



MEDIA MERGERS AND THE DEFENCE OF PLURALISM

Edited by Olof Hultén, Sune Tjernström & Stefan Melesko

NORDICOM

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Foreword

Thanks to a generous grant from the foundation, Stiftelsen Barometern, the School of Communication and Design, IKD, has been able to enrich our programs in Journalism and Media Management by inviting seasoned professionals in the two fields to join us on a part-time basis for one academic year. Our first Visiting Professor was Torbjörn von Krogh, renowned investigative journalist and editor, in 2006/2007.¹

Our second Visiting Professor comes from the field of media management. Dr. Econ. Stefan Melesko has a distinguished career in leading positions in newspaper and advertising companies, and as an academic researcher in newspaper economics, consultant, and columnist in media journals. His term at IKD coincided with his ongoing research concerning the divestment and acquisition of one of Sweden's largest groups of provincial newspapers in 2005. Media mergers and acquisitions (M&A) have been, and will doubtless continue to be, a salient feature of Nordic media markets.

A Nordic research meeting on the theme, *Media Mergers and Media Concentration* was held at Kalmar University on March 11-13, 2008. The goal was to keep two perspectives in mind: the industrial drive to consolidate for economic reasons, and the public concern about loss of pluralism due to excessive concentration. This volume documents that conference.

The contributions vary as to their focus: Some explore the business side of M&A, others, the attempts by means of public policy to regulate concentration of media ownership and influence. Both sides of the fence – business and policy – have experienced successes and failures. Neither can claim to have arrived at a perfect recipe. In addition, our contributors are sometimes at odds regarding the wisdom or folly of the various initiatives.

Success, failure, wisdom, folly – as presented here, all have an instructive aspect. And therefore we are quite certain that the chapters – read singly or taken together – will provide food for thought.

FOREWORD

The School of Communication and Design would like to express its gratitude to Stiftelsen Barometern for its support and to Nordicom for publishing this volume.

Kalmar in July 2009

Kjell Arvidsson

School of Communication & Design

Kalmar University

Note

1. In 2008, Nordicom published *Media Accountability Today... and Tomorrow. Updating the Concept in Theory and Practice*, edited by Torbjörn von Krogh.

Chapter 1

The Challenge of New Technologies and New Business Practices

Introduction by Olof Hultén,
Sune Tjernström & Stefan Melesko

It is obvious to all that for at least these past couple of decades traditional media industries have been deeply engaged in a relentless process of change and adaptation. This process consists for the most part of responses to new technologies, of which digitization and the birth of the Internet are the most significant; secondly, it responds to changes in the business operations of media firms, the most important of which are ownership consolidation and the present recession. The old media industries are affected by digitization in all their aspects: production, storage, distribution, audiences' mode of reception, and patterns of use. Stand-alone media firms – historically most often individually owned and operated – are being merged and transformed into ever bigger conglomerates and chains of multimedia corporations, often publicly traded and often international.

Internet is today the turbo charger of this process, having created a common arena or platform where all media, old (legacy media) and new (web-native media)¹ compete for audiences' attention and revenues. Internet dramatically influences audience behavior, *from* previously one-way passive reception *to* on-demand (instead of linear broadcast), interactive and networked use. Individual media users are generally willing and active participants in this transformation, especially the younger generations. With the diffusion of new media equipment new habits are forming, altering time budgets and discretionary spending patterns. Subscribed broadband connections with bundles of pay services claim up a growing share of household budgets.

New attitudes are being formed among users. Particularly important for the media companies are a widespread *unwillingness to pay* for much of the content made available via Internet. It is far too early to predict how this unwillingness will affect the production of new content in the longer run, but already, it is clear that the risk of damage is high in areas where traditional media have provided our societies with services that are vital to democracy and liberty.

The growth of the Internet has had an impact on revenues in the old media industries. The first to be affected was the music industry and its sale of albums. Newspapers are today the hardest hit, with cuts in editorial resources

and production staff as well as increased concentration in the industry. Books, magazines, television and radio are feeling the effects also, each medium in its own ways.

We have yet to see a corresponding growth in new resources in either legacy or web-native media to make up for these losses. Shrinking resources for journalism and news and information services are especially serious because of these services' indispensable function for democratic societies. The quality and quantity of these services in traditional media have, alas, always been a bone of contention, and perhaps nowhere have they fully lived up to expectations. But now, when the resources for sustaining diversity, quality and quantity of news really is in danger, the implications for democracy and the ideal of an informed citizenry could prove to be dire indeed.

Newspapers and broadcast media have been debated and discussed from their beginnings as important producers and channels of opinion and power. On the one hand, they operate on an economic market, which according to Western liberal capitalism, as practiced in recent decades, should be left to its own. On the other hand, as instruments of power and culture, they are different from manufactured goods and services. Their influence is much wider. They ought to be treated with greater care than to be left only to the laws of the market.

This book springs out of this duality. As private entities media operate on the market and have to survive on its terms. But quality of service and profitability are far from always companions. As channels of opinion formation media should ideally be independent of the state and reflect various opinions. What should be regulated, and what should be left to the rules of the market? As media industries become concentrated in fewer and fewer hands, these questions become more and more important.

Media policies vary between different countries because the answers to these questions differ. They have also varied over time. This book presents research of Nordic scholars who have looked at consolidation, mergers and acquisitions (M&A), in the music, newspaper and television industries. The music industry has been more or less left to itself to adjust to new technologies and ownership structures. Newspapers have a 200-year tradition of operation and struggle for political freedom from the state. What once was a very fragmented and diverse industry is today consolidated to such a degree that many fear for the effects on pluralism. What happens to news and information when more and more newspapers are bought and merged or disappear altogether?

Television in Western Europe, on the other hand, started as publicly owned monopolies, and only in the last 30 years has the medium been permitted to operate commercially under private ownership. The pros and cons of the two modes of ownership, public and private, have been and continue to be discussed in terms of both management and the content provided. Regulation of private television markets in Western Europe may have the opposite historical trajectory from newspapers, but it shares the issues. What degree of concentration can be accepted in the market, which arguments can be accepted for

state intervention in private businesses, and, if accepted, how should such intervention be designed to yield a satisfactory result?

When Markets Fail – Policy Responses in Media Markets

Market incentives should lead media producers to provide audiences with what they want. A free society should treat audiences as being capable of choosing what they want to read, watch and listen to. The normal mechanisms of the marketplace assume an efficient allocation of resources (to the highest bidder) and to provision of media content that satisfies demand in the marketplace (to those willing to pay for the services offered). The deregulation that has swept telecommunications and broadcasting globally in the past decades is ultimately based on these market principles. Freedom of the press becomes a simple application of those principles.

Yet economists know of the risk of market failures, also in media markets. The classic case of market imperfections concerns ‘public goods’, i.e., items for which one person’s benefit from the product does not affect its benefit to another person. Technical monopolies, typically utilities, exhibit a character economists call “non-rivalry”: multiple consumers can use telephone lines, water mains, etc., at no or very low cost, once the infrastructure is there. Up to the point where there is crowding and the need for additional investment arises, this infrastructure exists as a public good.

Media products display ‘public goods’ features in three ways. First, the high ‘first-copy costs’ of a newspaper, TV program or a music video is a bit like the utility’s infrastructure. In the case of newspapers the marginal cost of printing extra copies for additional readers is small. In the case of broadcast television there is no limit to how many can benefit from the producer’s expenditure on first-copy costs; the cost of broadcasting a program is the same no matter how many people are watching. But, when it comes to vital services that are of importance to society, but which actively interest rather few in society at large – such as news analysis, Fine Arts performances – the market principles of supply in response to demand are not sufficient. To base the financing of such services on per capita payments from those willing and able to pay would, in most cases, lead to underproduction of the service in question. Just as stretches of motorway through sparsely populated areas require collective financing, so do some categories of media output.

Second, media markets tend to involve ‘externalities’, that is, the value of an item to someone who does not participate directly in the transaction. In the case of the media market, it is often assumed that the media contribute to a well-functioning democracy. Many people value such a democratic function in society and benefit from other people’s consumption of quality media. The threat of media exposure of corruption in government or business will, for example, benefit everybody: those who read about it, but also those who do not actually follow the story. Many media policy measures are based on this

idea of positive externalities of the services that media firms provide. Society as a whole benefits from the watchdog role of the media and other functions that we expect news media to perform.

Third, an oddity of media markets is that they are often ‘dual’ in the sense that content is sold to the audience, and the attention of the audience is in its turn sold to advertisers. In many media markets the latter sale constitutes a substantial share of total revenues. This means that the producer has less incentive to spend money on content than would be the case if the audience were also to contribute most or all revenue. More detrimental to editorial freedom is the risk that the purchaser of advertising will influence some aspects of the content: a car manufacturer or distributor would like to have the latest model exposed in a positive context, not only in ads, but also in regular editorial space or programs (product placement); an energy company would like to avoid criticism in documentaries of its methods of, say, coal extraction, and so forth.

Because of these peculiarities of media products, media markets do not function perfectly. One problem is underproduction, especially of ‘quality’ content, i.e., content that has positive externalities, but attracts small audiences. Production of educational and culturally important content may be assumed to be underproduced. At the same time, one may assume that the market provides an overabundance of mass appeal content.

Most media policy measures are responses to these perceived failures of the market. And most media policy regulations have improved on the market’s way of functioning, be they structural regulation of media firms or government subsidies of media products that tend to be underproduced. Our democratic notion of free media blocks government intervention to suppress content because of its perceived negative externalities. Legal interventions are therefore often indirect; they attempt to reduce general costs otherwise borne by the media or to subsidize inadequately produced content.

Typical media policy measures that take externalities into account are subsidies to the physical distribution of newspapers, no or reduced VAT for news media, the support of public service broadcasting, grants to various cultural institutions, funding of research in the information and telecommunications sector, provision of press facilities by government agencies, the opening up of archives and providing information to journalists.

Most of the media policy measures listed above as examples of market corrections involve content or distribution subsidies. Another set of measures aims at influencing the structure of the media industry. Such measures relate to problems deriving from the market structure, such as too much concentration in ownership. Most Western democracies see growing media concentration as a potential threat to press freedom and to democracy. Most democracies have adopted policies designed to support press diversity, by way of competition laws (general anti-trust laws), and sometimes media-specific laws (aimed at maintaining diversity in the marketplace of ideas). Some countries have designed subsidy systems that aim to support weaker media firms that compete

with dominant media companies. The general idea behind these structure-influencing policies is to maintain or increase the number of people who can express their opinions and ideas through the press.²

On the European Community level, too, protection of pluralism is a concern. The importance of public service broadcasting and pluralism in media has been recognized and supported. The approach of the European institutions to the regulation of media markets in terms of policy output represents a fundamentally economic perspective. But the legal constraints in the Treaties and the perceived democratic deficit of the EU political structure limit the range of policy implementation by the Community. The European Union's focus on the exploitation of media markets for capital growth has sacrificed the wider goal of protecting pluralism, Harcourt (2005) argues, and may also be seen to conflict with policies having that aim on national levels.

Why Ownership Matters

Democratic concerns should be central when shaping legal policy for the media. The reasons to favor a dispersal of media ownership are eloquently summed up by Baker (2007: 6-53).

A More Democratic Distribution of Communicative Power

Normative theories of democracy often share the premise of people's equal right to participate in collective self-determination. This view values democracy as an end, not only a means; it embodies values like equality and autonomy. Respecting other people's views and choice of people to represent them, their preferences for laws and perhaps cultures is central to this position. The mass media constitute a crucial institutional structure of the public sphere, a link between the public and the government.

The institutional conclusion of this democratic vision of the public sphere is an egalitarian or at least diversified distribution of control, of ownership of the mass media. Baker calls this a 'democratic distribution principle' for communicative power (Baker 2007: 7). Each group needs a fair share of the media to participate effectively in politics. The first dimension might then be formulated as a goal of dispersal of media power for privately owned media.

Democratic Safeguards

An undemocratic distribution of communicative power presents dangers, against which dispersal of media ownership would be a safeguard. One question is whether empirical evidence of the effects of mergers on the plurality of voices or of misuse of demagogic power is necessary. Basically, this is not needed to support the argument, according to Baker. The risk may be significant, even though nothing has happened yet. An analysis of structural opportunities for

abuse may produce more important evidence than statistical analysis of content change the first year after a merger or take-over.

Quality and the Bottom Line

Perhaps the most significant economic problem involving the mass media is the failure of media markets. The pursuit of profits restricts investment in producing the full range of contents that people need. A media firm can often make more money by cutting expenditures in the newsroom. Those who do will not better serve the public interest. Baker hopes for policy that more directly pursues the goal of getting media into the hands of those less structurally inclined to maximize profits or more inclined to emphasize content with positive rather than negative externalities, including content serving the watchdog function.

Baker lists other structural considerations, such as the vulnerability to outside pressures that increase with size and with the conglomerate character of media owners. Another consideration is the internal incentive to trade journalistic integrity for the conglomerate's other economic interests. Finally, he rejects the idea that any cost saving in a merger is seen as a 'synergy effect' (Baker 2007: 41). Some savings result from outright cutbacks in, or discontinuation of services, some of which produced significant positive externalities, in other words, were related to social welfare.

A more complicated argument relating to media concentration is that the media's unique influence over politically salient public opinion can make politicians reluctant to fight powerful media owners. Concentration of market power increases the likelihood that the economic interests of huge media conglomerates will control the policy debates and legal outcomes relating to media policy. In a situation of dispersed ownership, media owners are more likely to disagree among themselves about an ideal media policy (Baker 2007: 49).

Baker does not accept the idea that promotion of the Internet and 'volunteer' or peer-to-peer communications would reduce a concentrated mass media's gate-keeper power (Baker 2007: 197). Among the reasons why, he lists *reach* (Internet audiences tend to be concentrated to and dominated by corporate websites), *resources* (little in the way of financial resources is made available for news or other content in the blogging world), and the continued *dominance of traditional media* over the public sphere. As long as these reasons prevail, policies that respond to the power of commercial mass media are essential also on the Internet, according to Baker.

Media Firms Use Diverse Strategies Vis-à-vis the Internet

Internet affects different media industries in different ways, depending on the medium's infrastructure and material needs. Strategies to survive and adapt, as well as strategies to expand and succeed, also differ between established media firms and new entrants. Küng, Picard and Towse (2008) discuss the impact of

the Internet on strategies and business models in the media industries. The Internet offers great opportunities for traditional media and new media alike to serve their users in new and creative ways. The major challenge for publishers of printed newspapers is raising online revenues to make up for losses of offline revenues when circulation shrinks. Audience fragmentation and on-demand services influence the way TV viewing and content creation are changing; the very concept of mass television is changing. Radio might be a medium more naturally aligned with Internet as a technology; the mode of listening to niche radio broadcast stations is transferable to the new technology.

Küng, Picard and Towse (2008) make a distinction between the first and the second Internet era. In the first era, many established media firms made costly mistakes and new entrants underestimated what it takes to launch and survive. After the “dot-com bubble” the second era began. Established media firms developed different types of strategic responses. Among these, two are identified as particularly important, namely, so-called “coopetition” and cross-media strategies.

“Coopetition” involves business arrangements and strategies in which companies that normally compete establish cooperative activities through alliances, partnerships, sharing arrangements and networks. Coopetition creates cooperation between rivals in some activities while maintaining competition in others. Cross-media strategies involve exploitation of contents across as many technological platforms as possible. The logic is that these centrally coordinated activities will produce greater added value than separate independent activities; coordination and shared resources will reduce costs and increase revenues. Other strategies used by established firms include forming alliances and partnerships, establishing industrial networks, mergers and acquisitions, creating spin-offs for Internet activities, and inviting venture capital investment funds.

This book contains examples of several of these strategies, but with a prime focus on mergers and acquisitions (M&A). Unless there are successful new entrants on the various media markets, mergers between established firms result in fewer actors and thus less competition. If M&As can be a positive strategy for individual firms, it can be negative from a societal standpoint.

The traditional mass media, especially the newspaper industry, are meeting shrinking markets with M&A activities in an effort to grow when organic growth is not an alternative. This type of consolidating horizontal M&A activity, the reasoning goes, can provide a good basis for realizing cost synergies. However, empirical studies have not provided evidence of notable increase in profitability or economies of scale and scope in the case of media acquisitions.

A stagnating or declining industry is characterized by internal factors that worsen the effects of the analyzed market parameters. Over the years the Swedish newspaper industry has, for example, adopted a strategy of vertical integration based on dominance in local markets. This has produced economies of scale, with continued investment in production capacity in pursuit of lower costs, if production volumes can be expanded. However, this approach can be ques-

tioned in a stagnant or declining market. Some studies suggest that other, non-economic or less tangible factors sometimes determine the choice of strategy.

This Book

The book approaches mergers and acquisitions (M&A) in the media sector from three principal perspectives: the motives for M&As, the role of M&As in the long-term consolidation of media industries, and the instruments that public regulators have mounted in their attempts to preserve diversity – diversity of ownership and of opinion in the media.

There is also a refreshing diversity in the selection of articles presented here. Most are case-based, but the authors' evaluations diverge. While not written in a conscious polemic, or even dialogue, together the articles offer readers a critical review of the failures and successes of both markets and public policies.

In Chapter 2 Lotta Häkkinen, Niina Nummela and Saara L Taalas challenge received perceptions of M&A ventures as exclusively rational (in the economic sense) exercises. The case in focus is the dramatic attempted takeover in 2005 of Alma Media, a deal that included Finland's prime commercial television channel, MTV3, by the Norwegian Schibsted group. Schibsted was ultimately beaten out by the Swedish Bonnier group in a battle of Nordic titans. The authors' analysis reveals numerous trials and turns that appear to spring out of quite other motives than economic rationality.

In Chapter 3 Stefan Melesko discusses another mega-transaction – it, too, in 2005 – one of the largest in Swedish press history. The Center Party decided to leave the newspaper industry and put its twelve regional newspapers and, not least, profitable printing facilities on the market. The sale was conducted through a closed bidding procedure in several rounds. Melesko, whose study is in progress, scrutinizes this M&A case from the point of view of the various bidders, examining their motives and the calculations leading to their decisions to continue in, or exit, the process.

Consolidation in Specific Media Industries

In Chapter 4 Karl Erik Gustafsson demonstrates that bloc-building in the Swedish newspaper industry is nothing new. (The first merger, which was an economic failure, took place in 1821.) Two waves of structural change after the second world war, brought about by a new law of competition in 1954 and a severe recession in the 1990s, have left Sweden with mostly regional monopolies. In 2007, the four biggest newspaper chains claimed 76 per cent of newspaper revenues in Sweden. The process of consolidation is not over yet.

A veteran press economist, Gustafsson is a long-time observer of the Swedish newspaper industry and was directly involved in shaping the Swedish press support system introduced in 1969 – later amended and always challenged, most

recently by the EU Commission, in its response to a formal complaint brought against it by the leading newspaper owner in Sweden, the Bonnier group.

In Chapter 5, “Acquisition Strategies in the Multinational Recording Industry”, Patrik Wikström gives an overview of the dramatic and profound changes in the recorded music industry worldwide. Wikström, too, takes a historic perspective, starting in the 1920s, when the technological innovation, radio, changed the way music was delivered to its listeners. Several waves of M&A have taken place since then, as well as a constant flow of new entrants into the business. Acquisition strategies in the recording industry have evolved, from fierce antagonism toward more and more cooperative relationships. On repeated occasions the industry has had to adjust its strategies as revenue streams were diverted. Certainly, the Internet has taught the recording industry, earlier than other media industries, how impossible it is to control either the technology or music listeners’ tastes.

Regulatory Intervention

Chapter 6, by Professor Rolf Høyer presents a recent controversial case in Norway, when legislation established in 1997 concerning ownership concentration in the regional press was invoked to prevent an M&A deal involving several press groups. Had it been approved, Schibsted A/S would have passed the level of control allowed by one owner, 33.3% of national circulation, by a fairly wide margin. Høyer is critical of both the legislation and its application, in principle and from a practical point of view.

