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"Media Conglomerate Diversification and Interest Conflict in the Convergence Age"

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Abstract

As more and more media merged by the conglomerates in the digital convergence age, the news department contributes just the small portion of revenues and needs the subsidy from other diversification. The institutional conflict of interests may arise among media and other businesses. This study analyzed two newspaper groups in Taiwan to find how they restructure their media organization, spaces, facilities and staffs; whether they apply innovative business model to generate new revenue streams; how they would deal with the dilemma between the revenue and the ethical problem.

I. Introduction

There are more and more giant media conglomerates in the digital era. Some achieve the goals through mergers and acquisitions, and the others set up new divisions from scratch (WInseck, 2010). In the digital convergence age, it is often assumed that a newspaper article might be expanded to a magazine article; which could become the basis for a hardcover book; which, in turn, could be a paperback; then, perhaps, a TV series; and finally, a movie. This conceptual advantage, termed synergy, has induced the diversification of many media companies (Jung & Chan-Olmsted, 2005).

Chan-Olmsted and Chang (2003) analyzed the top 7 global media conglomerates' product and geographic diversification strategies. They found that the complementary nature of content and distribution and the windowing process for media content products play a role. Except for the product diversification, most of the giant media set up services globally or merge local media corporations to create horizontal, vertical and diversification synergies.

Stephan (2005) argued two types of differential scope of diversification needed to be discussed: traditional economics of scope that grant the media firm a short-term competitive advantage over rivals, and dynamic scope effects that contribute to a sustainable competitive advantage. For example, the major benefit of diversification results from the media firms' competence to expand its stock of strategic assets and knowledge-based resources faster and at a lower cost than its single-business rivals, rather than simply amortizing existing assets.

However, most of the studies focused on the number of the diversification units (Jaemin & Chan-Olmsted, 2005), but few researches actually analyzed the details of everyday resources allocated among different organizations of the media conglomerates. Especially if the newsroom is also one of the units to compete for the resources, there may be some interest conflict arisen (Davis & Craft, 2000). Currently, there are more and more news media merged with the food, bank, insurance and hotel conglomerates in Taiwan and the freedom of speech might need to be further discussed.

II. Literature

1. The Trend of Media Conglomerate Diversification:

One of the motives for diversification that has been suggested is the transaction cost theory, which states that diversification facilitates the use of excess resources and thereby enhances efficiency. Other goals for the corporate diversification are to avoid the market failure and reduce the risk of management as well as the economic fluctuations (Amit and Livnat, 1988). Booz, Allen, and Hamilton (1985) defined *diversification* as a means of spreading the base of a business to achieve improved growth and/or reduce overall risk that may take the form of investments that address new products, services, customer segments, or geographic markets.

The element of synergy involves developing a single concept for various media and also reduces the risk of production. For example, a children's story may be packaged as a comic book, movie, music label, TV cartoon, and computer game. By doing this, media conglomerates can take advantage of simultaneous revenue streams, thereby generating as much profit as possible from a single idea (Croteau & Hoynes, 2001).

Another aspect of synergy involves cross-promotion. Media conglomerates have placed more emphasis on the promotion of their own subsidiaries' products such as TV programs or movies (Jung, 2002; Williams, 2002). The result is that conglomerates, with their enormous resources and diverse holdings, are able to develop and promote projects more extensively and efficiently than their smaller counterparts.

Media firms are faced with an increasing need to be less reliant on traditional advertising revenues and to develop additional revenue opportunities in new media systems. Chan-Olmsted and Chang (2003) believe that the trend toward global conglomerization will continue because global media conglomerates are in a more competitive position compared to the nondiversified media firms, because the formers have the resources to exploit content products via the repurposing process for distribution in multiple platforms under different ad/fee structures, to perform cross-platform marketing with complementary distribution systems, and to be well positioned to deliver products in the developing broadband spectrum with their diverse holdings and partnerships.

Jung & Chan-Olmsted (2005) examine the impact of media firms' diversification on their financial performance based on the product and geographical diversification activities and performance of the top 26 media firms from 1991 to 2002. The empirical results generally indicate that related product and international diversification contributes to better financial performance. However, excessive diversification, which leads to a high degree of unrelated diversification, might decrease performance.

2. The Innovation of New Revenue Streams for the Digital Media

Media companies are experienced operators of the two-sided market model. However, the traditional two-sided revenue stream model in commercial media, with income from readers and advertisers, is difficult to adapt into digital markets. The core of their traditional revenue model is producing journalistic content that attracts readers who purchase newspapers, becoming targets for advertisements sold to companies and published in those newspapers (Barland, 2013).

