable	DirecTV (acquired 2003, subject to FCC clearance)		Viacom Cable
Pay networks/channels	HBO Cinemax TW Sports CNN Comedy Central TBS	Fox News Fox Kids Fox Sports Fox Movies FX National	Disney Channel ESPN History Channel E! Entertainment	MTV Nickelodeon Nick at Nite CMT TV Land TNN

TNT	Geographic	VH1
TCM	(50%)	Showtime
Cartoon Channel		Comedy Channel

The consequences of such vertical integration can be seen in recent US network programming strategies. McChesney (1999) observed that the big six Hollywood studios (Warners, Disney, Universal, Paramount, Fox and Columbia) accounted for 37 of the 46 new prime time shows on US network TV in 1998. Moreover, the four studios which also own TV networks (Warners/WB, Disney/ABC, Viacom/UPN and News Corp/Fox) produced 29 of these 46 shows, which went almost entirely to their own network (McChesney, 1999, pp. 21-22). The Viacom/CBS merger, which occurred in 1999, strengthened this trend still further. That said, the questions still need to be asked: 'Is this new?', and 'Does it work?'. In particular, does it work to articulate these strategies, developed in the context of the US mediascape, to a global strategy for corporate expansion?

Vertical integration is not a new phenomenon in the media industries. From the advent of the twenties until the outset of the 1950s, the period known as the 'golden age of Hollywood', the much celebrated studio system was characterised by the in-house nature of all facets of production, distribution and exhibition. Hollywood was characterised during this period by an extremely high concentration of ownership and vertical integration, that included control over content creators (actors, writers etc.) as well as the means of production and distribution (Balio, 1990; Sklar, 1994). With 95% of screen time controlled by the majors, smaller independent producers and exhibitors were effectively shut out of the market. This in turn sparked anti-trust investigations by the Justice Department which resulted in the Supreme Court putting an end to vertical integration in 1948, divorcing exhibition from production and distribution and outlawing block booking practices. The end of this first great era of vertical integration coincided with the rise of television in America, which by 1959 reached 90% of all homes.

In contrast to the first wave of vertical integration, which focused upon control over creativity as well as distribution, the vertical integration practices of the last two decades have been primarily driven by the need to secure multiple revenue windows for expensively produced television programming, or what has been described above as economies of scope. News Corporation, through its US-based studio and network Fox, and its globally spread subscription television platforms (Sky Global Networks (SGN)), has explored the possibilities of squeezing the absolute maximum value out of its content. In addition to global distribution, media conglomerates like News exploit their content by sharing programming across their multiple delivery platforms. This strategy, dubbed 'repurposing' or 'multiplexing', has seen prime-time dramas and sitcoms repeated on cable channels as soon as one day after their network airing:

Fox has exposed viewers to its drama *24*, by showing it once a week on its broadcast network, and twice a week on its cable channel Fx. With repurposing, the networks are trying to give viewers more chances to see a show, therefore re-aggregating the lost audiences. "The economics of the industry don't justify the expensive programming we're making right now,

unless you have additional windows to exploit it,” says Jamie Kellner, Chairman and CEO of Turner Broadcasting (Gunther, 2002:110).

AOL-Time Warner operates a strategy of multiplexing a number of its broadcast network, through the cross-platform distribution of programs such as *Charmed* and *The Gilmore Girls* on its broadcast network WB and its cable network TNT). As a relatively new network trying to establish itself and its programming, multiplexing allows WB to grow its audience, and generate aggregate ratings to compete with the established ‘big four’. While AOL-Time Warner’s broadcast groups earn almost 20% of its income, multiplexing is seen by the company as being vital to meeting ever increasing production costs, and its ability to sell integrated advertising packages across the parent company’s multiple platforms. While major advertisers like McDonalds and Coca-Cola have signed up for multi-platform cross-promotions, the company is still a long way from establishing the much vaunted synergies its merger promised, as discussed below.