The proposed founding of Media Norge by Schibsted and three regional press groups, was found by the regulator, the Norwegian Media Authority (NMA) to lead to excessive concentration of ownership. Succeeding negotiations between Schibsted and the NMA, in which both parties proposed a number of compromises that would comply with the law, failed. The case was appealed, and the Commission of Appeal eventually agreed to Media Norge, on the condition that the editorial integrity of the chief editors and the publishing foundations of the newspapers in the group be protected and preserved.

In Chapter 7 Mart Ots examines the history and evolution of the Swedish press support system. Ots takes a fresh view of the system and its outcome and asks whether the both cherished and challenged system might have outlived its goal efficiency. Convergence between different media on the Internet creates a new playing field compared to when the system was shaped. No longer can newspapers deemed in need of support be looked at in isolation from other media. Moreover, owners from outside of Sweden bring the field within the range of the EU competition control. Is it perhaps time, Ots asks, to reconsider the support system in a more holistic perspective, based on the principles of defending pluralism, a differentiated look at ownership control, and a more user-oriented perspective?

In Chapter 8 Lou Lichtenberg gives an overview of the Dutch press support system. In the Netherlands, as in Sweden, the health and survival of newspapers

are a prime concern. The two countries both have general support systems for the press as well as financial support to individual papers. The Dutch instruments are more temporary, project-oriented and geared more toward stimulating innovation than meeting existing financial needs. Currently, a revision of the instruments for press policy, perhaps in the direction pointed at in Ots' paper, is being considered.

In Chapter 9 Olof Hultén and Sune Tjernström present a case from Germany in 2005-2006, in which the dominant press group, Springer AG, planned to take control of the second-largest private television group in the country, ProSiebenSat.1. The case has a Nordic connection inasmuch as the latter company also acquired SBS, which owned and operated radio and television (FTA and Pay) channels in the Nordic countries.

Germany has a complicated system of media legislation, with separate legislation and authorities for each *Land* in broadcasting, but federal regulation of market competition. Invoking both sets of legislation, the German competition authority and the media regulatory authority ruled against Springer's plans to acquire ProSiebenSat.1. Springer appealed the decision of the regulator, KEK, to a higher court, which, however, upheld it in January 2007.

The case pivots around the policy goal of protecting the diversity of opinion in private television services by regulating *Meinungsmacht* (the power over public opinion) on the one hand, and avoiding the risk of excessive cross-media market control on the other. It opens up interesting arguments as to principles as well as the operationalization of the *Meinungsmacht* concept.

In Chapter 10 Sune Tjernström presents the case of Bonnier taking control of Swedish TV4, the dominant private national television company in Sweden. Before the analog terrestrial network was switched off in Sweden in 2007, TV4 operated under a licensed contract with the government. In return for the privilege of being the sole private TV broadcaster with access to the national terrestrial network, TV4 had to agree to certain conditions, which included diversity of its ownership and the provision of certain content. The content requirements in the contract translated into significant costs for TV4, but at the same time helped to preserve its dominant position on the private TV market.

Swedish media legislation contains no specific conditions on ownership concentration and no explicit limits to cross-ownership, of the kind found in many other countries. What is the contractual power of a government that wishes to preserve a diverse ownership structure in a dominant private broadcaster? In broadcasting in the digital age, the leverage of the Swedish government has diminished. The Bonnier group took full control of TV4 swiftly and easily, and there was nothing the government could do about it.

In Chapter 11 Jens Cavallin notes the structural changes that have taken place in the Nordic media sector in the past 15 years. Some observers have held Internet forth as a kind of compensation for increased concentration in traditional media industries in the region. Cavallin rejects that assessment out of hand.

Both a good theoretical framework and detailed monitoring of new and old media companies and their services are required to establish the foundation

for an effective defense of pluralism. Not least, the parameters of pluralism need to be identified. The chapter outlines a battery of measures that need to be brought to bear in the defense of pluralism.

In the final chapter, “A Second Opinion on Concentration”, Karl Erik Gustafsson revisits the perceptions of competition. Where the market does not support rival newspapers, is lack of competition necessarily an evil? Drawing on works by Chamberlain (*The Theory of Monopolistic Competition*, 1933) and Galbraith (*American Capitalism: The Concept of Countervailing Power*, 1952), Gustafsson proposes a more differentiated view than the prevailing binary, all-or-nothing approach to competition and advances the notion that local/regional and national media, monopoly media on their respective home markets, may complement one another in a beneficial, “countervailing” manner.

European television affords an illustrative analogy. For many years, there was no commercial television in most countries. The present dual system with few, but differently financed actors with different purposes, may be seen as a balanced system of imperfect competition, a balance of countervailing powers.

Concluding Remarks

Since early 2008, when this conference was held, mounting financial problems for the printed press in the USA and Europe have made the future of daily newspapers on paper seem much more uncertain. Major newspaper chains in the USA cannot pay their debts. May quality newspapers like the *New York Times* disappear? What could support expensive journalism in a situation when news is available for free online?

There are no certain answers. A number of observations have been made that are good to keep in mind when predicting the future of newspapers. Although there are general trends affecting the industry as a whole, each newspaper, each owner and each newspaper market is unique. All is not doom and gloom. Things predicted to happen turn out differently. Unexpected things happen instead. The situation in Europe is not identical with the situation in the USA.

The nature of ownership and media companies' financial arrangements are important. Publicly traded corporations that own chains of newspapers often suffer under debt burdens which have little to do with the core business of journalism. Required returns on capital hurt badly and do little to support editorial resources.

Excessive dependence on advertising hurts when revenues disappear. The balance between what the subscriber/reader will have to pay and what advertisers are willing to subsidize will have to change. Circulation will no doubt be affected, but the value of news and other content must be reflected in the price paid by the readers. Free daily newspapers were perceived as harbingers of doom for paid-for newspapers. Today we see that few free dailies are profitable, a surprising number of them have failed.

Notes

1. The terms legacy media and web-native media are defined and used in Miel, P and Faris, R (2008), *News and information as digital media come of age*, p 3. Media Re: Public. Berkman Center for Internet and Society at Harvard University. Available at "<http://cyber.law.harvard.edu/pubrelease/mediarepublic/downloads.html>"
2. This is basically the argument put forward by the Hutchins Commission report of 1947, which saw media concentration as unavoidable, given modern economic forces. The Commission's recommendation for a 'sociably responsible press' was to make the best of a bad situation, the existence of media concentration.

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Chapter 2

Motives and Boundary Conditions of Mergers and Acquisitions in Media *A Nordic Perspective*

Lotta Häkkinen, Niina Nummela & Saara L Taalas

Although acquisition activity has shaped industries and organisations for decades, never has it been pursued in such magnitude as during the past decade or so. However, the sheer volume of contemporary merger and acquisition (M&A) activity is not the only thing that makes the phenomenon highly topical; for example, acquisitions have become common in industries and markets which until recently have been left relatively untouched by industry restructuring. The establishment of the single European market has led to a rapid increase in acquisitions with European involvement, and deregulation in industries such as telecommunications, transportation and energy has caused service sectors to gain in importance in acquisition activity alongside more traditional industries (UNCTAD 2004, OECD 2007; cf. Dunning 1998). The media sector is a prime example of an industry where deregulation, together with rapid technological development, has resulted in a surge of acquisition activity (Chon et al. 2003, Muehlfeld et al. 2007 i.a.). In the course of the past decade or so, the industry has gone through processes of convergence and internationalisation that have involved acquisitions.

While acquisitions allegedly offer the means to access new resources, markets and knowledge in a relatively rapid manner (Bower 2001 i.a.), aggregate figures on M&A success do not support this claim. Most studies of M&A have centred on this specific paradox: firms continue to engage in acquisition activity despite high failure rates reported by numerous researchers using a variety of different measures and techniques (cf. King et al. 2004 i.a.). Poor performance has commonly been attributed to poor acquisition management, which has failed to take into account the multi-faceted nature and consequences of acquisitions (Fang et al. 2004, Shrivastava 1986; see also Shimizu et al. 2004). Overall, studies on the performance of M&A activity have focused on a rigid understanding of motivations and success (Angwin 2007b), rather than critically reviewing why and in what kind of conditions acquisitions are pursued in the first place.

M&A activity in the field of media has been examined rather extensively. The research has largely concentrated on aspects such as acquisition 'success' from an economic and managerial standpoint (Muehlfeld et al. 2007, Peltier

2004 i.a.), competition policy, and the impact of consolidated media ownership on media content (Greco 1999, Miller 2002, Doyle 2002a i.a.). Nordic scholars have also been active in this discussion, which is highlighted throughout this publication. Contributions have been made from media economics and management perspectives, competition policy perspectives, media ownership and content diversity perspectives as well as from the viewpoint of historical industry development (cf. Gustafsson 2008, Picard 2004, Cavallin 2008, Høyer 2008 i.a.). However, this stream of literature has primarily been bound to disciplines like media and communication studies or media management and economics, rather than to general M&A research.

The tradition of acquisition research extends far and wide. Although acquisitions have raised interest among several scientific disciplines, today, the most established paradigms in the field continue to be those of economics, finance and strategy (Papadakis 2005 i.a.). However, results of this line of research remain inconclusive and probably the most notable contribution has been the identification of a variety of variables that seem insufficient in explaining the reasons and outcomes of acquisitions (King et al. 2004 i.a.).

In accordance with this strong tradition, acquisitions have generally been considered as conscious acts that are driven by rational choice. Meanwhile, alternative and especially critical perspectives have not gained much ground in acquisition research (Vaara and Tienari 2002, Vaara 2004 i.a.).

Researchers do admit that multiple processes are involved in M&A (Shimizu et al. 2004) and that many questions related to acquisition processes are intertwined (Haspeslagh and Jemison 1991). However, the complexity of these processes and particularly the influence of contextual factors on the taken actions are not revealed. This applies also to literature on acquisition motives (Angwin 2007b). According to the common assumption, the acquisition process is initiated by the careful analysis of company needs, scanning potential partners and evaluating them carefully (Bagchi and Rao 1992 i.a.). The prime actor in this process is the acquiring firm's management, whose sole (legitimate) motivation is to increase economic value for the acquiring shareholders (Angwin 2007b). However, the prevailing assumptions of this notion may be challenged.

First, as acquisition activity has rapidly increased during recent years, so has the amount of money being redistributed and the number of people who have a financial interest in the M&A business (Vaara 2004 i.a.). Furthermore, in addition to standard regulation, substantial acquisitions in sectors that are considered to hold a strategically or culturally special position may become an issue of governmental interest and intervention (cf. Angwin 2007b, Fang et al. 2004). However, acquisitions are still treated as means to an end, and only recently have other actors besides the acquiring firm's management been included in the analysis.

Second, acquisitions may themselves be unintended outcomes that are rooted in the industry structure as well as organisational and individual contexts (Nummela and Taalas 2006). Many different internal and external impulses may contribute to the unfolding of the acquisition, which might better be described

as a political and negotiated process rather than a planned and strategic event (cf. Jemison and Sitkin 1986, Angwin 2007b). As the parties involved are linked and interdependent, the outcomes are difficult to interpret from the perspective of just one party, as the network effects of an acquisition are many.

In this paper, we address questions relating to the driving forces and motives behind media acquisitions as well as the regulated nature of such acquisitions from an industry structure rather than a competition policy perspective. These questions are approached from a specifically Nordic perspective. The overall purpose of this paper is to provide a more nuanced understanding of the context in which contemporary acquisition deals in the Nordic media sector take place. The paper makes two specific contributions. First, the “classical” approach of M&A motivation (cf. Angwin 2007b) is empirically challenged; we make an additional extension by setting the actors in their context. From this perspective, change taking form in acquisitions can be seen as a redirection of what is already under way rather than an intended event with intrinsic value (cf. Weick and Quinn 1999). Second, we attempt to bring together the existing fields of general acquisition research and the strong tradition of Nordic research of media acquisitions to outline areas for continuing research.

The empirical part of the paper examines the takeover of Finnish AlmaMedia in 2005. Here we describe a case where the hands of the actors, Bonnier and Proventus, are forced by an outside move on the part of Schibsted. In this case, the acquisition is made to protect the business activities and the earnings logic of a fourth company, TV4, which is not a direct actor in the case. The case material analysed comprises articles published in Finnish and Swedish newspapers, business magazines and web-based newsletters.¹ Additionally, the press releases and the websites of all four parties involved – AlmaMedia, Bonnier, Schibsted and Proventus – were included in the analysis. Thus, the case is not only embedded in its industry structure and context, but in addition, the reconstructed case itself is bound to the statements and interpretations made *on* media companies *by* media companies, that is, the actors who either directly or indirectly held stakes in the described events.

In this article, the case is analysed from the viewpoint of literature on acquisition motives, which builds on several scientific disciplines. The underlying aim is to contrast the complexity of contemporary acquisition activity in the Nordic media sector with the prevailing research approaches. Before turning to theories of acquisition motives and our empirical case, we first outline the general setting for contemporary acquisition activity in the media sector.

Acquisitions in the Media Sector: Recent Developments and the Research to Date

At present, the media sector is facing a tremendous transition due to changes in technology and the socio-economic landscape. The markets of contemporary media products are facing the challenging task of convincing both audiences

and advertisers of their continuing value. Educational and demographic changes and a general cultural fragmentation challenge many media sector industries, questioning, for example, the mass media's ability to capture mass audiences and to deliver them to advertisers (cf. Thrift 2006, Currah 2007, and Deuze 2007 i.a., on related industry concerns and responses). The importance of outcomes of ongoing industry restructuring and of the renegotiation of roles with today's active and fragmented audiences will increase in future competition.

One visible symptom of these challenges has been the surge of industry reorganisation in the media and related sectors during the past decade, which has taken form in increased mergers and acquisitions, corporate venturing, equity-based alliancing as well as divestitures and spin-offs. At the height of the internet boom in 2000, M&A activity was at a record-high level, and in 2004 and 2005 the volume of transactions started to grow again, in both Europe and the USA (PriceWaterhouse Coopers 2006a, 2006b).

The media sector has been undergoing fundamental changes due to the integration of information and communication technology and related industry convergence as well as such factors as changes in the social perception of media production and related roles (Picard 2004). Currently, acquiring firms in the media sector comprise both traditional media companies with roots in print and television, digital-era companies like Google and financial investors. Especially larger companies with mature markets in their traditional business have been acquiring ownership in small and up-and-coming internet businesses with new technologies and young audiences. Businesses of interest include community networking, interactive games, user content sites (store, modify, share), blogs and blog search applications. (Richtel 2006, Corporate finance insights... 2006). In 2006, media companies spent more than \$8.9 billion on online media mergers and acquisitions alone (Garritty 2007). Lately, industry experts have been reporting that the markets for "corporate control" in this field are already lacking truly attractive targets (AdMedia Partners 2007, Knowledge@Wharton 2007).

Alongside these transactions, which contain many typical features of corporate venturing (cf. Siegel et al. 1988 i.a.) and industry convergence (cf. Chon et al. 2003 i.a.), the media industry has also made more protective moves. On the one hand, large media companies have taken actions entailing the notion of "fixing" disruptive technologies and trends by deploying legal and technological controls and myopically protecting existing business models (cf. Currah 2007); on the other hand, companies in declining media businesses have pursued acquisitions that consolidate existing activities (Muehlfeld et al. 2007 i.a.). Allegedly, this type of consolidating horizontal M&A activity would provide a good basis for realising cost synergies (Doyle 2002b i.a.). However, empirical studies have not provided evidence of notable economies of scale and scope in the case of media acquisitions (Peltier 2004, Rodríguez-Pose and Zademach 2006 i.a.).

Research on M&A activity has its roots much further back than these recent developments. From a Nordic stance, several strands of related literature can

be identified. For example, the newspaper industry has traditionally held a particular position in the Nordic media landscape, and several historical analyses of the development of industry structure in media markets through activity such as M&A have been presented (Gustafsson 2008 i.a.). Furthermore, studies have addressed challenges brought on by developments within the industry itself. Some of the related challenges may be seen to have a clear connection with recent acquisition activity (cf. Hang 2007; Melesko 2004, 2008; Picard 2004). In addition to taking a managerial and economic perspective on media acquisitions, there is a strong tradition of studies on ownership concentration and industry regulation, both from the perspective media diversity and competition policy (Cavallin 2000, 2008; Høyer 2008; Picard 1998, 2000 i.a.).

Overall, this stream of literature has provided an empirically rich description of the past and the present of Nordic media business. From a theoretical perspective, studies have typically been bound to their respective disciplines of media and communication studies or media management and economics, for example, rather than tied to M&A literature. Few systematic efforts to tie this field to ongoing theoretical discussions in M&A research have been made. However, we believe that these two traditions would benefit from complementary views offered by one to the other.

On Acquisition Motive Theories

At a general level, a variety of different explanations for acquisitions has been proposed in related literature. On the other hand, while empirical evidence has pointed out that acquisition-related decisions often build on several intertwined motives (Steiner 1977, Brouthers et al. 1998 i.a.), certain theoretical approaches and rationalisations of underlying motives continue to dominate the debate on the reasons behind acquisition activity (Angwin 2007b).

In the context of intra-industry M&A, studies have traditionally concentrated on explaining motives for engaging in such activity through increased market power and efficiency gains through scale economies, which represent the tradition of industrial organisation economics (Birkinshaw et al. 2000; Scherer and Ross 1990; Dranove and Shanley 1995). However, the related arguments have been criticised for being most relevant in stable industries; modern businesses that operate in dynamic environments may view M&A in a different manner. Sustaining market power or gained scale efficiencies for long periods in such conditions may be impossible, and researchers have therefore argued that companies increasingly use M&A to restructure their businesses as a response to environmental change rather than to reap scale benefits. (Capron et al. 1998) This development underlines the importance of also adopting other theoretical perspectives when examining contemporary M&A.

One such perspective which has widely been embraced by acquisition scholars is the resource-based view (cf. Wernerfelt 1984, Penrose 1959, Teece et al. 1997 i.a.). In this approach M&A is seen as a means to respond to changes in

the firm's external environment by acquiring valuable resources and transferring capabilities from other firms to sustain and renew the sources of competitive advantage. Acquisitions are motivated by the possibility of creating value through the integration of existing company resources to form a new complementary resource bundle with superior customer value (Capron et al. 1998, Capron et al. 2001). Related motives often cited in this context include acquiring new capabilities, such as intellectual property and know-how (Ranft and Lord 2000; Empson 2007; King and Schimmelpfennig 2005; Bower 2001 i.a.).

These two approaches have dominated research and largely affected literature and public discourse on the motives of mergers and acquisitions. Overall the most commonly cited public motive has been that of achieving synergy effects (Lubatkin 1983 i.a.); this has proven an efficient language for "selling" and legitimising acquisitions (Trautwein 1990, Vaara et al. 2006, Angwin 2007b i.a.). However, as, for example, Angwin (2001) points out, deals may be driven by less rational, non-public motives. Nevertheless, the business press as well as investors tend to concentrate on rational, publicly stated motives. As a result, the main body of acquisition literature can leave the impression that acquisition-related decisions are always rational and in most cases strategically motivated (Richman 1984; Risberg 2006).

One of the few contributions which adopts a broader and also more critical point of view towards explaining acquisitions is the article by Trautwein (1990), which provides a relatively comprehensive taxonomy of acquisition motives. Seven different theories that may be applied to explain acquisition activity are identified.

Figure 1. Theories of Acquisition Motives

Acquisition as a rational choice	Beneficiary: Acquirer shareholders	Net gains through synergy	Efficiency theory
		Wealth transfer from customers	Monopoly theory
		Wealth transfer from target shareholders	Raider theory
		Net gains through private information	Valuation theory
	Beneficiary: managers		Empire-building theory
Acquisition as a process outcome			Process theory
Acquisition as a macroeconomic phenomenon			Disturbance theory

Source: Trautwein 1990: 284.