However, media outlets are experiencing a decline in newspaper circulation and are struggling to develop new revenue streams within digital media. Newspaper publishers are accustomed to a two-sided revenue model geared towards readers and advertisers. In digital publishing, such two-sided revenue models must be further developed. Barland (2013) proposals a model in which journalistic content functions as an engine for digital traffic, and how that market position is used to promote other commercial digital services.

The point is to take advantage of the heavy online traffic that media houses have achieved; this traffic has been earned by journalistic content. Digital editions have been published with huge space allocations for advertisements, but are difficult to exploit commercially. The use of this capacity is at the core of the concept of this two-sided market model. Journalistic content is produced and published in the newsroom, while the business departments of media outlets and/or parent companies get access to the advertisement space to promote their services. The difference from other advertisers is that the parent companies and media houses are also the owners of the promoted services (Barland, 2013).

An ethical aspect of this question is whether journalists and editors would prioritize online traffic and revenues from these services over journalistic ideals. Due to the ownership of the services within the same group of media houses, the “customer” here is not an external actor. It can be more difficult for an editorial staff to act independently of these close interests.

3. Emergence of Institutional Conflict of Interests:

The accelerated trend toward media cobranding, joint ventures, strategic alliances and mergers, and acquisitions with non-journalistic companies raises new ethical concerns about the entanglements created in the name of synergy. As traditional media companies buy stakes in Internet companies in equity swaps, the cross-ownership of media creates vast potential for real or perceived conflicts of interest (Davis & Craft, 2000). A crucial aspect of this "battle" that has rarely been explored is whether media content is affected when the focus is the merchandise and services offered by the corporate parent of a news outlet (Williams, 2002).

In other words, have the news media become a promotional tool? Because many media conglomerates own more than just news operations, the impact of such ownership invites investigation beyond traditional news stories of current events. For example, Lee & Hwang’s (2004) findings suggest that conglomerate ownership leads to a highly regarded newsmagazine showing favoritism toward the entertainment products of its parent corporation.

Jung (2002) also examined how magazines covered media companies' mergers. Specifically, the coverage of three mergers involving Time Inc. was content-analyzed to see differences based on ownership and magazine type. The findings suggest that Time and Fortune favored their parent company in terms of valence or direction of coverage of the merger, emphasis on the company, and amount of coverage. Other results showed the difference in how mergers were framed by news magazines and business magazines.

However, scholars such as Demers (1996, 1998, 1999; Demers & Merskin, 2000) have argued that the quality of news would not suffer under corporate ownership because large corporations have to adopt a system of highly specialized divisions of labor. News production, according to them, is under the stewardship of professional managers rather than corporate owners or publishers.

The influence of political or economic powers on news or editorial is sometimes not directly from statistic data, but in the certain issues. The biographers and critics of Rupert Murdoch have emphasized business activity as the overriding and even sole motivation. The dominant interpretation is that Murdoch is a businessman who is ultimately more interested in profit than politics. In practice, News Corporation has spent hundreds of millions of dollars over decades in advancing political goals by propping up loss making newspapers.

McKnight (2010) argued that the influence exercised by the news media of News Corporation is as much about setting a diffuse political and cultural agenda over the long term as it is about supporting (or opposing) a particular party or decision. Second, that attributing largely economic motives to Murdoch and News Corporation ignores the actual ideological beliefs that they seek to advance in favor of a simplistic economic determinism.

III. Research Questions

In order to survive in the digital convergence age, there are more and more independent media merged by the conglomerates in Taiwan. What are their business strategies of diversification and economics of scale? Will the conglomerates merge vertically or set up the new division from scratch? How would the conglomerates allocate their financial, human, facilities and other resources to maximize profits? Are there any conflicts of interests between the newsroom and other organizations in the conglomerates?

IV. Methodology

UDN (United Daily News) group and WWCT (Want Want China Times) group are the two major newspaper corporations in Taiwan. In recent years, they expand their territory to online service, television and other non-media business to compensate the revenue loss of newspapers. However, the two media have different strategies of diversification. UDN group sets up the new division totally by themselves, but WWCT usually merge new services outside the group.

In order to conduct the comparative case studies of the two media conglomerates, this study collects and reviews of newspaper, financial reports and academic database. Besides, this study interviewed managers of the conglomerates to understand their mind thinking behind the strategies. The researcher also observed the field of organization spaces and facilities to understand how the resources allocated.