Much is made of content that ‘travels’, realising economies of scope on the basis of its global reproducibility through a vertically integrated television company like News Corp’s Sky Global initiative. Sports content has been branded in this respect as ‘the killer application’, and Rupert Murdoch has described it as his ‘battering ram’ for entry into new television markets (Chenoweth, 2001). However, sport requires specific investment in multiple markets and has less ‘networking’ or ‘multiplexing opportunities’ than film and general entertainment programming. Despite its global popularity, it remains particularly local or regional in its consumption and therefore requires a lot of direct investment in local markets to secure audiences. Business analyst Jake Waters has observed that observed that:

At a very high level the competition and emotion invested in sport is something that is common around the world, but the individual sports and competitions that different countries care about varies tremendously. As a result, sport is truly global, yet the specific sport is intensely local.’ (Waters, 2000:24).

This parochialism means that the networking of sports programming involves intensive localising. It also means that the ‘cultural discount’ (Hoskins and Mirus, 1998) attached to sports programming when distributed outside of the context of its local competitions has the potential to be very high indeed. This in turn places a premium on access to some of the more ‘globalised’ sports, such as the Olympics and Winter Olympics, the football World Cup and Formula One motor racing, yet makes it difficult to realise the costs of acquiring rights to many local and national sporting competitions from outside of their home markets particularly difficult.

The case of sports rights has, in recent years, supported the value of combining content and platform ownership. As new pay television services were launched in the 1990s, the sports rights market exploded as competing services bid up the value of sports content. However, the last three years have seen a contraction in platform numbers and a ‘reflux of horizontal integration’ (Pereira, 2003). This has been particularly strong in Europe, with AOL/TW and Vivendi Universal recording heavy losses and selling off some of their pay television interests. Attrition has seen the closure of ITV Digital in the UK, the merger of Spanish platforms Canal Satellite and Via Digital and the union in Italy of platforms Telepiu and Stream. With a greatly

reduced platform base to compete for content, the cost of programming has fallen significantly.

While this devaluation of content has seen News Corporation heavily write-down its sports assets, it has also presented the company, as a major platform owner and purchaser of sports rights, with a significant medium-term opportunity to reap the benefits of this reduction. It has thus far proved to be the media conglomerate most likely to turn theory into practice and speculation into profits through the realisation of economies of scope through the processes of vertical integration. The company's investments in international pay television platforms, combined with its readymade Hollywood content bases and global sports rights holdings, provide a solid foundation for global expansion. The purchase of the US satellite platform DirecTV further strengthens the content and production base, by providing News Corporation with its long sought-after North American subscription distribution service (Chenoweth, 2003).

Spurious Synergies: AOL-Time Warner since 2001

In the post 'dot.com' world, AOL-Time Warner has become the world's largest cautionary tale. With its share price in mid-2003 at one-quarter of the level that it was when the merger was announced in January 2001, and having posted the largest net loss in world corporate history – \$US98.7 billion in 2002 – it is not hard to find anyone who would reject the claim that the synergies sought in the merger of AOL and Time-Warner has failed. Yet at the time of the merger, it was generally expected to succeed, and much energy was invested, both by its competitors and public interest advocacy groups (e.g. Aufderheide, 2002). What was the 'it' that failed in the case of the AOL-Time Warner merger?

The general consensus is that the failings of the AOL-Time Warner merger prove the limits of synergising content and delivery platforms across traditional broadcast and online media. There is certainly much truth in this, particularly as it becomes apparent 'content is not king' (Odlzyko, 2001), at least not in the forms that it is delivered to consumers through networked ICTs. But the merger also draws attention to two of the problems with problems with vertical integration and conglomeration strategies that critics of the 'bigger equals more powerful' position in media analysis have been pointing to.

One is that much of the so-called vertical integration can be one section of the organisation cross-subsidising another. It became apparent, for instance, that of the \$5 billion AOL-Time Warner spent on advertising in 2001, \$468 million was 'spent' on advertising across its own media portfolio (Fine and Elkin, 2002). Intra-corporate advertising and cross-promotion is, of course, heralded as one of the benefits of conglomeration, but it can create the illusion of advertiser demand for placement within content that is, in terms of overall corporate revenues and profitability, somewhat illusory.