Acquisition research has generally assumed that acquisition activity is a result of rational choice, as is typically the case in studies drawing on industrial organisation economics and resource-based approaches. Trautwein (1990) adds two exceptions to this notion. First, at a macroeconomic level acquisitions may be explained through disturbance theory. According to Gort (1969), acquisition waves are a result of economic disturbances that cause changes in individual expectations and increase the general level of uncertainty, thus generating discrepancies in asset valuation. But, other explanations regarding the macroeconomic nature of acquisitions have also been presented. From an institutional perspective, isomorphism may provoke organisations to imitate each other's practices, such as acquisitions, thus causing macroeconomic effects (Amburgey and Miner 1992, Carow et al. 2004, Laamanen et al. 2004).² On the other hand, Weston et al. (1990) and Deans et al. (2002) propose that product and industry life-cycle considerations predict different types and magnitudes of overall acquisition activity.

Second, process theory argues that acquisition choices are not comprehensively rational decisions, but are affected by, for example, bounded rationality (Simon and March 1958/1966), organisational routines (Cyert and March 1963), and political power. (Cf. Allison, 1971, on the organisational process paradigm; Pettigrew, 1977, on strategy formulation.) The best known example of applying process theory to the context of acquisitions comes from Jemison and Sitkin (1986). Their main argument is that regardless of the level of initial strategic and organisational fit between two organisations, the acquisition process itself can influence outcomes, not least integration outcomes.

The remaining acquisition motives identified by Trautwein (1990) can be explained by two main classes of theories: (1) value-maximising theories³, which represent the underlying assumptions of the vast majority of acquisition research, and (2) empire-building theories. Managerial or empire-building theories suggest that managers intentionally embark upon acquisitions to maximise their own benefits instead of those of their shareholders. This implies the maximisation of revenue or personal power and fringe benefits at the expense of organisational benefits (Mueller 1969, Berkovitch and Narayanan 1993, Baumol 1962, Marris 1964).

Trautwein (1990) concludes that despite their popularity, strategic explanations of acquisition activity through efficiency theory hold little explanatory value. Empire-building theory and process theory are, for example, more plausible. However, as can be expected, the available evidence is severely limited, as such motives are rarely explicitly stated. Though Trautwein's review of acquisition motives is one of the most extensive, it nevertheless gives most weight to the so-called "classical" acquisition theories and discusses them in the greatest detail. Also, its understanding of the role of ongoing interaction between actors and other contextual factors might be criticised for being somewhat shallow (cf. Amburgey and Miner 1992).

Angwin (2007b) provides a more recent and pragmatic critique of the classical view on acquisition motives (cf. Trautwein's 'acquisition as rational

choice'). Angwin's (2007b) main proposition is that the oversimplification of M&A motives and outcomes brought on by the dominating influence of finance, economics and strategy literature partly explains the apparent paradox in M&A performance. Angwin calls for the unravelling of intentions in acquisition situations, rather than sticking to rigid assumptions of the classical approach to M&A motivation. In the paper, an approach toward a richer understanding of motivations is outlined by identifying a number of reasons for engaging in acquisition activity, some of which do not fit neatly with the mainstream, prescriptive approach.

In addition to the classical motives relating to efficiency and "exploitation" that are presumed to be connected with an observable (and more or less immediate) increase of economic value for acquiring shareholders, Angwin (2007b) recognises three other motivation categories:

- *Exploration*: related to acquiring new areas for potential value, future opportunities or power and influence, for example, which entail high uncertainty and adopting a long-term perspective.
- *Stasis*: driven by the will to preserve the current competitive situation through, for example, stifling innovation or specifically fossilising the acquired company.
- *Survival*: activity attempting to prevent the acquirer's demise or relating to motivations that are imposed upon firms from external sources, such as competitors, customers and suppliers, the financial community, political actors, public opinion or other stakeholders.

The 'exploration' category has received some recognition in recent literature relating to knowledge acquisitions, innovation and corporate venturing as well as the role of brands and intellectual property in the context of acquisitions. However, these motivations have primarily been portrayed in a positive, bold and entrepreneurial light rather than taking into account motivations such as innovation stifling or gaining direct or vicarious influence over certain development, organisational entities or property through ownership (cf. Luman and Dodson 2006 i.a.).

The two latter categories, stasis and survival, have been largely overlooked in existing literature. The acknowledgement of such motivations underlines the importance of aspects such as external influence and imposition, context, power and influence as well as the negotiated and political dynamics in acquisition-type transactions.

In sum, efficiency gains and rational, premeditated strategic action are, overall, the motives most commonly cited by managers and media alike, especially in public discourse and in retrospect (Angwin 2001 i.a.). At the same time, it is precisely from these perspectives that acquisitions have been typically reconstructed in related studies; for example, in many studies the only level included is that of top management (Risberg 1999). This approach inherently views motivations atomistically, leaving out the various types of interactions

present in related situations (e.g., interactions between different actors, actions and individual acquisitions). As a consequence, this view gives disproportional emphasis to company management as rational and independent realisers of carefully formulated strategies, at the expense of attenuating factors such as ambiguity, embeddedness as well as the special interests and power of actors in explaining acquisitions (Vaara 2004).

Case: AlmaMedia

The Basic Setting

The acquisition of the broadcasting division of Finnish AlmaMedia Oyj by Swedish Bonnier&Bonnier AB (later Bonnier) and Proventus Industrier (later Proventus) in 2005 started with a hostile takeover attempt by the Norwegian Schibsted A/S.

The target of the takeover, AlmaMedia, was (and remains) one of the leading media companies in Finland, the net sales of the company amounting to € 465 million in 2004. At the end of 2004, its principal business areas included publishing and printing, the publishing and distribution of financial information as well as television and radio broadcasting. It published more than thirty newspapers with more than two million readers and had television channels (MTV3, SubTV) that reached more than three million Finns daily. Additionally, the company had a significant ownership in the Swedish TV4 (23% of the shares).

The company that initially attempted a takeover, Schibsted, is a Norwegian public company that is listed on the Oslo Stock Exchange. Its activities are related to products and rights in the fields of newspapers, television, film, online and mobile services, and books and magazines. In 2004, the operating revenues of its business groups were € 1 170 million (MNOK 9 690). The greater part of the revenue stream comes from Scandinavia – Norway (50%), Sweden (40%) and Estonia – but the group has operations in nine European countries. Schibsted also became a significant owner of Swedish TV4 in early December 2004 (more than 20% of shares).

Bonnier is a Swedish-based media group which comprises approximately 200 companies and units in more than 20 countries, the main geographical focus being Scandinavia and Northern Europe. In 2004, the net sales of the group were € 2 172 million (MSEK 19 564). The operations are divided into six major business areas: business press, newspapers, books, magazines, entertainment and business information. In December 2004, Bonnier was the second-largest owner of Swedish TV4 with 22 per cent of the shares. In the acquisition process Bonnier allied with a Swedish private investor company, Proventus. In 2003, the assets managed by Proventus exceeded € 173 million, and altogether it had equity in excess of € 300 million. At the time of the initial takeover attempt the company had no ownership in media companies.

The Process

In late 2004, rumours concerning the ownership of AlmaMedia started circulating, and on December 21 Schibsted A/S put an end to the rumours and made a public tender offer for the shares of AlmaMedia. In its press release it stated that this announcement was made without any prior contact with the target company. The tender was to be valid for four weeks. Prior to the bid, the ownership of AlmaMedia was divided between Swedish Bonnier (33% of the shares) and Finnish institutional investors (the six largest owners accounted for approximately 20% of the shares, but had more votes than Bonnier).

AlmaMedia's first reaction came the next day in the form of a press release about the company's plans to restructure its broadcasting division, particularly emphasising the focus on television operations. Schibsted responded the following day by announcing that it reserved the right to withdraw its tender offer, should AlmaMedia dispose of parts of its operations. This episode indicates that the 'crown jewels' in this case were AlmaMedia's broadcasting operations, in both Finland and Sweden.

AlmaMedia's opening document was released on January 4 in the form of a press release about the tender offer. It was very short and neutral, simply stating the facts of the tender offer, such as the time frame and the price per share offered. It seems that AlmaMedia attempted to keep the shareholders informed (in compliance with the instructions of the stock exchange), but the company did not reveal any extra information.

However, this passive tactic backfired, because the major institutional shareholders of AlmaMedia decided to take a more active role in the process. They were clearly informed of the alternatives available and were waiting for the best possible offer. On January 10, surprisingly, three of them sold their shares to Proventus, a new shareholder. Two days later, on January 12, the CEOs of Schibsted and AlmaMedia met in order to exchange financial information relating to the public tender offer. The meeting was initiated by Schibsted. Media-borne rumours about covert cooperation between Bonnier and Proventus grew stronger; together they now held almost half of the shares of AlmaMedia. On the same day, the Stockholm Stock Exchange announced that it would investigate whether a secret agreement may have existed between Bonnier and Proventus with respect to the takeover of AlmaMedia and TV4.

The next moves of AlmaMedia were made a day later, on January 13, when the company sent out two press releases within two hours. In the first, the board of AlmaMedia informed its shareholders that Bonnier and Proventus had no agreement concerning the purchase of shares of AlmaMedia. In the second one, which was their first significant defence document, the company announced that an extra shareholders' meeting would be held on January 31. Additionally, it stated that the restructuring plans of the broadcasting business had progressed and that at the meeting the board would be asking for authorisation to either sell off the broadcasting division or to participate in other measures related to the restructuring of this business area. It also referred to

the number of offers that the company had received, on the basis of which it continued negotiations.

Bonnier did not comment on the news, but Schibsted's reaction was immediate: on the following day, January 14, it denied any responsibility to realise the tender offer, should the broadcasting division of AlmaMedia be separated from the company. In other words, the company again clearly emphasised its interest in the broadcasting business only.

On January 24, the board of AlmaMedia had a meeting, after which it proposed an alternative strategy to its shareholders. It presented a plan according to which the broadcasting division of the company would be sold to Bonnier and Proventus. In return the company would acquire its own shares from these companies. Already the next day AlmaMedia announced in its press release that the majority of their shareholders supported the board's proposal. This was not a surprise, as the only options to turn down the proposition would have been either a higher bid from Schibsted or some other company, or a refusal on the part of regulatory authorities because of a violation of competition regulations, or a veto by the Finnish government, which decides on the extension of broadcasting licences in the case of ownership changes.

On January 31, the board of AlmaMedia asked the Helsinki Stock Exchange to suspend trading with its securities until the extra shareholders' meeting. On the evening of the same day, the shareholders accepted the alternative proposed by the board. As a result, the broadcasting division – including Finnish television channels MTV3 and SubTV, Finnish radio station RadioNova and a share of Swedish TV4 – became the property of Nordic Broadcasting, a new joint venture owned by Bonnier and Proventus.

On April 30, 2005, the sale of AlmaMedia's broadcasting operations to Bonnier was declared completed. On the same occasion, the remaining part of AlmaMedia, mainly consisting of the newspaper operations of the media company, was named AlmaNova. (Six months later the name was changed back to AlmaMedia.)

In 2007, Proventus sold its shares of Nordic Broadcasting to Bonnier. At the time, Nordic Broadcasting controlled the entire capital stock of AlmaMedia's former broadcasting operations as well as nearly 100 per cent of the shares in TV4 following the acquisition of Schibsted's share in TV4 and the takeover of Proventus' and Bonnier's ownership of TV4 in 2006.

Considering Acquisition Motives

In order to understand the various moves made in the process, one needs first to put the case into its broader context, as decisions are always made within a context (cf. Pettigrew 1990). During late 2004, the Nordic media business had witnessed considerable turbulence; many of the major actors had announced rather ambitious visions for growth. The need for international expansion was evident as the home market was more or less saturated for each of them. In this contest for markets the Swedish television broadcasting company, TV4,

had become a central actor, as the owner of that company would assume a significant position on the Swedish market.

It can also be argued that the rise of digital technology created a limited time frame and a window of opportunity for decision-making in this case, as Sweden was one of the first countries in the world to move the whole broadcasting business into digital format (in 2007). In other words, in order to be a significant player on the Swedish market, fast moves on the market were necessary.

The tension on the market culminated on December 15, 2004, when Schibsted increased its ownership share of TV4 considerably. Around the same time, Bonnier, too, bought more shares in TV4, bringing its ownership up to almost one-third of the shares. Given this development, it was not surprising that Schibsted announced the public tender for AlmaMedia (a significant shareholder in TV4 through its broadcasting company MTV3) and made a preliminary agreement with another shareholder concerning possible purchase of their shares. The management of AlmaMedia was certainly aware of recent developments in TV4, as both the managing director of MTV3, Pekka Karhuvaara, and the CEO of AlmaMedia, Juho Lipsanen, were members of the board of TV4. In other words, all the decisions made about the acquisition of AlmaMedia were strongly intertwined with the future of TV4. With the acquisition of the broadcasting operations of AlmaMedia, Bonnier and Proventus also became the principal shareholders in TV4, with more than half of the shares.

In late January 2005, the CEO of Proventus, Daniel Sachs, characterised the deal as the first step toward a pan-Nordic restructuring of commercial television activities. Expert commentaries, on the other hand, were quite sceptical of the advantages of such restructuring; the potential for joint purchases and combining advertising activities were considered limited due to country-specific preferences regarding media content as well as differences in the institutional environment. Moreover, the chairman of the board of the Swedish public service broadcaster, Sveriges Radio (SR), Ove Joanson, suggested that in fact TV4 was not actually such a desirable target as Bonnier and Proventus had implied. Rather, Schibsted had pressed Bonnier to invest € 460 million (MSEK 4 000) in a company, over which it for all practical purposes already had control.

In an interview with a Swedish newspaper in early September 2005, Jan Scherman, CEO of TV4, revealed that TV4 was planning to launch two or three new television channels during 2006. These channels were to be distributed from Finland to Sweden using MTV3's digital technology facilities. The first new channel, TV4 Fakta, was launched within a month of the interview. Scherman explained that the main motive behind the launch was the Finnish advertising regulations. Unlike Swedish law, the Finnish rules follow European Union standards, allowing for advertising directed at minors and, particularly, advertising of wine and beer, both of which are forbidden in Sweden. Scherman estimated that getting around the Swedish ban on wine and beer advertising alone would afford as much as a 50 per cent increase in the new channels' advertising volume. In an interview in 2006, Pekka Karhuvaara, CEO of MTV3, confirmed the role of MTV3 in helping TV4 evade Swedish advertising regulations.

Discussion

As the case presented here illustrates, deducing the motives behind moves made before (and after) an acquisition is rather a challenging task, as the unfolding process may be very ambiguous. All three motive categories presented by Trautwein (1990) are present here: (1) acquisition as rational choice, (2) acquisition as process outcome, and (3) acquisition as macroeconomic phenomenon. Similarly, we find linkages to several of the motivation categories of Angwin (2007b): exploitation, exploration, stasis and survival. However, it may be questioned whether focusing on solely one perspective provides sufficient understanding of the motivational pluralism behind the case. Furthermore, the observed motives do not fully comply with the conventional understandings of the categories above.

Efficiency gains were commonly mentioned in public statements regarding the case of AlmaMedia. Above all, pan-Nordic restructuring and related synergies were hailed by the acquiring party. However, many statements from actors other than the acquirer and target expressed reservations as to the true potential of such economies of scale and scope when taking into account the context in which the media businesses operated (e.g., regional differences). Such scepticism appears to be justified in the light of empirical evidence on the realisation of efficiency gains in media acquisitions (cf. Peltier 2004, Rodrigues-Pose and Zademach 2006).

Furthermore, although the AlmaMedia acquisition allowed for a substantial increase in TV4's advertising volume, this opportunity was presented largely by the environmental, regulatory and technological context, rather than company-level attributes. This motive would seem arbitrary if viewed separate from its context, but in context we see evidence supporting the acquisition as a rational choice and as an opportunity for exploitation. The opportunities resided in the industry context and possibilities to circumvent regulatory limitations, rather than in a strategic vision.

The AlmaMedia case also describes a process in which it is very difficult to distinguish decisions from actions, as the time gaps between events are short. Instead of rational choices and planned change, it seems that alternative solutions that arise during the process were ruled out, either due to history (in order to protect earlier investments or decisions) or to network effects (in order to avoid impacts on others or to react to moves of others). The case also contains aspects that show that an acquisition need not necessarily be a choice or even a desired outcome, but may be a forced activity on the market (as suggested by Ove Joanson) (Nummela and Taalas 2006).

It seems that the stage for the acquisition was set by the actions and statements made by other actors, who had no direct stakes in the acquisition. In the case of AlmaMedia, the events leading to the acquisition were preceded by announcements made by several major actors on highly ambitious visions for growth in a context where the number of actors was limited and the market rather institutionalised, highly competitive and heavily regulated. In this sense, in

addition to being multiple and intertwined, acquisition motives may also be seen as dynamic and changing over time. During the acquisition process, motivations may change depending on internal and external perceptions and actions.

Such aspects emphasise the importance of process theory and externally imposed motivations as potential explanations for acquisition activity. In contrast to the suggested desire to create something new (“new pan-Nordic television markets”) the actions could also be interpreted as attempts to ultimately maintain stasis by protecting the status quo.

Further aspects that are present as undertones rather than clear individual motives relate to the broader context of the acquisition. Macroeconomic characteristics or at least industry-level dynamics are present in statements relating to the suggested restructuring of media markets. Furthermore, our case description does not take into account the possible sequential nature of the examined acquisition as, for example, Bonnier’s later acquisitions are not included. When taking into consideration the wider context of recent acquisition activity as described in previous chapters, we also find indications of both a struggle for survival as well as attempts to explore future opportunities.

In sum, our findings point to the importance of process theory, and particularly imposed motivation, in understanding the motives behind acquisitions. However, the presented evidence extends beyond the issues that Trautwein (1990) raises in connection with viewing acquisitions through the lens of process theory. Rather than factors like individuals’ limited information processing capabilities, adaptive rationality or political power, the most interesting aspects of the present case relate to the intertwined nature of actions, the role of other actors in addition to the acquiring and acquired parties, and the broader environment in which the acquisition is embedded. These aspects provide the context out of which the so-called motives of acquisition arise; this context can also limit available alternatives to acquisition. These aspects have not received the attention they deserve, and overall, the role of context is largely missing from discussions on acquisition motivations (cf. Angwin 2007a, 2007b).

Emerging Areas for Further Research

Based on the above discussion, we can identify several interesting areas for continuing research. First, there is a need to explore acquisition motives as such. Then, there is the need to open up a dialogue between acquisitions research and Nordic studies in the field of media business. Areas that merit further investigation include:

- Understanding apparently conflicting acquisition motives in an industry in flux. Contemporary media acquisitions seem to entail motives relating to exploring new businesses and markets as well as maintaining status quo. How are such interests balanced in practice? For example, what is the specific nature of international or corporate venture-type acquisitions in this context? And what is the role of innovation-related aspects?

- Giving a better understanding of acquisitions by questioning the presumptions of rational choice, planned change and management control by also acknowledging *boundaries*-related activity. This opens up new areas for research and for reinterpretations of existing acquisition research, which has strongly relied on 'classical' understandings of acquisition motives. The media sector provides a highly interesting context for such studies, inasmuch as boundaries are present in the form of industry-specific regulation and established industry structures in Western markets. Furthermore, boundaries may also provide alternative opportunities, as the case described in this paper illustrates.
- Unravelling media acquisition processes from the perspective of perceptions and intentions, which may also change in time. How do multiple and changing perceptions and related dynamics connect to actions? How is the necessity and possible urgency of acquisition activity constructed in the field of media business? Again, the media sector provides an intriguing arena for such studies, as actors participating the acquisition process also report on related activity typically through media texts. What is the role of power, influence and ownership in this context, not merely in relation to how media acquisitions affect media content as such, but also otherwise?