V. Results and Discussion

1. Organization Structure, Space and Diversification

The WWCT is owned by a cookie manufacture group (Want Want Group) which invests in China since 1990s. According to the Forbes, currently the owner of the Want Want Group, Eng-Meng Tsai ($9.6B US), is the richest person in Taiwan. The Want Want Group annual revenue is over 4 billion US dollars and stock value over 18 billion US dollars. Most of the assets and revenues come from China.

Originally Want Want Group did not have any invest in the media industry. However, in 2008, the Want Want Group merged the China Times Group, including 3 newspapers, several magazines and news online services. Later, it also merged one terrestrial broadcasting television station, 3 satellite television channels and then created the Want Want China Times Group (Figure 1). In 2011, the WWCT group even wanted to merge CNS, the second largest cable systems in Taiwan. However, because the communication scholars, students and society were afraid of the highly media ownership concentration, the deal was conditionally passed but finally did not complete the merger deal.

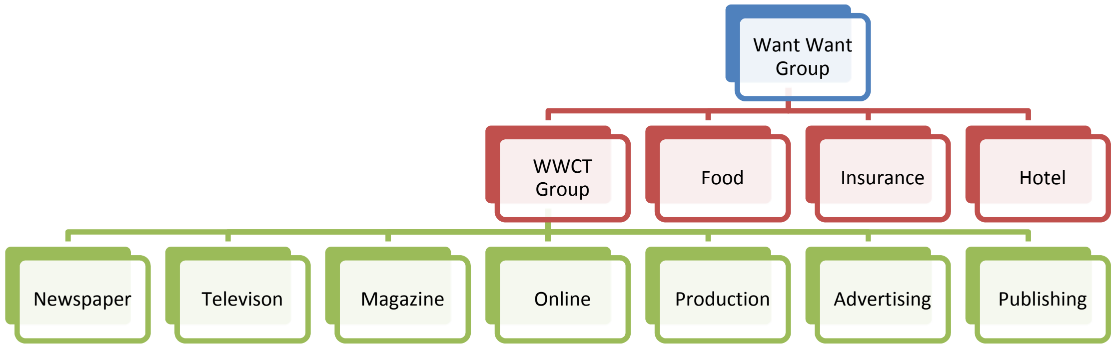

Figure 1, The Organization Structures of Want Want Group

Unlike WWCT group expanding organizations by merging, UDN group still consider news as their core values and extend their businesses related to the four newspapers. For example, UDN group develops digital media, including all kinds of Apps and online services for the newspapers, and also set up the online video accessing from everywhere (Figure 2). News reporters need to carry notebook and smart phone with them everywhere in reporting, and sometimes use 4G telecommunication network to live report, like small Satellite News Gathering (SNG).

Except for the divisions of digital media, UDN group also sets up the multi-businesses related to their news values, such as education, health care, art and electronic commerce. Those divisions actually sell products or services. For example, UDN Shopping is an electronic commerce platform, like Amazon to sell everything. UDN art agent arranges oversea art or cultural group to perform in Taiwan. This is similar as Barland (2013) mentioned that journalistic content functions as an engine for digital traffic, and how that market position is used to promote other commercial digital and other services.