The second issue raised by expansion through diagonal integration is that of incompatibilities between the different organisational elements of the newly-merged entity. These have long been rumoured to be a problem within Time-Warner, particularly since the 1996 merger with Turner Entertainment with its high-profile

CEO Ted Turner, but intensified with the merger, particularly at AOL as the ‘content’ strategy moved it from its core business in promoting connectivity. Insofar as benefits could be derived from closer links between the two companies, it is arguable that licensing arrangements and joint ventures – the network enterprise model – could have achieved the benefits of cross-platform synergies without the risks associated with conglomeration.

Conclusion

This paper has sought to undertake three activities. First, it has explored the institutional tradition and its relevance to undertaking a political economy of media and communication. It has drawn out from this literature a critical evaluation of organizational strategy and its relevance to expansion in the media sector. Second, it has identified different expansion strategies for media corporations, and drawn attention to the limits of the ‘bigger is better’ approach to media corporations seeking to achieve greater control as institutions over their external environment. In relation to the nature of media competition in an age of globalisation, it suggests not the disappearance of competition in an age of globalisation, but rather changes in the forms and strategies associated with competition. The immanent break-up of Vivendi Universal certainly confirms that size in itself is not in and of itself a guarantee of success, and the extension of the model of monopoly capitalism from national to global markets, as undertaken by critical political economists such as Herman and McChesney, may require a greater degree of analytical scrutiny than has often been the case. Third, using News Corporation and AOL-Time Warner as case studies, this paper has found evidence that supports those who argue that there are limits to conglomeration as a synergistic expansion strategy, particularly as media corporations become increasingly global in their sphere of operation. Rather, it has found evidence to support Castells’ (2001) assertion that the network enterprise model is particularly well suited to an understanding of News Corporation’s global expansion, and provides insights into the limits of the synergistic expansion model pursued through the merger of AOL and Time Warner in 2001.

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¹ Tomlinson (1982) has argued that these goals are by no means synonymous, and do not provide a predictable guide to corporate behaviour. It is possible, for instance, that losses may be accepted within a particular industry sector in order to expand overall market share, which may be at odds with the strategy that would maximize the overall corporate profit rate. Also, corporate decision-making may be driven by a perceived 'short-termism' among financial institutions and capital markets, which priorities short-term returns for shareholders over longer-term capital investments.

² This should not, however, be seen as presenting a case for the disappearance of difference between the institutional frameworks of national economies. Christopherson (2002) has observed that corporate governance regimes significantly influence approaches to time and risk in different national economies. She argues that a focus on short-term profitability and an acceptance of investment risk being much stronger in the United States than in countries such as Germany and Japan. This has rendered the United States more dynamic in the development of innovation-based and intellectual capital-based production. As the 'dot.com' failures and the bankruptcy of Enron and WorldCom show, however, it also generates a system of management rewards where the salaries of Chief Executive Officers and other major managers was linked to growth in the share price of the corporation, promoting a culture of non-disclosure of adverse information and excessive risk-taking.

³ The AOL-Time Warner merger was valued at \$350 billion when announced in January 2000, and was at \$128 billion at the time in which the merger was approved by the US Federal Communications Commission. The fall in value reflects the fall in share values for the two companies over the course of 2000, as the value of Internet and new media stocks fell sharply.

⁴ All figures are taken from the AOL-Time Warner *Annual Report 2002* and the News Corporation *Annual Report 2002*.

⁵ By contrast, AOL-Time Warner sold 64 per cent of its stake in China Entertainment Television & Broadcast (CETV) to the Hong Kong-based TOM Group in July 2003, only 18 months after establishing CETV as one of the first ventures by a Western media organisation into mainland China, and after having invested \$US60 million in the venture (TV Asia, July 2, 2003).