Notes

1. *Finnish material*: Kauppalehti, Talouselämä, Taloussanomat, Turun Sanomat, Helsingin Sanomat International Edition, Talentum.com and Digitoday. *Swedish material*: *Dagens Industri*, *Dagens Nyheter*, *Dagens PS*, *Aftonbladet*, *Affärsvärlden*, *Veckans Affärer*, *Privata Affärer* (Bonnier), *Svenska Dagbladet/Näringsliv* and *Expressen*.
2. The concept of *isomorphism* basically refers to the process of homogenisation in terms of organisational structures and processes, for example (cf DiMaggio and Powell 1983).
3. Value-maximising theories can further be differentiated according to the source of benefits. Acquisition motives related to monopoly and raider theory imply wealth transfer from other stakeholders in favour of the acquirer's shareholders. Monopoly theory views acquisitions as being planned and executed to achieve market power. In motives linked to raider theory, value is allegedly transferred from the shareholders of the target firm to those of the acquiring firm. Valuation theory views acquisitions as being executed as a consequence of so-called private information. The assumption is that the acquirer possesses valuable and unique information that enhances the value of the target firm, or the acquisition entails benefits that can be realised only through combining two distinct firms. Finally, efficiency theory argues that acquisitions are executed to achieve different types of synergies: financial, operational and managerial synergies (Trautwein 1990).

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Chapter 3

Motives for Mergers and Acquisitions in the Swedish Regional Press

Case: The Sale of the Center Party Press

Stefan Melesko

Prologue

In 2005 the Swedish Center Party put the newspaper group that it owned up for sale. The sale took the form of an auction with closed bidding, which resulted in a remarkably high transaction price.

The present article reports the first phase of a research project, the overall objective of which is to ascertain the functionality of market mechanisms in establishing the actual price level for the sale/purchase of the Center Party newspapers. It will also follow and monitor consolidation measures after the purchase.

Three main objectives guide this initial part of the project. The first is to establish the strategic options that are available to a company that operates in a stagnant or declining market – in this case the Swedish newspaper market.

The second is to analyze the memorandum from the investment bank, Svenska Handelsbanken (SHB), that acted as the corporate financial advisers to the Center Party. The memorandum circulated among invited bidders presented the object, Centertidningar, highlighting different aspects. This memorandum is analyzed in a theoretical context of possible corporate strategies and how they relate to mergers and acquisitions (M&A) as a probable course of action.

The third objective is to delineate the bidding process, to clarify the motives of the parties involved, and then to analyze the factors behind the actual outcome of the auction. What were the characteristics of the acquirer and the bidding?

The Structure of this Study

The introductory part will focus on the Swedish regional press. The purpose is to find reasonable hypotheses for analyzing and describing mergers in the regional press in Sweden, with particular reference to the Centertidningar deal. But first, we have to lay a foundation for the analysis. One important component in this context is to determine whether or not this specific media market may be considered stagnant or in decline.

The first part of the study treats the following aspects in this context:

- An outline of the characteristics of the media industry and, particularly, the market for paid newspapers in Sweden. Newspapers operate in dual markets; they compete for advertising in the one, and for readers in the other. Are these markets stagnant, declining or just mature? There are different ways of measuring those dimensions; revenues, volumes (lineage), circulation and readers. An elaboration of these areas might appear as follows: External factors include declining circulations, also the threat posed by free papers, “the *Metros* of the world”; weaker advertising revenues, Internet sites competing for classified ads, a shift toward more centralized ad decision-making among advertisers. Among the internal factors are investments in excess production facilities, which imply spare capacity in printing plants. This factor may perhaps be the most important, as it determines the demand for capital resources.
- The available alternative strategies to counteract possible shortcomings in the market trend. What courses of action are possible for an industry in decline? Are mergers/acquisitions (M&A) intrinsic parts of strategies that reflect market developments? Definitions of mergers and acquisitions, respectively, are presented. Do the two alternatives imply different ways of looking at the transactions? Mergers might be a more rational choice in local cases and might constitute a balance between power and common problem-solving, whereas acquisitions are broader in scope, geographically, commercially and financially. A merger in the regional press probably reflects equal stress on editorial/publishing matters and business aspects. Are acquisitions more focused on purely business? Do these differences possess any analytical value in analyzing different deals? These are crucial questions in our analysis of the Swedish Centertidningar deal.

The second part of the study deals mainly with the object of the bidding and merging process, namely, Centertidningar, as presented in the investment memorandum. M&A theories are applied, and the options that were open to the contenders are outlined.

Some of the participants in the auction procedures are presented. Hypotheses concerning the behavior of the auction participants are formulated. The objective is to examine the companies with particular attention to aspects that would verify or falsify the hypotheses concerning managerial and company behavior.

The assessment of the bidding process is based on interviews conducted with several participants. A theoretical background to the bidding process, mainly founded on “auction theory”, is also presented.

The Case: A Brief Summary of Events

In the late Spring of 2005 rumor had it that the Center Party was considering leaving newspaper publishing and divesting itself of the papers in the Center-tidningar group.

Two principal presumed reasons for the divestment were discussed. First, the party did not see itself as a professional newspaper publisher, not even from a board-level perspective, despite the fact that the group management was indeed successful business-wise and the average operational margins from the group were better than the trade average.

Second, there were continued discussions among owners and managements of the regional daily press concerning long-term needs for structural changes. Investments in production capacities, the threat from new media channels – Internet among others – the trends and forecasts concerning readership, subscriptions and advertising revenues were among the factors that initiated those discussions and analyses. These considerations influenced the Center Party. In addition, liaisons between some groups of the regional press and the Center Party leadership most definitely influenced the timing of the move to sell off the newspaper group.

One significant aspect for a political party vis-à-vis the press is the opportunity for the party to elaborate its positions on current political and ideological matters in editorials and opinion pieces. The investment memorandum expressed concern that the acquisition should not influence the opinions expressed in the editorials, that the papers' views should continue to be supportive of Center Party core values.

Another stipulation that restricted the future behavior of the bidders was that the acquired group should be kept together and not become the object of asset-stripping activities.

The bidding process attracted several media groups, mostly from Sweden and Norway. Initially, the process was slated to be finalized during the summer of 2005, but that time frame turned out to be too optimistic.

Meanwhile, there were extensive speculations concerning the different stages of the bidding procedure regarding the price level, other evaluations of the group, the coalitions of bidders that may or may not have been formed as the price levels escalated. First as rumors, later in fact.

Some bidders left the process after the first stage and were not invited to be contenders in the ensuing stages. The first bar to be cleared was an initial offer of at least MSEK 1 000 (M€ 105), as stated, directly or indirectly, by the investment bank, SHB.

I have encountered certain difficulties in obtaining a complete list of participants. I have identified some and interviewed them, but one obstacle has been an agreement of confidentiality with which all involved have complied. I have therefore had to take measures to preserve the anonymity of my informants.

The integration process and the reaping of synergies started in 2006 and will continue for many years to come. It is as always an irreversible march of events.

The Swedish Regional Press

Defining the Relevant Market

In this study I restrict my focus to the newspaper market and to 2005, the year of the deal. That is to say, when I seek to identify the significant features of a declining market, only the newspaper market is considered. No other media are taken into account. This strict focus is based on several characteristics relating to the present case.

First, Centertidningar is primarily a newspaper group, but one that also owns sophisticated printing plants that might also produce papers owned or controlled by other publishers. This was evidently the perception of all the bidders.

Second, all the companies that were allowed to take part and approached to be contenders in the auction process were, in spite of some minor multimedia ambitions, mainly newspaper proprietors – and major ones, at that.

Third, the information offered in the investment memorandum dealt only with the dimensions of the Centertidningar papers and the printing plants in the group.

Thus, all involved parties perceived Centertidningar as a newspaper group that had been made available for acquisition. Bearing in mind this background, I concentrate my analysis of the market development – whether in growth, stagnancy or decline – entirely on the Swedish newspaper market.

Background: Ownership Structure

It should be noted that there is no regulation of media concentration in Sweden. The former Social Democratic government made some efforts in this regard, but it proved impossible to present legislative proposals that were thoroughly consistent and were acceptable to all the stakeholders. Another problem was compatibility with the Swedish Constitution (Gustafsson 2003).

The most important change during the 1990s was that Sweden got a strong Number Two proprietor on the media market. In the mid-1990s, Schibsted, the largest media owner in Norway, entered the Swedish market. It bought half of *Aftonbladet*, the largest tabloid, and most of *Svenska Dagbladet*, the second-largest morning paper in Stockholm – two independent, separately owned newspapers.

One should note that there is not a single company in the Swedish newspaper industry that approaches the 50 per cent share of the national market that would elicit or trigger reactions to monopoly tendencies. But, as we shall see, intermediate solutions should be considered when one evaluates a potential merger. And this is where the dominant Swedish publisher Bonnier's self-imposed restraints became obvious, as Bonnier was the leading multimedia operator in the Scandinavian market.

We should furthermore bear in mind that most theories and evaluations of M&A activities are based on the performance of *public* companies. In the case of the Centertidningar transaction only Schibsted and VLT are listed. This cre-

ates at least one problem: to determine the “true” value of Centertidningar (for lack of a share price from the stock exchange) at the time of the memorandum that initiated the bidding process.

But what characterizes the environment in which the Swedish newspaper industry is acting? We have to try to answer that important question: Is it a growing, declining or mature (stagnant) industry we are dealing with? The answer will definitely guide us in our analysis.

The following sections are an effort to define the status and nature of the industry.

Background: Circulation and Reading

In a presentation made in Vienna 2003 Karl Erik Gustafsson said: “In Sweden the newspaper industry has a very strong position. It ranks number three in Europe measured by number of copies sold per capita and, as a consequence, its share of the advertising market is more than 50 per cent. The provincial press is particularly strong in an international perspective, which means that in Sweden the newspapers published in the capital, Stockholm, are not as dominating as they are in other countries. The morning and evening dailies published in Stockholm take about the same share of the total newspaper circulation as the Stockholm area of the total Swedish population” (Gustafsson 2003).

That picture is absolutely true, but some disturbing elements have emerged since then. Over the last decade the regional press has actually experienced a noticeable decline in both circulation and advertising revenues. (Table 1) Year after year, circulation has fallen just a few per centage points, but over a longer period the trend becomes obvious and ominous. Advertising trends are, of course, affected by both business cycle variations and structural changes due to the new media alternatives that have been launched on the Swedish market. In particular, commercial TV, commercial radio and Internet. All these media have been attractive to both newspaper readers and advertisers and often present tempting alternatives to the familiar local morning newspaper.

Declining or stagnant markets per se elicit particular sets of strategies that may be applied to counteract this development. (We shall explore these further in the next section.) Table 2 shows the decrease in demand for newspapers in Sweden and the other Scandinavian countries. Evening tabloids account for part of the Swedish decline, but the evidence is clear that the subscribed morning newspaper, too, has met with diminishing figures. A similar situation in the other Scandinavian countries with lower penetration figures might explain the interest of companies, especially in Norway, in the possible acquisition of Centertidningar.

Table 2 illustrates another aspect of declining circulation. In contrast to the other tables that show a global picture including all newspapers categories this focuses entirely on morning newspapers. Obviously, the trend is roughly identical.

Table 1. Daily Newspaper Circulation¹ 1995-2005

Year	Denmark ²	Total circulation (in thousands)			
		Finland	Iceland ⁴	Norway	Sweden
1995	1 634	2 370	98	2 599	4 096
1996	1 626	2 332	93	2 570	3 933
1997	1 609	2 336	92	2 594	3 871
1998	1 581	2 343	94	2 592	3 807
1999	1 527 ³	2 328	91	2 584	3 772
2000	1 480	2 304	91	2 545	3 715
2001	1 438	2 307	79	2 507	3 686
2002	1 423	2 268	76	2 473	3 671
2003	1 341	2 243	71	2 423	3 665
2004	1 293	2 255	63	2 379	3 653
2005	1 245	2 240	64	2 318	3 603
Change (%)					
1995-2005	-24	-5	-35	-11	-12

¹ Published 4-7 days/week. Finland and Iceland: average circulation the whole week. Denmark, Norway and Sweden: not including Sunday editions.

² July-December each year.

³ Four papers – *Aalborg Stiftstidende*, *Vendsyssel Tidende*, *Fjerritslev Avis* and *Løgstør Avis* – fused 18 September 1999 to form *Nordjyske Stiftstidende*. Circulation figures for 1999 include circulation for *Nordjyske Stiftstidende* from the start, but no figures for the prefusion papers.

⁴ Based on information from publishers, annual accounts and media surveys.

Sources: Danish Audit Bureau of Circulations, Finnish Newspapers Association, Finnish Audit Bureau of Circulation, Statistics Iceland, Norwegian Institute of Journalism, Swedish Press Subsidies Council (processed by Nordicom).

Table 2. Morning Newspapers: Circulation¹ per Thousand Inhabitants 1995-2005

Year	Denmark ²	Finland	Iceland ⁴	Norway	Sweden
1995	311	464	366	595	464
1996	308	455	344	585	445
1997	304	454	338	587	438
1998	298	455	341	583	430
1999	286 ³	451	326	577	426
2000	277	445	322	565	418
2001	268	445	275	554	414
2002	264	435	264	543	411
2003	248	430	244	529	408
2004	239	426	213	517	406
2005	229	427	212	500	399
Change (%)					
1995-2005	-26	-8	-42	-16	-14

¹ Published 4-7 days/week. Finland and Iceland: average circulation the whole week. Denmark, Norway and Sweden: not including Sunday editions.

² July-December each year.

³ Four papers – *Aalborg Stiftstidende*, *Vendsyssel Tidende*, *Fjerritslev Avis* and *Løgstør Avis* – fused 18 September 1999 to form *Nordjyske Stiftstidende*. Circulation figures for 1999 include circulation for *Nordjyske Stiftstidende* from the start, but no figures for the prefusion papers.

⁴ Based on information from publishers, annual accounts and media surveys.

Sources: Danish Audit Bureau of Circulations, Finnish Newspapers Association, Finnish Audit Bureau of Circulation, Statistics Iceland, Norwegian Institute of Journalism, Swedish Press Subsidies Council (processed by Nordicom).

Thus, the consumer – subscriber or reader – market seems to be shrinking. We must bear this in mind as we analyze the behavior patterns of different newspaper or media companies. Later we shall establish the degree to which this decline in circulation affects circulation revenues, or whether price elasticity facilitates compensation. Circulation revenues for most of the leading regional newspapers in Sweden have risen due to increases in both subscription and single copy sales prices. To some degree these rises have offset the decline in circulation.

Free newspapers have expanded in both the metropolitan areas and larger regions. The first professionally edited and distributed free daily newspaper (first in Sweden and first in the world) on a grander scale was *Metro*. Its concept has since expanded into several other geographical areas in Sweden and to a certain extent into some niche subjects, which might be developed into supplements in their own right. On top of that, two other major newspaper proprietors – Schibsted and Bonnier – launched free newspapers of their own, *punkt SE* and *City*, respectively. Both projects operate at a substantial loss, but they, among other things, led to an erosion of advertising rates, which long term is not supportive of the need for growing revenues of regular subscription newspapers.

Background: Advertising Revenues

There are two illusions regarding advertising revenues that may lead publishers to misjudge their situation. The first is to focus on rising figures for a particular year. These short-term fluctuations are no cause for joy as they may generally be put down to the overall business cycle, which influences advertising sales. The second is a failure to understand that you can grow, but still lose market share if you do not keep pace with the increase of the total market, i.e., total advertising expenditures. The evidence suggests that exactly those two situations are common in the advertising market for the regional press, and neither the major bidders nor the company that was up for sale were immune.

Table 3. Total Advertising Expenditures in Sweden, 1995-2005

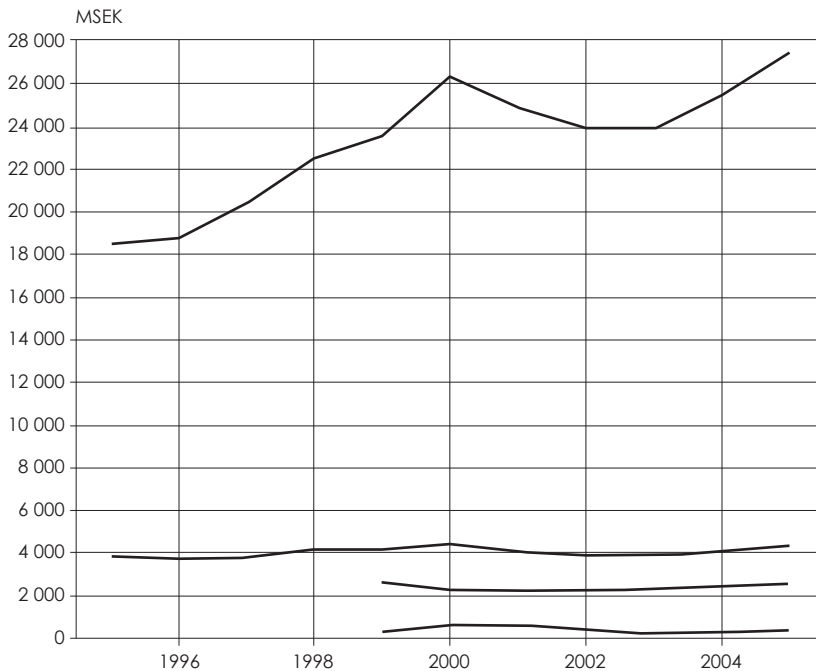
Year	Met. dailies	Evening papers	Regional	Magazines	Trade mags	Out-door	Cinema	TV	Video-tex	Radio	Total
1995	29,0	4,8	29,7	3,3	7,9	4,4	0,6	18,1	0,4	1,8	100
1996	27,8	5,1	28,4	3,7	8,6	4,4	0,6	18,4	0,5	2,4	100
2000	24,4	4,0	24,9	3,7	11,4	4,8	0,4	22,6	0,5	3,4	100
2001	22,7	3,9	26,6	4,3	11,2	4,7	0,5	22,4	0,4	3,2	100
2002	21,6	3,8	27,1	4,3	10,2	5,4	0,5	23,4	0,4	3,3	100
2003	21,3	4,3	27,0	4,3	9,9	5,6	0,5	23,8	0,4	3,0	100
2004	19,4	5,4	26,6	4,7	9,5	6,0	0,4	24,5	0,4	3,2	100
2005	19,2	5,5	26,1	4,4	9,5	6,1	0,4	25,4	0,3	3,1	100

Source: IRM. Annual publications on Swedish advertising expenditures.

The figures confirm that regional newspapers' share of advertising expenditure is declining. The decrease is mostly due to the expansion of television, but also to the increase of unaddressed direct mail, inserts and free sheets. For any given year you might find growth in advertising revenues of regional newspapers compared to the year before, but that is mostly due to business-cycle fluctuations. The overriding conclusion is that the advertising revenue share is declining, and that fact must be recognized when deciding future business strategies.

This ominous development is also illustrated in Figure 1, which depicts the growth in total media expenditure and the progress of the advertising revenues of the regional press.

Figure 1. Advertising Revenues in the Regional Press in Relation to Total Media Advertising Expenditure



Source: IRM.

Gauged instead in terms of lineage, e.g., column-meters, the trend is as follows:

Table 4. Advertising Volume in Regional Newspapers 1995-2005 (lineage)

Year	Lineage (column-meters)	Growth %
1995	623 962	1.3
1996	568 530	-8.9
1997	571 008	0.4
1998	599 209	4.9
1999	589 719	-1.6
2000	605 773	2.7
2001	557 351	-7.6
2002	531 839	-4.6
2003	517 491	-2.7
2004	527 505	1.9
2005	529 262	0.3

Source: IRM, 2005.

Practically the entire decline in lineage during the ten-year period is attributable to national and retail advertising, not to classified. But business cycle-dependent loss of classified ads does account for part of the difference between the 'peak years' 1995-2000 and later years. The overall picture, however, remains the same. Regional newspapers have experienced a decline in advertising that should trigger strategic activities in order to counteract this line of evolution.

The overall trend is further reinforced by the following factors:

First, an increasing share of retail advertising is coming from multi-store retail chains. They naturally centralize marketing decisions and the offer to the consumer. Media placement, use of advertising agencies and national/regional logistical solutions mean that corporate headquarters make the decisions. This implies a media expenditure pattern that is more oriented toward television and direct mail rather than toward regional newspapers. In order to mitigate these effects newspapers have relatively recently launched schemes to create national alternatives, where several papers collaborate to accomplish an acceptable coverage of the target groups in question. Karl Erik Gustafsson noted this phenomenon in his Vienna paper: "The structural changes in the retail trade made an upheaval in the newspaper industry" (Gustafsson 2003).