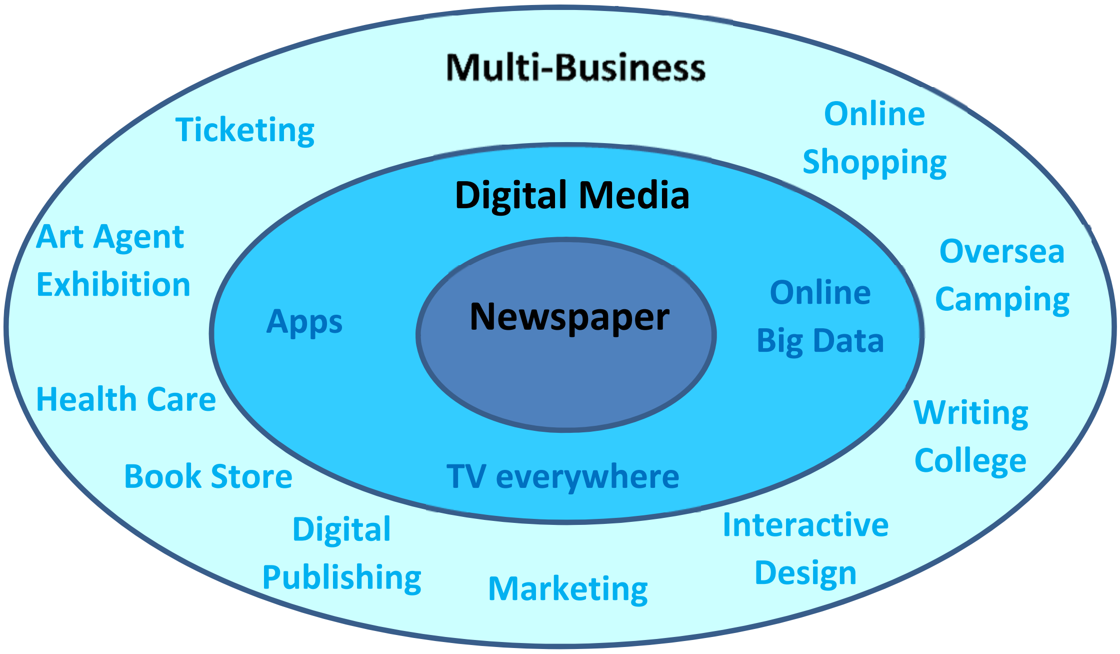

Figure 2, The Organizations of UDN Group

Because WWCT group expand the diversification through merger and acquisition, therefore most of the media companies were still located in originally different buildings and hard to communicate.　On the other hand, in order to fulfill the goals of media convergence, UDN moved all of the divisions to the same building in 2009 (Figure 3). The editors and reporters of the four different newspapers are located in the same room and also share the same news in the editing system.

Figure 3, The Space and Location of UDN Group

The managers of either WWCH group or UDN group in different sub-companies or sub-divisions will have the regular monthly meeting to discuss the collaboration of strategies. However, since sharing the same working space, it is easy or comfortable to communicate to each other in UDN group. There is also the system of rotation of jobs to train workers to be able to use digital media for their staffs in the group.

2. Innovation and Business Model

Both of the WWCH group and UDN group continuously spread new services and diversification. However, WWCH group usually expands through merger and acquisition, but UDN group creates new divisions related to their core value, digital and social media goals. For the past few years, there are many new Apps created for the UDN group. For example, the UDN plus (the interactive news for iPad), UDN News Database including all news and pictures since the year of 1951, and Data Journalism create innovative values based on the original news (Figure 4). Therefore, the revenue ratio of newspaper vs. non-newspaper had changed from 7:3 in 2011 to 5:5 in 2014.

Figure 4, The Innovation Example: iPad UDN plus, News Database, Data Journalism

On the other hand, although Want Want group quickly made revenues and cost balanced after merging China Times newspaper, most of the revenue streams come from the placement marketing of China, and there is limited investment of innovation. For the past few years, the only progress of China Times website was to integrate the contents of the WWCT group, including magazines, newspaper and television together. Except for the better user interface, the mind thinking to manage the website is still the same of ten years ago.

3. Institutional Conflict of Interests

There are a lot of criticisms to WWCH group since most of the businesses, such as food, liquors, hotel, hospital, real estate and insurance are in China. There are still existing historical and political conflicts between China and Taiwan. Although the owner considers himself without any political bias, most people in Taiwan recognize that WWCT news favor China when there is any controversy. This is the similar situation of News Corporation in the USA (McKnight, 2010). Therefore, in the past few years, several senior journalists left because of the institutional conflict of interests.

The strategy of UDN group is to make more revenues to support the core value of news which is hardly to rely on either advertising or audience subscription. For example, UDN group generate many news and reports related to health care. Instead of leaving news as history tomorrow, UDN group creates the website (health.udn.com) and manage all health news articles and pictures according to the types of diseases, health topics or expert column. The health news is not history anymore but knowledge in the database. People will find related information and stay in the website even longer. Then UDN group can analyze their key word and articles searching to provide the proper advertising for the UDN Shopping.

Many managers of UDN group accept for the product placement marketing as long as there is no harm to the public interest. For example, if there is the scandal related to the brand of Gucci, UDN may not actively report the news since it is a luxury and their advertiser. However, if there is a food safety problem related to the public health, UDN will still investigate the issues based on their news professionalism.

VI. Conclusion

This study finds that the newspaper conglomerates are enthusiastic about diversification or merging with other media in Taiwan, because it is not easy for them to make money just from the traditional newspaper industry. However, there are arguments of interest conflicts among the media conglomerates. The news department was integrated into the organization and might need to help promote the products of the conglomerates (Dailey, Demo & Spillman, 2005). As there are more and more news media merged by other industries, such as the food, insurance and hotel in China, to maintain the real freedom of speech might become very difficult for WWCT group.

The example of UDN group continues to invest in newspaper as the core value and then transform those contents as other digital media formats, such as online services, Apps, television everywhere or database. UDN group establishes new businesses related to the news core and digital media, including the health care, art exhibition and education. The innovation of business model may not completely avoid the interest conflicts but at least it reduces the directly political influence and commodification.

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