Second, we have the emergence of free papers, i.e., newspapers that are free of charge to the reader/consumer. These papers' advertising revenue increased threefold between 1997 and 2005. In 2005 total revenue reached MSEK 1 500 (M€ 157), or 20 per cent of total advertising expenditure in the subscribed morning newspaper category. In the decade 1995-2005, the share doubled, from 10 to 20 per cent, and it is anticipated to increase further.

Third, we have inroads on the part of Internet advertising, especially in classified ads. Surprisingly, the leading media group in this context is Schibsted with their *Blocket.se*, whereas the regional newspapers have tried to create an alternative through *Citigate.se*, albeit with scant resources and a late entry onto the market. Thus, the backbone of newspaper advertising is under attack. Key

words in the long term might be cooperation and humility, but the awakening has been late. The comfort induced by rising revenues due to cyclical fluctuations has not been well-founded.

Conclusions Concerning Revenues – A Declining Industry?

We may thus conclude that the revenues of the regional newspapers are threatened with respect to both the circulation revenues and advertising. The decrease must be attributed to structural changes and not to macro-economic activity-oriented variations. This fact is a starting point when we continue to analyze the strategies that lead to plans for mergers and acquisitions. What is more, the good times will never come back. That is a given in the new equation of profitability search in the regional daily press. Compared to other industries there is a notable difference, namely, that a newspaper operates on two interdependent markets, circulation and advertising.

A synthesis of common definitions of a declining industry is as follows: *one in which market demand has levelled off or is falling, and the size of the total market starts to shrink. Under such conditions competition tends to become fierce, and profits fall.*

As we have seen, both the advertising and the circulation markets are shrinking. So, the criteria seem to be met. But we have to determine whether the scope of the respective markets has been defined appropriately.

As we ascertained earlier, *circulation* figures have fallen year by year. But does that imply a diminishing market? The income statement of a company is built on monetary units, not on copies sold. The demand for a product is manifest in the volume required by the consumers. Raising the price might be a method of stabilizing the cash flow by exploiting the low price elasticity of demand, but in the long run it cannot conceal a decline in demand. For example, between 2004 and 2005 the average price increase for a yearly subscription was approximately 7 per cent, and the decline in circulation was 1.3 per cent, which means that the looked-for increase in revenues materialized. Elasticity was approximately -0.2 (see, for example, Melesko 1999), which is in accordance with previous estimates of the elasticity of demand for newspapers. So, the conclusion is that the circulation market is declining, but by raising the price newspapers have created breathing space, in which actions to counter the development might be deployed.

The *advertising* market is in this context defined as the aggregate sum of the expenditures in a variety of media. As we have seen, the market share of the regional press has declined, as has revenue in constant prices. I have therefore ventured to conclude that the market is shrinking. Unequivocally.

An amendment is required here. All the tools that are used to gauge the possible decline of a specific newspaper market are correlated to volumes, not profitability, as companies can exhibit exorbitant margins or returns on investment even in a decreasing market. But in the long run the industry must cover its costs, which requires sales of both advertising space and circulation.

Internal Factors that Support the Idea of a Declining Industry

A declining industry is characterized by internal factors that worsen the effects of the above-noted market parameters. I have conducted some studies concerning those variables (Melesko 2000, 2001 and 2004) and noted the following:

The Swedish newspaper industry has over the years adopted a strategy of vertical integration based on dominance in local markets. This has produced economies of scale, with continued investment in production capacity in pursuit of lower costs, provided that production volumes can be expanded. However, this approach becomes questionable in a stagnant or declining market. Some managing directors in those studies also suggested that several other factors underlying the papers' strategy were non-economic or less tangible.

One such reason for investment in production plants whose lifespan had not in reality expired was to secure independence in a commercial as well as a financial sense. When alternatives were considered, self-financing was a prerequisite. Independence from financial institutions and from outside interests was often more important than economic considerations.

Secondly, productivity gains do not play an important role. The total transformation of printing technology during the 1970s and 1980s has meant that there are now very few, if any major labor-saving devices left. Even where savings are possible, they are too small to offset the increased capital costs incurred by the investment.

Third, profitability is not usually the sole decisive factor in investment decisions by monopolists: if profitability is deemed satisfactory above a given level, why bother to try to improve it? After all, "the greatest monopoly profit is a quiet life" (Hay&Vickers 1987). These days, however, all major investments worsen profitability because new equipment raises operating costs and to some extent lowers revenues. This is partly a result of growing depreciation and partly because the only way to fill the resultant excess capacity is to attract commercial printing, where profit margins are much lower and in most cases just cover the incurred marginal costs. To this we may add that the volumes of the newspapers – both circulation volume and advertising lineage – are stagnant or declining, which means that the level of utilization of existing printing capacity from company-controlled papers is gradually falling.

Strategies to Combat Gradual Decline

The evidence of decline initiates different and new courses of action, that is, a new bundle of strategic options. Declining revenues or volumes are naturally negative if you are conducting business, but in order to survive as a business entity you have to counterattack the developments. Otherwise, your company will go under. Porter (1983) and Harrigan (2003/2007) have analyzed this situation, sometimes called an 'end-game'. In contrast to the frequency of published

studies covering business success stories, inquiries into the art of failure or the descent of existing product life-cycle curves are not that numerous.

Porter (1983) presents a model for analysing the current context for a specific firm, elaborating on the courses of action and potential decisions that are available to a company operating in a declining market.

Focusing on the market (demand) characteristics in a declining industry, Harrigan (2003/2007) poses several questions:

- What are the reasons for declining demand?
- At what rate is the demand declining?
- Are there pockets of petrified demand?
- What are the firm's expectations concerning demand?

A reflection: This presentation harmonizes with the one given above. In the newspaper industry, however, the management teams of different newspaper companies make different assessments of the picture of a decline in both circulation and advertising, net business-cycle fluctuations, that I presented above. Some definitely would argue that changes due to structural factors are few and/or slow. And, as many of them have a pseudo-monopoly, they conclude that most of the effects of the factors mentioned by Harrigan would have more of an impact on metropolitan papers than on their own. And the factors are underlined by the above-mentioned discussion of excess capacity.

Firms' Internal Strengths

Discussing firms' internal strengths in the context of competition among rivals, Harrigan (2003/2007) presents the following measuring rods:

- Financial advantages
- Marketing and selling skills
- Product design and engineering skills
- Production advantages
- Firms' perceptions of the reality of declining demand.

All these dimensions would seem to be applicable to all contenders for the Centertidningar deal. It is likely that before the bidding process started, all prospective buyers envisioned themselves as strong in all the above-mentioned dimensions and believed that the Center papers would make a good fit. The objective was to attain leadership through a combination of their present operations and Centertidningar.

So, according to Harrigan, we may conclude that we have an example of a declining industry, the specifics of which will emerge as the measuring rods are applied. The above-mentioned characteristics of a leadership strategy are applicable.

An interesting aspect of these analytical tools is that they are all positioned within the frame of reference of the prospective acquirer. The focus of the seller is not dealt with at all, unless we presume that it is the inverse of the acquirer's.

Alongside this analysis Harrigan presents a set of available strategies for declining industries, which are synonymous with the ones presented by Porter.

- Increase investment – seek dominance
- Hold investment level
- Shrink selectively
- Milk the investment
- Divest now.

They all seem compatible with our analysis of the declining characteristics of the Swedish regional press. Unless you want to disappear from a mass market, the only viable strategy is to increase in size by acquisitions, as there is no organic growth.

Possible End-game Strategies and How They Relate to Mergers and Acquisitions

First, we have to admit that the time frame for the decline is not clear, so neither is the urgency of decisions on strategies clear. But, for the sake of argument let us for the moment ignore this restriction. Instead, let us use the above-mentioned measure of the severity of the decline as an illustration of the time dimension.

The rapidity of decline and its severity vary between different markets, but judging from the trends in readership, circulation and advertising volume presented above, it is fair to conclude that the decrease for the industry so far has been gradual. As yet, we have seen no drastic shifts in consumption patterns among readers/subscribers that would indicate structural changes. As we know, when new media grow in importance, they tend to complement rather than substitute existing alternatives. And as many of the existing local or regional newspapers operate in an absolute or near monopoly position, given the current media supply we can assume that they have some time for adopting strategies to combat the new three-pronged situation: technological changes (above all Internet), social trends (e.g., less inclination to subscribe to newspapers) and demographic shifts (e.g., higher proportion of recent immigrants and a growing number of single-person households). Each of these factors gives a publisher ample time to respond.

But as we can see within all the available strategic choices proposed by Harrigan and Porter, M&A is not a prime choice of strategy. Instead, it may be a component of other alternatives. Indeed, M&As might constitute a part of all the options.

Increase investment – seek dominance. We may assume that this strategy is roughly what Porter calls “leadership”. In the present case of Centertidningar it is easy to see how the creation of a larger group of companies well supports an ambition to seek dominance, and to accomplish it through mergers or acquisitions. Of course, dominance can be achieved by forming coalitions – collusion – among several companies, but the most likely choice is to use M&A. Increasing investments seems less likely when we consider what was stated earlier concerning the excess capacity in the regional press. Therefore, growing investments must either be made in M&A or in intangibles and R&D. So, the strategy of dominance appears applicable *if* matched by investments in other domains than location and printing plant. In order to achieve dominance M&A can contribute to cost reductions and market dominance.

Shrink selectively. This strategy does not indicate a movement toward M&A activities. They may very well be included, but this is not the obvious first choice. There is no clear reason for this strategy to be applied by a regional newspaper company to counteract a declining market trend, as the local or regional newspaper industry does not include niches. There might be a competitor that tries to operate in the same niche. Trying to be the best newspaper in a market like the one in our case is more a question of geographical characteristics than anything else.

The same conclusion is applicable to the other alternatives, “milk the investment” or “divest now”. But we must bear in mind that the “divest now” strategy was obviously the one chosen by the seller, the Center Party. They did not want to achieve dominance or take any active part in restructuring the Swedish regional press.

We can therefore conclude that the most appropriate strategy for industry “leadership” or “dominance” includes the option to choose M&A as part of this course of action. But this choice does not exclude other components in a leadership strategy. Strategy selection also implies long-term commitment to the chosen alternative. Therefore, all M&A activities are obliged to be long term, as well.

Most newspapers in the Swedish regional press operate under conditions that resemble monopoly. This is a situation quite distant from the assumptions on which local mergers might be based. Because, as we shall see in the next section, mergers of local papers that operate in geographical proximity are a natural step when it comes to seeking a leading position. But the opportunities are few. In order to apply M&A as part of a leadership strategy in a stagnant/declining industry you have to elevate your point of observation in order to get a more comprehensive outlook. There are many buyers in the Scandinavian newspaper market, but few if any sellers. Not the best environment for an acquisition strategy.

Mergers and Acquisitions

Definitions and a Frame of Reference

The terms, “merger” and “acquisition”, are often regarded as synonymous, and in many contexts the jargon denotes them as “M&A” – a literal merger in itself. In relation to newspapers as an industry we have to recognize the two dimensions of revenue structure – advertising and circulation – and one important cost factor, namely, the production/printing plant or facilities. Over the years we have seen both mergers and acquisitions as separate entities in the Swedish newspaper market. Most of the ownership changes locally, that is, within the same town or, at the most, in neighboring communities. These are what I would call mergers, whereas changes on a larger geographical scale I would call acquisitions.

Let us look at the definitions as the words are most frequently used.

Merger: the combining of two or more entities into one through a purchase, acquisition or pooling of interests.

Acquisition: something is acquired or gained.

A merger might reflect a balance of power and present a solution to a common problem. In Sweden the best recent example of a merger is that between Helsingborgs Dagblad and Nordvästra Skånes Tidningar. The two companies were merged into one, both editorially and commercially, with great success. The result from operations increased, and the margins grew. The ownership is also divided 50/50 between the original owners of the two companies. On the other hand, we have the merger of *Gotlands Folkblad* and *Gotlands Tidning* to form *Gotlands Tidningar*, where there was no clear distinction between the merging part and the acquiring part. The result of this first merger later merged with the other remaining newspaper, *Gotlands Allehanda*, but under new ownership. The initially three papers have merged into one on the commercial and production side, but there is still some differentiation on the publishing side. So, apart from some exceptions we have to accept that in many instances the two terms are indistinguishable.

For all practical purposes, we have to conclude that mergers and acquisitions are two complementary dimensions, irrespective of the method of payment or the process that the involved companies went through before the new organization was launched – even though a merger in the regional press probably reflects an equal stress on editorial/publishing matters *and* business aspects, whereas the brutal term ‘acquisition’ connotes a narrower focus on business.

We may finish this segment with a quotation from the book, *In Search of Shareholder Value*: “Shareholder value theory suggests that M&A activity is an important mechanism to keep capital flowing to the areas that need it most” (Black et al. 2001). In other words, according to these writers, you buy (acquire) a company and then you merge it. A strictly financial aspect dominates this outlook. The arguments for M&A as an integral part of a strategy are also presented as efficiency-driving decisions. But there are several other dimensions of selecting M&A as part of a dominance strategy.

Leroy and Ramanantsoa (1996) present an interesting approach to mergers. They elaborate on a model concerning mergers (Fr. *fusion*) where they analyze the notion that a merger can be seen as a tool for developing organizational structures and procedures (cf. Cyert & March 1963, i.a.). This approach is applicable to an analysis of what has happened after the M&A has initially taken place. Concerning organizational procedures and structures they hold forth the following factors:

- *La taille du département ou du service (nombre de personnes du service) / The size of the organization (staff).*
- *L'ancienneté de l'entreprise, du département ou du service / The age/maturity of the organization.*
- *Les caractéristiques de naissance de la routine qui conditionnent le degré de légitimité organisationnelle d'une pratique et donc sa survie / The foundations of legitimacy: how praxis comes to be recognized as legitimate and thus survives in the organization (jfr. Stinchcombe, 1965).*

I find these factors, broadly taken, to be a suitable starting point for assessing the action taken after the Centertidningar transaction was completed. Bear in mind that the Canadian approach is not applicable to semi-hostile or hostile takeovers.

An Outline of the Ambitions of this Study Concerning Media M&A and Their Specifics

In order to create an analytical basis for the study we have to scrutinize two different approaches to M&A in the media industry in order to complete the survey of possible reasons for mergers in a mature or declining industry made above. First, existing general research findings may have to be supplemented by studies made with other sets of objectives in order to analyze the media industry. I am particularly referring to institutional or governmental studies of the media, often conducted with the manifest objective to consider whether there are reasons for specifically regulating mergers among media companies or conglomerates above and beyond the competitive legislation that is applicable to the behavior of other industries. These studies could present interesting tools to apply to the media in general and the Swedish situation in particular.

Later, I will pose the question of whether the current research focused on media industry mergers and acquisitions reflects the complexity and specific characteristics that are relevant to my study. There might exist deficiencies in the analytical tools used, if applied to the objects of my study. The scope might be too narrow or directed in another angle.

What M&A Research Tells Us and Its Bearing on the Transaction

It is a well-known fact that most of the M&As in this world do not succeed or, rather, do not meet the expectations of the acquirer. Synergies, economies of scale, coordination advantages – the terms for what companies are trying to achieve through a merger are manifold. In order to establish whether an M&A is successful, or partly or entirely a failure, one has to establish and apply some kind of measuring rod.

The following aspects are essential to our work:

- The components that trigger or initiate an acquisition process: financial, managerial, power-oriented, or other considerations that influence the start-up activity.
- The selection of a target company
- The evaluation of the company and the acquisition process
- Possible stumbling-blocks.

Triggering Components

In their work, “Mergers and Takeovers: A Memetic Approach”, Ed Vos and Ben Kelleher (2001) explore the theories and outcomes of M&A. They cite a very simple theoretical explanation of why an M&A takes place:

Theoretically, a company will enter into an acquisition or merger agreement if they believe that the $NPV(\text{company A} + \text{company B}) > NPV(\text{company A}) + NPV(\text{company B})$, where NPV is Net Present Value.

Or, put simply, the economic value of these firms combined is greater than the economic value of these two firms as separate entities.

This formula is limited in its application possibilities since it does not specify the time frame, and the NPV of what? Of cash flows? EBIT? EBITDA?

“Financial theory implies that acquisitions and mergers occur in the hope of positive synergistical effects, with many managers citing synergy arguments in order to justify their actions”, Vos & Kelleher (2001:1) observe.

But several works show that the above-mentioned formula for company value does not work. Only a minority of mergers has proven to be profitable to the acquirer.

Apart from the purely financial motives, there are other components that make decision-makers more apt to opt for an M&A. One of the standard works in this area is Lubatkin (1983), who outlines seven approaches to an M&A transaction. I have added a comment to each point, linking it to the Swedish newspaper industry situation and, in particular, the Centertidningar transaction.

This as an attempt to pinpoint the factors that central actors treated as essential during the bidding process.

- *Monopoly Theory: Gaining market power.* The market power growth potential in Centertidningar lay especially in the areas of advertising and commercial printing. Few bidders, if any, had an opportunity to merge newspapers in any local market. Long term, there might have been an opportunity to merge printing plant investments, but that factor is probably more significant with respect to efficiency than to market power per se.

- *Efficiency Theory: Operating synergies, financial synergies and management synergies.* These motives are commonly accepted among all the bidders I have communicated with. Operating synergies were possible, and an analysis *ex ante* among the bidding companies showed that future investment plans and managerial structures could be changed.

- *Valuation Theory: Bidder managers have better information about the target's financial performance than the stock market has.* This aspect is not applicable here, as the target company was not public. The only application here would be to try to ascertain whether some bidders had access to more comprehensive information than others – a difficult task. Some characterize the Swedish newspaper market as having a large supply of buyers, whereas the objects on offer are few. Strong information networks exist in the industry.

- *Empire Building Theory: M&A planned and executed by managers who maximize their own utility instead of their shareholders' value.* This aspect is partly applicable, as there is an intrinsic rivalry in the market between different constellations. So, there is a management “ego-boosting” factor present, but it probably cannot be differentiated from the aspirations of the owners of the bidding companies.

- *Process Theory: Managers have only limited information and base decisions on imperfect information.* This is probably true on many occasions, but not in this case. This is an industry that is limited in size, where everybody is well acquainted with all the others, bidders and objects alike.

- *Raider Theory: Managers who anticipate transfers of wealth from the stockholders of the companies they bid for.* This is not a variable that describes the current status of the Swedish newspaper market. The term ‘raider’ implies that the acquired company is ransacked by the buyer(s), but this is not the case regarding Centertidningar.

- *Disturbance Theory: Merger waves are caused by economic disturbances.* Vos and Kelleher (2001) present no definition of economic disturbance, but one interpretation might be that the emergence and growth of Internet presents, long term, a situation where newspapers face a substantial loss of revenue flows.

Häkkinen (2005) presents a somewhat different characterization of M&A's that, adapted to the Centertidningar deal, may be summarized, as follows:

Expansion & development	Increase internal efficiency	Improve competitive environment	Personal motives
Geographic expansion	Obtain economies of scale	Increase market share(ad sales)	Increase sales and asset growth
Product expansion	Obtain economies of scope	Acquire competitor (commercial printing)	Gain personal power and prestige
		Reduce industry excess capacity	

The Evaluation of a Target Company and the Acquisition Process

A good starting point might be to seek the answer to the question brought forward by Eccles, Lanes and Wilson (1999) "Are you paying too much for that acquisition?" The introduction to their article bluntly declares that "most acquisitions don't create value for the acquiring company's shareholder" (Eccles et al. 1999). Many failures occur, they observe, simply because the acquiring company paid too much for the acquisition. Their comprehensive study is based entirely on publicly traded companies; success or failure is gauged by the movements of the stock prices. Contrary to the conventional wisdom, it is not the size of the premium that is paid that eventually decides whether the acquisition is successful or not. "Pricing an acquisition correctly is extraordinarily important," they state and go on to note, based on an extensive review of the literature on M&A activity in the past 75 years, that well over half of mergers and acquisitions failed to create their expected value. Thus, the crucial question, they conclude, is: What is the true value of an acquisition?

The answer to this question is structured in different steps.

- *Intrinsic value.* This basic value of the company is principally the net present value of expected future cash flows, independent of any acquisition. In this calculation you have to determine the time frame and the current interest rate to be applied and make assumptions as to revenue and costs over time.
- *Market value.* This value is commonly called current market capitalization. That is the same as the current share price, where all future possibilities are embedded. It is easily defined. In the present case, where Centertidningar is an unquoted company, you can approximate the value by comparing it to quoted companies in the same industry, media/newspapers.
- *Purchase price.* The anticipated price that the bidding company has to pay in order to conclude the deal.
- *Value gap.* This residual is defined as the difference between the purchase price and the intrinsic value. All parties that are involved in a takeover are aware of the fact that this value gap is practically always positive.

- *Synergy value.* The net present value of the cash flows that are directly related to the improvements made when the acquirer and the target company are combined.

Computation of the synergy values is a critical component. This is where lots of ambitions and objectives run aground.

What Constitutes the Synergy Value?

Many studies have dealt with this topic. This section draws on the work of Leroy and Ramanantsoa. Briefly, the value may be summarized as the difference between the discounted cash flows for the new company and the sum of the individual discounted cash flows in the two companies before the merger. The following factors are generally depicted as the prime factors:

- *Cost savings.* These savings are presumed to grow if the merged companies operate in the same industry. Even if these synergies are the easiest to calculate, they sometimes create problems and can be overestimated. Acquirers may be overly optimistic about the time that is needed to realize the savings.
- *Revenue enhancement.* It is hard to pinpoint when it occurs. Calculations are performed in a laboratory-like situation, whereas the assumptions are influenced by the deal being made. One possibility, of course, is that given the elimination of a competitor, you may raise the price toward the customer. You may also attain a momentum that enables the newly created company to gain new ground.
- *Process improvement.* This is a description of how the best practices from each company are used. As outlined above by Leroy and Ramanantsoa (1996), this may be illustrated and gauged by key benchmark variables. It is easier said than done. As the Montreal researchers observe: The organizations tend to continue with old routines and only change them marginally rather than adopt totally new procedures. That is to say, it will take time to fine tune the new systems and benefit from process improvement.
- *Financial engineering.* Sometimes it is considered to be advantageous to borrow cash to finance a transaction in order to accomplish a lower WACC (weighted average cost of capital). This is not always a good reason for a deal, but some financial engineering might influence the outcome. For instance, after an M&A a refinancing scheme might take place that otherwise would not have been possible.

All these factors may constitute positive values for the acquirer when exercising his calculation skills, but they may well prove to be elusive. In my experience very few *ex post* evaluations of M&A are made from an impartial standpoint. As we have seen, less than half of the mergers are regarded as successful after the fact, and many of the assumed synergies never materialize. For a treatise on synergies, see Sköld (2007).

The Evaluation of Centertidningar

Financial Information

The financial objective of the Centertidningar group at the time was to secure a return on equity that equalled the return of a 10-year government bond, plus seven per centage points. In mid-2005 that corresponded to 12 per cent. The operating margin was set at at least 10 per cent.

Here follow some key figures that were presented in the investment bank's memorandum to bidders. I have added the figures for contract and commercial printing, shown here as an aggregate.

	2003	2004	2005(Est)
Operating income	737	742	840
Operating profit	74	70	80
Margin	10 %	9,4 %	9,5 %
Total Newspapers	504	518	n.a.
Operating profit newspapers	43	55	
Margin	8,5 %	10,7 %	
Total printing	166	132	n.a.
Operating profit printing	30	12	
Margin	18 %	9 %	n.a.
Profit after tax	67	59	61

The figures for the printing operations offered in the memorandum vary. So, there is some uncertainty surrounding them. The group overheads for 2004 were approximately MSEK 13 (M€ 1.36), which indicates a margin for cost-reducing synergies. This prospect is probably equal to all contenders in the bidding process.

If we look at the cash flow, the following information was available in the memorandum.

	2003	2004	2005(Est)
Cash flow from operations	134	147	76
Cash flow for the year	32	-76	59
Dividends paid	13	63	14
Total assets	806	929	1068

An attempt to establish a starting bid may now start. I have been told that all companies tendering bids below MSEK 1 000 (M€ 105) would be eliminated from the further bidding process, in which bidders would be able to obtain more information through, among other things, sessions with management. Some prospective buyers did not qualify for these later rounds.

One aspect concerning the structure of the group that became a decisive component in bidders' estimation of the value of Centertidningar was the company's very decentralized organization, with duplication of certain management functions and ample room for cost-cutting synergies. This was not mentioned in the memorandum.

Crucial Variables

Let us now return to the three levels of value and see how they may be applicable to our situation.

Intrinsic value, the discounted cash flows: For the sake of argument MSEK 1 000-2 000 (see below).

Market value: not valid here, as the company is privately held, but if figures are applied from quoted companies in the industry, the value would fall in the interval of MSEK 800-1 200.

Purchase price, what somebody actually pays: in this case MSEK 1 815.¹

Value gap: in the range of roughly MSEK 0-800.

Before we can establish the value gap it will be necessary to determine and elaborate on some components of intrinsic value. This is essential in order to pinpoint what in the way of synergies will be required to make the acquisition pay off. The variables are as follows:

Time frame. As the newspaper companies have a long history, and in order to be generous toward the bidders, let us assume that the time span is eternity.

Growth of revenues. The foregoing analysis shows that the industry as a whole is contracting or at best shows zero real growth in monetary terms, after adjustments for inflation.

Cost of capital. Equity is more expensive than borrowed financing. The cost of equity for Centertidningar was, as stated, 12 per cent. Borrowed money at the time of acquisition probably had a rate lower than 5 per cent. Let us start with a WACC of 5 (entire financing borrowed) or 10 per cent (a mix of self-financing and loans) and see the results.

Intangibles. In this context the sum of “soft” variables and envisioned, but not necessarily realized synergies.

This is how a simple model would work:

Intrinsic value

Cash flow 100 a year in eternity

WACC 10 MSEK 1000

WACC 5 MSEK 2000

For an accessible, but extensive treatment of alternative methods for evaluating companies see, for example, “In Search of Shareholder Value” by Black, Wright and Davies (2001) and Bild (1998).

Alternative Evaluations in Other Industries

During the expansion of publicly traded shares in the information technology sector other principles of evaluation were often applied. For example, instead of WACC, analysts focused on the net present value of *future* cash flows emanating from the acquired entities, as estimated on the basis of the number

of subscribers or corresponding consumption units that were attached to the merging companies. A more extreme application was to use as a measuring rod the revenues (not contributions) raised per subscriber and then multiply by their numbers. That arithmetical operation was assumed to estimate the value of the acquired entity. This was based on two tacit assumptions – though never revealed in the articles that purported to enlighten the public. First, the marginal cost per subscriber when the revenues per subscriber grew were assumed to be negligible. Second, growth would not require any investment in expanded structures as a prerequisite to increasing the revenues. All analysis in this context was based on ever-growing markets.

The following excerpt is from an article I wrote in *Pressens Tidning* in January 2006. The measurement that is applied in these paragraphs is similar to what is sometimes defined as ARPU (average revenue per user). See, for example, the financial reports from MTG.

Recently Skype was sold for more than 20 thousand-million SEK. According to available information that company had 2 million paying customers. That is 10 000 SEK per active customer. Norwegian cable-TV operator UPC was acquired for 4 thousand-million SEK and the number of subscribers were 460.000, that is almost 10 000 SEK per consumption unit. And finally ComHem [a cable operator] was sold at a price exceeding 10 thousand-million SEK, approximately 8 000 SEK per subscriber. Is it possible to apply this evaluation model based on customer value on newspapers?

Expressen acquired GT at a price of over MSEK 150, or approximately SEK 2 500 per copy. But GT had a very low profitability at that time. Schibsted acquired 50 per cent of Aftonbladet for about MSEK 400, corresponding to a price per copy for the entire company of approximately SEK 2 000. In addition it might be interesting to consider the purchase price of the French financial daily, *Les Echos*: SEK 1 780 per copy. In the case of the Centertidningar deal, the ultimate purchase price turned out to be in excess of SEK 11 000 per subscriber (roughly 150 000 subscribers). We should be aware that about 30 per cent of the company's volume derives from commercial printing. If we assume that the share of cash flows is correlated to revenues and adjust the figures accordingly, the value per subscriber can be put at SEK 7 000-8 000. A high value indeed compared to the above-mentioned examples from the Swedish and French press.

The evaluation models (ARPU) used for cable networks and so forth are rather more applicable to growing markets (with new products and services and expanding customer bases). Furthermore, there is a presumption of low marginal costs. Neither component accurately describes the Swedish market for daily newspapers – a further indication that the actual acquisition price for Centertidningar was very high. Indeed, the transaction recalls the expression, “the winner's curse” (Thaler 1994).

Thus, these numbers illustrating the subscriber value confirm what I stated in the Prologue. The acquisition was made on a highly elevated price level.

Previous Studies in the Media Industry

Peltier (2004) applies measurements of corporate performance to see whether size accomplished through acquisitions is decisive for economic performance. Based only on an intra-sample comparison, she draws the following overall conclusions:

- *A firm's increase in size does not improve its economic performance.* In her sample Peltier found little if any evidence of economies of scale. An interesting observation.
- *A simultaneous presence in different media industries does not always lead to better economic performance.* There is variance between the different groups, but overall there is no support for the idea that there are synergies to harvest between different parts of the media industries.
- *The possession of complementary assets does not lead to better economic performance.* It therefore seems as though the idea of enhanced value of a diversified industry, or especially a conglomerate, is to some extent repudiated by the evidence. Greater focus seems to be rewarded.
- *Internationalization correlates positively with economic performance.* There is no need to dwell on this conclusion, as it has limited bearing on the study of the Swedish regional press.

From Peltier's analysis we may conclude that the same value and synergy problems occur in the media industry as well as in other industries. The international dimension is of no importance to the present case.

Hypotheses for Further Investigation

This section is supposed to serve as a foundation for further investigations and analysis of the collected interview material. The framework will act as an agenda and a tool for illumination of the presentations of the conclusions of the "field" material of the study. The different hypotheses should thus be seen as an extract and concentration of the discussions above. They will be evoked step by step in examining the collected material.

Hypotheses Based on the Strategic Options

1. Active players/companies among the regional press try to accomplish market dominance.
2. Growing investment needs in a declining market may be met by M&A activities.
3. One motive for seeking to attain market dominance is the quest for a 'critical mass' factor in developing new media ventures.

4. Few companies outside the industry will be found among the participants in the auction process.

*Hypotheses Based on Selective Motives for M&As
that Could be Exercised by a Company's Management*

Expansion and development

1. Geographic expansion is important to obtain economies of scale in production and advertising sales, and thus to increase market share.
2. Horizontal rather than upstream acquisition perspectives will predominate.
3. The aim is to build a stronger foundation for digital media development and other multi-media expansionary measures.
4. Fewer geographic links/connections/competitive situations will stimulate merger bidding despite fewer possible synergy effects.

Enhance internal efficiency/improve competitive position

1. One long-term goal might be to consolidate editorial content by merging staff and stringers, subscription costs of news agencies, etc.
2. Excess capacity will be diminished.
3. Margins in the printing sector of the merged companies will be increased.
4. Joint future investments will reduce capital expenditure.
5. The WACC (weighted average cost of capital) factor is important. The lower the cost of capital, the likelier a winning bid. (We should recall that in 2005 financial markets had abundant lending capacity.)
6. A stated intention on the part of the bidder to maintain the Center Party perspective in editorial columns after the merger will make a bidder more attractive, all else being equal.

Personal/organizational 'ego motives'

1. Prospective personal gains – power and prestige – will ultimately influence the bid levels.
2. An ambition to counteract Bonnier dominance in the Swedish market will play a significant role.

Empirical Data Gathered to Date

The hypotheses stated above served as a guide in a number of interviews I conducted with representatives of five of the companies that tendered bids for Centertidningar. I present the material gathered in three categories: (1) some observations that are common to all parties; (2) the views of a group that was excluded after the initial round of bidding; and (3) responses of some bidders that participated up to the final rounds of the auction process.

Figure 3. Location of the Center Newspaper and Sweden's Three Metropolitan Areas



Strategic Options – General Observations

A number of observations apply to all five interviewed participants. For one, the pending purchase of Centertidningar was considered a business project. Overall, editorial judgements made few if any imprints.

All five groups are involved in regional newspaper publishing. All have been active during the past decade in acquiring newspapers and other media companies. The market dominance theme is not applicable to the acquisition of the Centertidningar papers, as few of the bidders were local competitors. There was no competition between these active bidders and the individual papers of the Centertidningar group, although market dominance was acknowledged as a valid motive for seeking a merger. The motive, however, is definitely

applicable to advertising and to printing in a general sense. Expansion-oriented investments in production plants that imply growth in capacity as such were deemed obsolete and were not among the strategic considerations, according to my informants. The track record of some of these companies shows, however, that investments in acquisitions were continuous items on their agenda. The responses indicate that anticipated synergies in the production area were a significant and decisive factor that influenced the ultimate bid level for the remaining contenders.

The Views of the First-stage Quitter

Declining market? The company that abandoned the auction process at an early stage stated that they envisioned the newspaper market as 'stagnant' rather than 'declining'. The company defined the market as including newspaper websites and free newspapers like *Metro* and *City*. They were firmly convinced that there is a long-term market for local and regional newspapers. The group deemed Centertidningar to be a strong entity that had recently completed comprehensive investment programs.

They definitely shared the view that a larger number of newspapers would be a firm foundation in developing new media ventures.

Expansion and development? This group regarded the Centertidningar as a stand alone offer, to be judged on its own merits. That is to say, all their considerations were based on the premise of keeping the group together, in keeping with their perception of the objective stated by the seller.

As to whether the potential acquisition could be categorized as horizontal or an upstream acquisition, it was evidently seen as a 'horizontal stand alone proposition'. I also got the impression that it was rather seen as two separate operations, the newspapers and the printing plants.

The group saw few opportunities to coordinate efforts with their present operations, with a few exceptions in the areas of advertising sales in some markets and certain parts of the commercial printing market. But, overall, they regarded the synergies from a market standpoint as limited.

There might have been an element of defensive tactics (not strategy) in showing interest in Centertidningar in order to avoid growing and stronger competition in neighboring markets that might conceivably become more fierce over time.

Improved internal efficiency and more favorable competitive environment? Consolidating editorial content was not a consideration for this group. Implicit in the descriptions of their approach to the possible deal was an intention to coordinate production capacity. The printing plants of Centertidningar were perceived to be competently managed, fully invested and recently overhauled. Thus, an acquisition of the Centertidningar would have a positive effect on both the margins of commercial printing and the situation of excess capacity in the business. Regardless of which company or companies took home the deal.

I got a very straightforward comment concerning the financial aspects of a merger in those days in Sweden. The greater the share of the purchase price that is financed by borrowing on the capital market, the more likely the bidder would find an elevated price level acceptable. The WACC factor will thus be lower for that category of possible acquirers.

This group had an ambition to self-finance the deal to a considerable degree, which helps to explain why they did not persist.

The question of party color or ideological leanings in the editorial columns was not a topic for this group.

The final paragraph of the hypothesis covering personal/organizational 'ego' motives was not applicable, as those non-quantitative factors would most likely be invoked in the final stages of the bidding process.

Why did this group disappear from the auction process?

I base my conclusions exclusively on the motives that were presented to me.

Above all else, without well defined synergies the ultimate price level will be too high for a group that looks upon Centertidningar as a stand-alone object only. The auction process, in combination with the very limited supply of local and regional newspapers available for acquisition, are the explanatory factors.

Other observations are

- The group asked for the investment memorandum. According to the information given me, they approached the investment bank themselves and asked to be included among the contenders. They were somewhat astonished not to be summoned to take part in the consecutive stages, but concluded that their estimation of the company value was too low.
- As a tool for evaluating the Centertidningar they applied a standard formula of 11-13 times EBIT (Earnings Before Interest and Taxes). That would put the value at MSEK 780-880, according to their calculations. That value coincides approximately with the NPV of future cash flows that I indicated above (page 62. Market value: MSEK 800-1200. Intrinsic value WACC 10: MSEK 1000). But, from the seller's standpoint, that interval was far off target.
- They were not asked to continue, as the first-stage cut-off threshold, according to my information, was set at MSEK 1 000. (Bidding was closed, and no bids have been disclosed even after the deal was done.)

The Views of a Final Contender

This group, in coalition with other companies, was among the final bidders. This group has instigated several M&A processes over the past decade. All the acquisitions, it emerged, have been part of a plan to build a group where

synergies might be harvested. The management thus had thorough knowledge and experience of accomplishing successful organizational change and adaptation. The group had no geographical connections with Centertidningar areas of distribution, although some of their papers were located in the proximity.

They were aware of the plans within the Center Party to divest before the plans were finalized and announced.

The group was first barred from entering the second round of bidding, but by raising their bid to MSEK 1 100, and later to MSEK 1 300 they stayed in the contest. They subsequently submitted even higher bids, but by that time they were acting in a coalition with others.

A declining market? The group wants to be a major player in the national restructuring of the regional and local newspaper business. Its track record shows that the group believes in acquisitions and mergers as appropriate strategies in a declining or stagnant market. As part of its overriding strategy, the group wants to expand in order to exploit economies of scale in all areas of activity: commercial, editorial, technological, product/service development and so on.

There was also a distinct element of risk-aversion built into their strategy. Why should potential newcomers to the industry be able to harvest the growth possibilities, particularly in what might be categorized as new media? This firmly held opinion interacted with other motives and spoke for an acquisition-oriented strategy.

Expansion and development? As stated above, this group definitely envisions expansion also in a geographical sense as a foundation for accomplishing economies of scale in practically all areas of the newspaper industry. This is in accordance with a fundamental conviction that centralizing certain management areas, including development activities, facilitates the identification of synergies.

The strategy implies a horizontal rather than vertical integration acquisition process. This line of thinking and its practical implementation are considered to foment R&D processes, and a larger foundation enhances this development. Everything in this area is concentrated to the company's head office.

Improve internal efficiency/more favorable competitive environment? The group sought to act in coalition with another group. Long term, they anticipated the accumulated synergies to exceed MSEK 2 000 in total. They were also convinced that traditional financial mathematical models had to be abandoned in order to fully explore the potentials of an acquisition of this magnitude, given the closed bidding procedure.

Benchmarking comparisons with other newspaper companies had shown that they were superior to some of their peers in some areas of the industry that were essential to the realization of synergies – in printing, administrative procedures and, particularly, information technology (IT) and developments in “new” media.

Included in their estimates of potential synergies were cutting staff by roughly 10 per cent. This is not as radical as it might appear, as the management of

Centertidningar was highly decentralized. What is more, practically all the local companies were individually incorporated, which in itself implies extra costs.

The production facilities had recently been brought up to 'state of the art' and needed no further substantial investments for the next ten to fifteen years.

Significantly, one CEO said that up to then they had only acquired or merged with companies that were encountering problems, or, phrased otherwise, the group had learned through experience how to explore potential improvement possibilities.

Comments on the Evaluations During the Bidding Process

One specific requirement within the group was that 50 per cent of the purchase sum must be self-financed. The profitability based on cash flow calculations, i.e., the return on investment, should, when all synergies had materialized, be at least 6 per cent.

There were no definite plans to sell off production plants. Neither was there any discussion of 'soft variables', like how the presumed Center Party ideology of the editorial pages might be sheltered under a new regime.

Some Concluding Reflections

There are several reasons why this company did not come out the victor.

First, the price exceeded the level which the coalition had defined as minimizing the risk. Consequently, in consent with their partners, they withdrew from the auction process at a level of around MSEK 1 700.

Second, the company acted in two consecutive coalitions during the final stages of the process. The first consisted of two groups, the second of three. They all considered the final bidding level too high. Another company that might surpass their bid of MSEK 1 700 must find synergies that were not available to this coalition, particularly in production/printing.

Third, one central question was whether or not the seller required the buyer to keep Centertidningar intact as a group. Both coalitions believed this to be mandatory, and all their plans for the group were based on that foundation. While not expressly stated in the memorandum, this requirement was implicit in discussions with the seller and its bank. An asset divestment would probably have improved the prospects of higher profitability.

Fourth, the question of the future political leanings of the editorial page might have played a certain role in a secretive bidding process, where the status quo proposition was probably implicit. And that would not have been to advantage for these two coalitions. (These surmisings were offered privately by a source I cannot disclose.)

These observations cast light on the entire process and explain why it probably was impossible for this contender to take home the deal. What is more, they found few if any synergies in the area of newspaper and commercial printing, which activities contributed substantially to the volume of sales and

profits of Centertidningar. Only those who could realize substantial synergies in these areas could prevail in the bidding process.

The Centertidningar Project Continues

I am presently in the process of studying the actual outcome of the merger. I am particularly interested in the financial solutions and the anticipated synergies that were part of the calculation behind the final bid. The following is but a brief summary of some of the central features that characterized the victorious coalition and its values. The winner will be scrutinized in the context of the analysis of the merger process.

The Final Contender/Winner

The group consisted of several companies: Stampen (GP), Nya Lidköpings-Tidningen (NLT), VLT and MittMedia, all major players on the Swedish regional newspaper market. Their goal from the start was to take home the prize. Toward this end they established a valuable network for information-gathering that served them throughout the process.

All the companies have for years publicly called for a restructuring of the regional newspaper market. Particularly Stampen and NLT in coalition have been very active in this process, and through the gradual acquisition of VLT they have created a power center. They looked upon market dominance as a prerequisite for attaining a 'critical mass' for new media development. Besides the newspapers themselves, the restructuring included a transformation of the printing industry for newspapers and similar products. The group owns the largest printing plants in Sweden.

Here is a brief summary of the characteristic traits that describe the winner. A fuller analysis will be presented in a coming report on the harvesting of the merger benefits.

- There was an endeavor to establish market dominance, not least in the field of commercial printing.
- The coalition was formed and consisted of three parties that geographically actually matched the locations of the Centertidningar newspapers.
- The objective was evidently to renew the group structure step-by-step.
- The WACC factor played a significant role. At face value, borrowed financing was cheaper than self-financing.
- The aftermath of the merger continues, and different ownership solutions are part of both efficiency-seeking activity and an exhibition of financial engineering.

My monitoring of the process will continue for at least another year.

My tentative conclusions so far are that the quest for synergies has been successful, at least in the area of commercial printing. An answer to the major question, “Did they pay too much?”, will emerge in due time.

The Ongoing Process of Restructuring Raises New Questions

In 2007-2008, a couple of other M&As occurred in the Swedish regional press. And there are more to come. The most spectacular ones reflect an ambition to attain market dominance and implement structural courses of action in the field of production, advertising sales and new media development.

The most recent mergers in the industry represent continued progress toward monopoly in Swedish towns and cities where newspapers are published. Accordingly, they clearly reflect a continuing search for synergies in the business areas of printing, investments in production plants and information technology, administrative and organizational structures and new media development, rather than making the editorial resources more scarce. Little geographical overlap of areas of news coverage is found, which implies no direct competition, but rather complementary geographic distribution.

The questions on an industry-wide scale that emerge as a consequence of this process are, among others:

- Will the decline of the industry progress to such a state that other strategies than “dominance or divest” will eventually have to be evoked ?
- How can the long-term development of Internet and other new media be reconciled with the current strategies?
- Will a more multimedia approach create a situation where the aggregated media offered by a newspaper proprietor stop the decline, or perhaps create growth?
- All the ongoing projects in the regional press in Sweden have been intra-industry, but will convergence trends attract new players, either from other major media or from entirely different fields of economic activity?
- Will the redefining of markets – due, for instance, to convergence and cross media mergers – decrease the striving for dominance as a strategic goal, as this process will widen the industry and make each individual company relatively smaller?

These questions are searching for answers.

Note

1. The exchange rate in January 2006 was €1 : SEK 9,3180. The January value is quite representative of the entire bidding process.

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Chapter 4

Bloc-building in the Swedish Newspaper Industry Since its Beginnings

Karl Erik Gustafsson

In the following I will apply a historical perspective on the driving forces behind structural change in the Swedish newspaper industry. The process is described as 'concentration' or 'consolidation'. To some, 'concentration' has an unpleasant ring, 'consolidation' a pleasant one. Here, the two terms will be used as synonyms. As a third synonym for the process I will use 'bloc-building'. 'A historical perspective' does not mean that I will deal only with very old times. Bloc-building is a modern phenomenon.

Regarding bloc-building in the Swedish newspaper industry, we can identify a breaking-point in the Golden Age of the industry, i.e., in the interwar period, 1919-1936. Before that, news businesses were organised as a side operation, first by the Postal Administration and then by printers' offices with excess capacity. Newspaper publishing subsequently became big business, and bloc-building is one of the instruments in that development.

Before the Golden Age the news businesses were mainly aimed at the elites of society, although mass markets had begun to be exploited in the second half of the nineteenth century. Before the Golden Age, the newspaper industry mainly consisted of small businesses. Nor were mergers, acquisitions, trusts, chains and other types of bloc building or structural changes to be expected, considering that all markets were growing. There were some cases of trust-formation and chain-building, as I will show here, but they were made by pioneers. Bloc-building in its proper sense came after the Golden Age, and it is now at the top of the agenda.

The First and Singular Merger

It is only fair to note that even the oldest Swedish newspaper, *Post- och Inrikes Tidningar*, experienced a merger. *Posttidningen* was established in 1645 as a part of the ambitions of the Swedish Crown to become one of the great powers in Europe. Its content was limited to foreign news. The publisher was the Postmaster, ordered by His Majesty the King to produce a newspaper. Eventually it appeared three times a week.

For about one-hundred years, this paper was alone in Sweden. Although the Postmaster was not given the sole right to publish a newspaper, he enjoyed a natural monopoly. Having access to the postal distribution system covering all Swedish possessions, he collected all the news worth printing. Who could beat him at that?

Around 1750, private printers began publishing local newspapers containing domestic news, first in Stockholm, then in Göteborg, Karlskrona and Norrköping. Kalmar got its first newspaper somewhat later, in 1788 (*Wecko-Tidning i Calmar*).

With these local newspapers, the demand for domestic news gradually increased. Responding to that demand, the Postmaster started a newspaper for only domestic news, *Inrikes Tidningar*. It was established in 1760 and appeared on the days of the week that *Posttidningen* was not published. Together, the two papers became a six-day operation.

In 1793 King Gustaf III transferred the two papers once and for all to the Swedish Academy as a means of financing its activities. In 1821 the Academy decided to merge the two papers into one daily newspaper. Outwardly, the reason of the merger was said to be to bring foreign news faster to the readers; the real reasons, however, were decreasing circulations and increasing costs.

This first merger in the Swedish newspaper industry was an economic failure. The circulation of the merged paper, 4 000 copies at its highest, was lower than that of either of the two newspapers.

The Most Long-lived Newspaper

The publishers of the second newspaper in Sweden were a married couple, Peter and Margareta Momma. In 1738 they purchased the His Majesty's Book Printing Office in Stockholm. The printing business was their main activity. In the same year they published a cultural monthly, said to be edited by Margareta Momma, thus the first female editor in Sweden. In 1742, Peter Momma established *Stockholm Gazette*, a paper focused on foreign news, published in French twice a week. Three years later, in 1745, they continued with *Stockholms Allebanda*, a paper for domestic news published once a week, the first local newspaper in Stockholm. The *Gazette* closed in 1758, and the Momma family concentrated its news business on domestic news.

As mentioned, the Postmaster started his newspaper for domestic news in 1760. Seven years later, Peter and Margareta Momma raised the ante and added a supplement to their newspaper for domestic news, *Stockholms Allebanda*. It appeared once or twice a week. After a month this supplement, now just *Allebanda*, was published every weekday. As a consequence, it was renamed *Dagligt Allebanda* [Daily Miscellany]. Two years later, in 1769, it became a newspaper in its own right. From 1779, when *Stockholms Allebanda*, the local mother paper, closed, the Momma family concentrated its news business to *Dagligt Allebanda*. It continued as a daily until 1944. It became the most long-

lived daily in Sweden, 177 years old. (This year, 2008, that record was broken by *Aftonbladet*, which celebrated 178 years as a daily.)

The Momma family never published more than two newspapers at the same time, and neither two-paper stint lasted long. They published *Stockholm Gazette* and *Stockholms Allehanda* for thirteen years, and *Stockholms Allehanda* and *Dagligt Allehanda* for twelve. This indicates that excess capacity of the printing house was the prerequisite for the newspaper publishing. The Momma family proceeded by trial and error to develop the best newspaper concept of their time.

Meanwhile, in Göteborg most of the newspapers were created by a scholar from Lund University. As he was critical of the local establishment, other newspapers were started to combat him and his papers. He responded by starting new newspapers. Eventually the papers that survived ended up being owned and published by two printers. No mergers were made. Newspapers that ran into trouble closed, and new ones started. Gaps were quickly closed. Newspapers had a very low book value, and staff was very mobile. Printers controlled the industry.

Single-paper Operations

In the beginning of the nineteenth century new types of entrepreneurs entered the news industry. In Göteborg they came from merchant and shipping families. The most well-known paper was *Göteborgs Handels- och Sjöfarts-Tidning*, established in 1832 by Magnus Prytz. In Stockholm an industrialist, Lars Johan Hierta, founded *Aftonbladet* in 1830. These new newspapers created a new epoch in the Swedish newspaper industry, but their owners were not interested in establishing newspapers in other places, i.e., they were not interested in bloc-building. As newspaper publishers, they were, however, seen as models. (Hierta was also very successful in publishing series of popular books sold at low price.)

The provincial press grew quickly. New newspapers were established and were promptly challenged by political 'counter-weights'. To a large extent it was a political process, Liberals versus Conservatives, and so on.

During this period of expansion of the provincial press a handful of entrepreneurs were very active. With one exception, they followed a common pattern: First, they established a printing office, and then they started a newspaper. The best example of this pattern is A.P. Landin, who from his headquarters in Gävle, established printing offices in three towns in northern Sweden. The exception to the common pattern was P.E. Norman, who started no less than nine provincial papers, but he was only a pioneer, breaking ground for others. He is known in the history of the Swedish press as a roving, peripatetic publisher. None of these very active entrepreneurs organised their newspaper in chains. They were single-paper operators who created papers in succession.

Forerunners

The forerunners of bloc-building in Sweden did not arrive until the end of the nineteenth century. The structural processes developed along three lines: 1) chain-building, 2) trust or ring formation and 3) differentiation by time segments. These three modes were new ideas of integrating newspaper publishing.

The first Swedish newspaper chain was created in the mid-1880s by Axel Lidman. With a printing-office and a newspaper in Hedemora (in Dalecarlia) as a base he started three newspapers and acquired two in communities nearby. His bloc of five papers was soon known as the Lidman Press and, eventually, he himself as “the Northcliffe of Dalecarlia”.

The first Swedish trust – or “ring” as it was called at that time, “ring system” being a pejorative term – was formed in 1895 by a consortium of three newspapermen and three financiers. Two newspapers in Stockholm, *Dagens Nyheter* and *Stockholms-Tidningen* formed the base of the expansion. The ‘ring’ system was inspired by the Swedish brewery industry and by a Danish newspaper trust created by Jens Christian Ferslew a couple of decades before.

The Swedish trust acquired and closed newspapers to reduce annoying competition, started a low-price newspaper to compete with high-price ones, founded editions in main cities outside Stockholm, turned some provincial newspapers into offshoots of *Dagens Nyheter* and bought a newsprint mill. There were also plans to start a Scandinavian news service. The investors moved fast. All happened in merely two years’ time. But just as quickly, the trust fell to pieces.

This was well before the well-known German newspaper trust, created by Alfred Hugelberg, as well as the even more well-known British newspaper trusts formed by men like the Harmsworth brothers, Lord Northcliffe and Lord Rothermere, and the Berry brothers, Lord Camrose and Lord Kemsley.

These newspaper trusts had many things in common. The intention was to apply industrial methods and sound economic principles to newspaper publishing; mass market newspapers demanded mass production techniques.

The second newspaper trust in Sweden was created by the brothers Ivar and Torsten Kreuger. The Swedish ‘Match King’, Ivar Kreuger started his industrialisation of the media industry in the film industry in the 1910s and continued with the newspaper industry in the 1920s. This trust, too, failed. The trust consisted only of No. 2 newspapers, i.e., very weak building blocks.

Differentiation by the clock, morning, midday, afternoon, was first practised in Göteborg, not by intention but by necessity. Rumours of a new midday paper under way forced the leading paper, the afternoon paper *Göteborgs Handels- och Sjöfarts-Tidning*, to launch a lunch paper in advance. This paper, *Göteborgs-Tidningen*, started in 1902. In 1915 the group launched a Sunday paper, *Söndagstidningen*, thereby filling another time slot. In 1932, to fight a successfully relaunched morning paper, *Göteborgs-Posten*, the group started a morning paper, *Morgontidningen*. The output of the group was differentiated by the clock: one morning paper, one midday paper, one afternoon paper and one Sunday paper, a full hand. This pattern became quite usual among

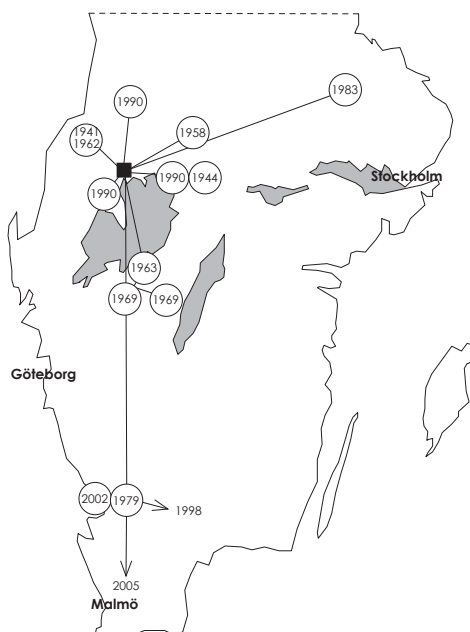
publishers. In Copenhagen, the Berlingske Group published a morning paper, a lunch paper and an afternoon paper and regarded itself as a news firm with three outlets. In Berlin, differentiated papers were even named after their time of publication: e.g., *11 Uhr Blatt*.

Consolidation of the Provincial Press

After the Golden Age of an expanding press followed a period of consolidation. In the 1930s, chain-building in the provincial press gained ground.

Families owning only one newspaper and lacking a suitable and interested heir or resources to finance expansion, or being prevented by strict tax laws from passing the business along to the next generation, had to sell their papers. The pioneer of this consolidation was Thure Jansson in Ängelholm (Scania), who created *Nordvästra Skånes Tidningar*. In the mid-1930s Carl-Olof Hamrin consolidated the dailies around Jönköping, and in the 1940s Gustaf Ander made his first acquisitions outside Karlstad, his home-town. In the 1940s provincial press chains were also created by Claës Ljung in Örebro and Rudolf Bengtsson in Dalecarlia. In the 1950s Armas Morby acquired and built a ring of newspapers around Stockholm.

Figure 1. The Expansion of the Ander group from its base in Karlstad (■)



Note: Arrows indicate failed ventures in Scania, 1998 and 2005.

The map illustrates the pattern of expansion of the Ander group – an operation stretching over a half century. The Ander newspaper chain followed a dually geographical and political strategy. The first acquisitions were made in the vicinity of the hub of Karlstad. Anders then turned to the south, creating a second hub and making new acquisitions. Later, two acquisitions were made far away, more for political than economic reasons, in this case Conservative motives. All the same, these acquisitions are expected to become new hubs. The arrows indicate two acquisitions the Ander chain made in the south: *Norra Skåne* in 1998 and *Sydsvenska Dagbladet* in 2005. Neither venture succeeded.

Two Waves of Structural Change

In 1949, after a period of hothouse climate, the Swedish newspaper industry boasted a record 139 daily newspapers (4-7 issues/week). Circulation continued to grow for forty more years (until 1989), but starting in 1950, when all regulations from the Second World War had been removed, the number of titles decreased markedly.

The interval since 1950 can be divided into three periods of about twenty years each. The first period, ending in 1973, I will call the ‘first wave’ of structural change, the second period, 1973-1992, ‘status quo’, and the last period, calculated to end in 2012, the ‘second wave’ of structural change. Thus, we have two periods of structural change, with a stable period in between.

The first wave of structural change was a period of closures. Beginning in the 1950s and continuing into the 1960s, the pace of closures slowed when press subsidies were introduced in 1971 and stopped in 1973. The closure of *Göteborgs Handels- och Sjöfarts-Tidning* that year marked the end of the first wave of structural changes. During this period only No.2, No.3 or No.4 newspapers were forced to close. The No.1 newspapers, i.e., local market leaders, were not at all interested in acquiring them. The concentration process ran its course. In the second wave of structural change both No.1 and No.2 papers succumbed. Most of the changes took the form of mergers and acquisitions.

Both waves of structural change were driven by the same three forces:

Forces	First Wave (1950-1973)	Second Wave (1992-2012)
Deregulation	End of war and emergency times	End of party ownership
Recession	Korea inflation	Oil inflation
New market system	New Competition Law 1954	New relations between newspaper publishers

In the first wave, deregulation put an end to price control, newsprint rationing and similar wartime and emergency measures. The second wave was the consequence of the voluntary withdrawal of the political parties from the daily

press, in succession: the Social Democratic Party, the Conservative Party and the Center Party. In short, the parties that owned newspapers decided to sell them.

A poor economic climate, the second force, was in both waves caused by international cost inflation, viz. the Korean war and the oil crisis, respectively. GDP-growth slackened in the 1950s and actually turned negative at the beginning of the 1990s. Due to the recession the Social Democratic press went bankrupt in 1992 and was reconstructed.

During the first wave, a new law of competition (KBL of 1954), changed the Swedish economic system from a cartel economy to a market economy. That completely changed the rules of competition for the newspaper industry.

In the second wave old traditions were broken in the newspaper industry. The market orientation increased, the interests of companies were put before the interests of the industry. For instance, the Bonnier media group, the biggest player in the industry, which up to that point had refrained from buying into the provincial press, suddenly did exactly that. Bonnier's moves into the provincial press sector forced other provincial newspapers to respond by mergers and acquisitions among themselves.

Bonnier's No.1 paper in Stockholm, *Dagens Nyheter*, the market leader in Stockholm, also refused invitations to cooperate with its weaker competitor, *Svenska Dagbladet*. Instead, the Bonnier Group started an intensive lobbying campaign vis-à-vis both the Swedish Government and the European Commission (posting in Brussels a formal complaint that alleged fatal consequences for its metropolitan dailies due to distorted competition). Bonnier's objective was to have the subsidies to the two metropolitan No.2 newspapers, *Svenska Dagbladet* and *Skånska Dagbladet* – and only these – reduced to a level where neither of them would survive.

A completely new tone of communication entered into the industry. It so happens that both of these No.2 papers are competitors to Bonnier No.1 dailies.

Thus, I forecast that the second wave of structural changes will be extended a few more years, say until 2012. And after that? A new period of status quo!

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Chapter 5

Acquisition Strategies in the Multinational Recording Industry

Patrik Wikström

The history of the music recording industry can be described in many ways. One is to use technological milestones as the framework for laying out the industry's evolution and to follow how formats for distribution, listening devices, or production technologies and musical instruments have developed. Another is to focus on how different genres have evolved and been rejected or embraced by the business and the audience. There are, of course, many other perspectives one might assume, but in this paper I will focus on the firms of the recording industry and how they have interacted with their competitors and allies in the industry. I will primarily focus on how firms have been established and discontinued, and how firms have acquired one another or merged.

The drivers behind a decision to acquire another business or to merge with another entity in the music industry are like those in most other industries. The most obvious motive is to grow, and to grow faster than would have been possible through organic growth. By growing, firms assume it is possible to take advantage of economies of scale or of scope, which will increase their ability to compete and survive in the long-term. Other motives for pursuing an acquisition might be to get access to specific assets or capabilities that are in the possession of the other firm. Such resources might be physical resources, but also assets such as business contracts, patents, copyrights, trademarks, business information and the like. There are also other, perhaps somewhat less intentional motives for engaging in an acquisition. For instance, immature markets often experience phases of consolidation as competition tightens, which usually leads to a process where the fittest of the actors acquire the less successful ones. A parallel process can also be observed during financially difficult periods, which heighten the pressure on the entire industry and its participants.

In addition to these drivers, I will in this paper look at another motivation for acquisitions which perhaps is rather particular for this industry, namely, how acquisitions are used as a fundamental part of the product development process. As I also intend to follow the evolution of the recording industry, I will start by going back to the early twentieth century, when the recording industry and its underlying technologies were new to the world.

The recording industry is approximately 100 years old and was based on the first sound recording technologies developed during the last decades of the nineteenth century. The inventors of the two main competing technologies, Emile Berliner's disc and Thomas Edison's cylinder, both tried to develop businesses based on their inventions. The two pioneers were followed by many other firms, such as various phonograph manufacturers (e.g., Columbia Records) and recording companies (e.g., Parlophon). Both Columbia and Parlophon were able to make successful entries into the emerging market and eventually also to threaten the ventures of the original pioneers.

As in most emerging markets, numerous firms were established, discontinued, acquired and merged. The two first decades of the twentieth century were characterized by strong growth and aggressive consolidation. After these turbulent years, three companies emerged as the dominant players in the North American markets, namely, Edison Records, Columbia Records and Victor Talking Machine. The European markets were largely dominated by subsidiaries of these three American players together with the aforementioned German record label, Parlophon.

Although these companies had been able to establish relatively strong businesses, they all had great difficulties in dealing with the changes that came in the following two decades. One of the most important changes during the 1920s, which came to affect the recording industry most severely, was broadcast radio technology. Even though the sound quality of the new technology was low compared to shellac disc recordings, a substantial part of the record-buying public were happy with the music experience provided by the radio, which reduced record sales. This, of course, had great consequences for the record industry and the record firms. When the Great Depression hit the American and the European markets at the end of the 1920s, the majors were in such bad shape that they either succumbed or were forced to merge with their competitors. The first company to fold was Edison Records, which left the recording business in 1929. The same year, which turned out to be a dramatic one for the entire recording industry, American Record Corporation (ARC) was established through a merger between a number of smaller records labels: Regal Records, Cameo Records, Banner Records, the American branch of Pathé Records, and Emerson Records. ARC acquired Columbia Records a few years later (1934), but was itself acquired by Columbia Broadcasting Systems (CBS) in 1938. One of the newly established radio companies, The Radio Corporation of America (RCA), which had been set up by General Electric in 1919, acquired Victor Talking Machine and renamed the entity RCA Victor.

In the European market, German-based Parlophon was acquired by the British affiliate of Columbia Phonograph in 1927, and four years later the new entity merged with Emile Berliner's UK-based subsidiary, The Gramophone Company, to form Electric and Musical Industries, EMI.

A new player saw the light of day during these difficult times – Decca Records was established in Britain in 1929 and relatively quickly established itself as the

world's second-largest record company, largely by acquiring the remnants of troubled records businesses like Edison, Brunswick and Melotone Records.

Ultimately, none of the players who dominated the industry in 1920 was able to survive through the 1920s and 1930s. Instead, at the beginning of the Second World War the American market was dominated by RCA Victor, CBS/Columbia Records, and Decca, and the European markets primarily by Decca and EMI. Consolidation and the desire to avoid bankruptcy were the two major driving forces behind the acquisitions made during this period.

Besides exploring how and why the record companies acquired other businesses, I also believe it is relevant to discuss post-acquisition issues, such as how the acquired entity was incorporated into the existing business. Basically, the acquired firm may either be dissolved into the acquiring organization, or it may be allowed to continue to operate with a relatively high level of independence and to keep its pre-acquisition organizational structure. Although some record companies in the 1930s tried to build their organizations as a grouping of decentralized entities, as opposed to integrating acquired firms into the existing businesses, this was more the exception than the rule.¹

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The internal structure of the dominant players at the beginning of the Second World War should preferably be characterized as monolithic and hierarchical. Most of the crucial decisions regarding the development of new talents and products were concentrated to a group of men located close to the top of the organization. These decision-makers were prone to promote their companies' established talents rather than find new talents and new forms of expression. Their relationship with other, smaller players in the industry was hostile and focused on driving up-and-coming labels out of business.

The majors used several different strategies to achieve this purpose. One of the most common strategies was the use of "covers". According to this strategy, the major had one of its established artists make a new recording of a song that a smaller label had introduced and that seemed to catch on with the audiences. Using their substantially bigger promotion muscles, the majors were often able to flood the market with their versions of songs, thereby making it difficult for smaller companies to make a profit from their innovation.

However, in the longer term, this aggressive, but conservative strategy was not very successful. Although the Second World War was a strong period for the recording industry, the players that were dominant in 1940 were unable to keep new actors from entering the industry and from taking substantial shares of the market. At the end of the 1940s, several new players, such as Capitol Records, Mercury Records, Atlantic Records and MGM Records, had been able to establish themselves as major industry players.

After the booming 1940s, hard times awaited the major music companies in the ensuing decade. As in the 1920s, technological advances had a significant impact on the record labels, but in a quite different way. Following the evolu-

tion of the new television medium and the subsequent evolution of the DJ radio culture, new musical trends developed at a greater speed than ever before.

The most important trend during the 1950s was the growth of Rhythm&Blues and Rock&Roll music. The same hierarchical and monolithic organizational structure that had been established before the Second World War still prevailed among the majors, and most of them were unable to see the significance and foresee the longevity of the new musical genres. Initially, the majors were skeptical of the new sounds and were convinced they would soon blow over. Only slowly did they begin to realize that R&R and R&B were there to stay. One of the first signs of the majors' change of mind and also one of the largest acquisitions during the period was RCA's acquisition of the Elvis Presley contract from Sun Records in 1953 for \$35,000. Whereas none of the other majors were able to stay in the charts during the 1950s, this single acquisition enabled RCA to remain there.

The failure of the majors opened up an opportunity for new entrants to establish themselves and grow strong during the 1950s. Several motion picture companies – Paramount, Warner Brothers and United Artists – made their entrance into the recording industry by acquiring smaller labels like Reprise Records, Liberty Records and Dot Records, respectively. One of the more important deals during this period was EMI's acquisition of Capitol in 1955, which gave EMI a strong foothold on the American west coast. Two other very significant events were the booking agency, Music Corporation of America's (MCA) acquisition in 1961 of the American part of Decca Records, and Dutch Philips Records founding of Phonogram Records through the acquisition of Mercury in 1961 and the merger with Deutsche Grammophon the following year.

Once again the recording industry had been reshuffled. By the end of the 1960s the level of concentration in the industry had dropped dramatically. EMI, MCA, CBS, Phonogram Records, Decca Records, Tamla-Motown, Atlantic Records, Warner Records, RCA Records – all could be considered industry majors.

Besides reshuffling the industry's power structures, the 1950s and 1960s taught the majors a lesson of how *not* to deal with changes in audience preferences. Decca and RCA had fallen out of the top eight sellers between 1955 and 1969, and the rest of the majors were determined that such a mistake would not happen again. To address the problem many major record companies changed their organizational structure and their relationship with the smaller labels. First, rather than centralizing the creative decision making, they increased the freedom of their affiliates and sub-labels. As long as the sub-labels delivered the expected financial results, they were more or less able to make their own decisions regarding the label's artist portfolio. Second, rather than considering the smaller record companies (the 'Independents' or 'Indies') as threats and something that should be driven out of business as quickly as possible, the majors began to build business relationships with them. The majors realized that the Indies were able to find new artists and genres much more efficiently than they, themselves could. By signing so-called 'upstream' deals with the Indies, the majors had the option of acquiring contracts with promising talents,

or entering into co-ownership with the label, or sometimes even acquiring the label altogether.

In 1973, Arthur Taylor, the president of CBS, explained the new strategy of CBS and Columbia Records:

We think Columbia Records is particularly well suited to maintain its leadership of the recorded music industry. Because of the versatility of our catalog – which covers literally every point of the music spectrum – we can and do capitalize on the rapidly changing public tastes. As I speak, black music and country music appear to be two primary growth areas in the coming year. If that perspective changes by the time you leave this room, I can still assure you Columbia Records will have a major entry into whatever new area is broached by the vagaries of public tastes (Peterson and Berger 1975: 169).

The following period, lasting from the beginning of the 1970s to the mid-1980s, was characterized by increased consolidation and heightened industry concentration. The global economy was once again in a recession, and in addition to this general difficulty, the industry, at least initially was beset by illegal copying, made possible by the development of Compact Cassette technology.

Following the record companies' new post-acquisition strategy, the acquisitions that were made during this period differed from the acquisitions previously discussed. The acquired entity was not merged with the acquirer's business as in the old days. Rather, as a norm, the acquired firm was given a considerable degree of autonomy and was able to continue its operations almost as freely as before the acquisition. One example of such an acquisition strategy is the formation of what would eventually evolve into one of the world's largest record companies. The Kinney conglomerate – with wide-ranging operations in parking services, funeral home services, cleaning services and more – embarked on a strategy to build a strong media business. Kinney started out by acquiring Warner Brothers in 1969. Warner Brothers had already acquired Atlantic Records, and by adding Elektra Records to the mix, Kinney was able to establish the Warner-Elektra-Atlantic group, or the WEA group, which later developed into Warner Records. In the following twelve years, Kinney (Warner Communications) made deals with close to 30 record labels, through acquisitions or alliances, and created a loosely held recording power house, where the creative decision-making to a great extent was decentralized. The Warner model became the dominant model for most other majors and lasted until the end of the 1990s, when another wave of technological change made the record companies revise their strategies and organizational structures.

This Warner model enabled the majors to quickly adapt to changes in audiences' preferences. Testifying to the model's capability, since the 1960s new genres such as Disco, Metal, Grunge, Rap, Hip-Hop, etc, have all been quickly picked up by the majors and turned into profitable businesses.

Besides the growing Warner Music empire, other deals were made during the 1970s. The British electronics company, Thorn, merged with EMI to create

Thorn EMI, while the Dutch electronics manufacturer, Philips, continued to build its business on both sides of the Atlantic by acquiring MGM Records and merging with Polydor Records to create Polygram Records.

In 1979, when the outlook of the industry looked bleaker than ever, Philips, the majority owner of Polygram Records, together with its Japanese colleague Sony Electronics, set out to develop a new music distribution device based on digital technology. As a result, the Compact Disc was launched in 1982 with ABBA's "The Visitors" as the first title released. The launch of CD technology marks the beginning of a period of tremendous growth in the music industry. From 1983 to 1999 record sales grew from 2.2 million to more than 3.7 million units. In addition, the retail unit price of the CD was considerably higher than that of the LP.

Probably due to the good prospects of the record business, major players from other industries entered the market during this period. First was Sony, who acquired CBS/Columbia Records in 1988. A second player of increasing importance was the German media conglomerate, Bertelsmann, with its record company, Ariola. Ariola was used by Bertelsmann as the platform for launching the Bertelsmann Music Group (BMG) in the mid-1980s. A range of rather high profile acquisitions followed, the most significant of which was that of RCA Records. The Canadian distiller, Seagram, keen to build a new media empire, decided to enter the industry by acquiring MCA Records and Polygram, and United Pictures during in the latter half of the 1990s. Primarily based on these acquisitions, Seagram established Universal Music Group in 1998, with Polygram Records as the main body.

In 1999, when the recording industry was at its peak, the industry was dominated by Universal Music, Sony Music, BMG, EMI, and Warner Music. These five majors controlled approximately 75 per cent of the record sales in most Western markets.

But that same year, when the outlook of the industry looked *better* than ever, technological innovation once again shook things up. This time, the change was not immediately linked to the broadcast radio media, as had been the case on both previous occasions. This time, the change was related to the Internet and challenged the entire distribution system, traditionally the fundament of the record industry as such. I shall not, however, delve deeper into the particulars of this development here, but stay focused on the path of acquisition strategies and organizational structures.

First, all five majors of 1999 have as a consequence of the impact of this change undergone major ownership restructuring. Seagram's entertainment businesses, including Universal Music, have been sold to Vivendi; Bertelsmann has more or less withdrawn from the music business, having sold its record business to Sony Music, and its publishing business to Universal Music. In addition to these arrangements, heightened interest on the part of private equity firms in media ventures has also been noticeable in the record industry. Private equity firms have made several investments in the music industry, but the two most visible acquisitions involve two of the majors. First, a Canadian investment group led by

Edgar Bronfman, Jr. acquired Warner Music from Time Warner in 2004; second, a London-based private equity firm, Terra Firma, acquired EMI in 2007.

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Turning to the organizational aspects, the majors have made a number of changes in order to cope with changing business conditions. One important change is the continued development of the upstreaming strategy. When this strategy was introduced in the 1960s, the majors still continued to scout unsigned talents, which in the course of a few years might be developed into major talents and profitable business ventures. Since then, such scouting activities have been radically reduced, and now almost the entire talent development capability of the record industry resides in the smaller record companies. The majors await the development of the talents signed by the Indies and then offer an upstream deal to those artists who seem to be ready to be taken up to the next level. The other internal change at the major record companies relates to the level of centralization of the creative decision-making. Due to the shrinking volume of record sales, the majors have tried to reduce costs by grouping their labels into units that share and coordinate a range of resources and processes. Some of these groups still allow the labels a considerable degree of freedom, while other groups are more or less single organizational entities that run the labels as brands or product categories. As a result, rather than having many (30+) competing labels within the organization, most majors now have only a handful of well coordinated label groups (Table 1). Whether this structure proves able to cope with the rapidly changing preferences of audiences, or the record companies end up in the same situation as in the 1950s remains to be seen.

To sum up, acquisition strategies in the recording industry have evolved and changed with the evolution of the industry (Table 1). During the first decades the dominant companies had a relatively antagonistic approach towards the smaller record firms. They used various strategies to drive new entrants and entrepreneurs out of business as quickly as possible. However, after having learned during the 1950s that this strategy left them unable to adapt to rapidly changing audience preferences, they revised their acquisition strategies and developed close relationships with smaller and innovative record firms. In these relationships the smaller businesses scout and develop new talents to a certain point, whereupon the contracted major has the option of bringing the talent onto their own roster. There are also other options besides the acquisition of the contract. The major may, for instance, enter into a joint venture or a close alliance with the smaller label, or the smaller label may be acquired by the major record company altogether.

Since the turn of the millennium, this strategy has developed into a state where the talent development capabilities of the major companies have withered and the majors have come to rely almost entirely on the talent development capabilities of the smaller companies.

Table 1. Evolution of Acquisition Strategies and Organizational Structure in the Music Industry

	Phase I (1930-)	Phase II (1970-)	Phase III (2000-)
Organizational structure	Centralized Hierarchical	Decentralized Multi-label	Centralized? Label groups
Attitudes towards independents and external innovation	Aggressive Conservative	Partnerships "Progressive"	Outsourcing "Upstreaming"

While these trends and phases are vital to an understanding of the development of the majors' organizational structures and acquisition strategies, it is interesting to look at the character of the majors' latest acquisitions. During the first eight years of this century, sales of recorded music have dropped by almost 25 per cent globally, and more than 50 per cent in some markets. While this obviously means trouble for the record companies, some other segments of the music industry seem to be thriving. For instance, music licensing to advertising and motion pictures has grown more than 30 per cent since the turn of the millennium, and the live concert business (which is somewhat more difficult to measure) has grown by at least double digits during the last decade.

As might be expected, the record companies try to adjust their businesses in order to re-balance their revenue streams from the sales of recordings to sales of licenses, live concerts, merchandise and other growing music business segments. Most major record companies are now trying to 're-invent' their businesses, and to create what often is referred to as a '360 degree business model', where the artist is treated as a consumer 'brand' and revenues based on the brand should be collected from as many sources as possible. In order to achieve this aim, the majors often have to make acquisitions in order to extend their capabilities into the new areas. Looking at one of the majors, Warner Music Group, it is clear how the firm for the moment prioritizes acquisitions of entities presumed to extend their capabilities and enable them to move into new business areas, rather than to acquire new talents or rights. The list below shows seven significant partnerships, acquisitions and joint ventures, made by Warner during 2007.

Table 2. Warner Music Group's Capability – Enhancing Acquisitions During 2007

Acquisition: Zebralution, DE – Digital distribution platform (Feb '07)
Joint Venture: Brand Asset Group, US – Artist development services (Jun '07)
Acquisition: Non-Stop Music, US – Production Music (Aug '07)
Acquisition: Taisuke, JP – All-rights/Full service (Sep '07)
Partnership: Zazzle, US – Merchandise retailer (Oct '07)
Joint Venture: Kaiku, FI – All-rights/Full service (Oct '07)
Acquisition: Camus Production, FR – Tour Production, promotion and production company (Jan '08)

Most likely, this capability-enhancing acquisition strategy is a passing phase. Should I dare to look into the future, the majors will soon turn back to their traditional acquisition strategy, primarily aimed to enhance their rights portfolios. Hopefully, during the current reconstruction phase, they will have built flexible enough organizations, well-equipped to adapt to the volatile nature of their business conditions.

Note

1. One such exception was Columbia Records, which acquired the jazz label, Okeh Records in 1926 and later formed sub-labels such as Velvet Tone, Harmony Records, and Clarion Records. All such experiments at Columbia Records were, nevertheless, discontinued in 1932.

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Chapter 6

Regulatory Intervention to Prevent Ownership Concentration in the Norwegian Newspaper Market

*Case: Media Norge Inc.*¹

Rolf Høyer

As a main rule, concentration in industry and economic life is regulated by competition legislation. Such legislation normally has a very broad scope, as it includes all kinds of concentration of industrial activities, e.g., cooperation in bidding processes, coordination of operations, and all kinds of mergers. The purpose is very broad, as it generally aims at securing efficient use of national economic resources by protecting and stimulating effective competition. The private sector of the media industry is subject to this regime, as are all other industries. This means that mergers and ownership concentration through acquisitions in the media industry will always be subject to scrutiny by the competition authorities in order to determine whether or not it might be unacceptably harmful to competition. This is common practice in most countries and is also implemented in EU cross-border legislation.

It is recognized that it may be politically desirable in certain sectors of economic life to regulate concentration more strictly than is possible using the readily available tools for competition regulation. The reason for this is that concentration may be harmful to other values in society than efficient utilization of economic resources, e.g., national security, rural development, democratic and cultural values, etc.

However, political economy suggests certain general, practical rules which ought to be employed when designing legislation that is intended to protect public interests. Some of the most important ones are:

1. Sector-specific regulations should be avoided if more general regulation will suffice for the purpose at hand.
2. The objectives of the regulation must be stated in reasonably well defined operational terms, making it manageable for the relevant governmental agency to supervise situations which may invoke the legislation.
3. The objectives of a regulation should not have negative effects on other important objectives relating to the industry being regulated.

This paper presents an analysis of the Norwegian legislation on media ownership control with an emphasis on an evaluation of the efficiency of the regulation in relation to the general rules for good regulation suggested above. The theoretical analysis is supplemented by a case study of a very recent governmental ruling on an attempted merger of four major Norwegian newspapers. The case study illuminates many of the most salient problems that are encountered when attempting to regulate media ownership.

Regulating Media Concentration

During the 1980s and 1990s, a political interest in controlling concentration of ownership in the media industry emerged in most countries. The underlying rationale was that the media are so important to society that ordinary competition legislation is insufficient. The objectives of competition regulation were found to be very different from the cultural and political objectives regarding the protection of public interests in the media field. Hence, a specially designed regulation was considered necessary. Furthermore, it was argued that acceptable concentration levels in the media sector have to be much lower than what is considered acceptable in most other industrial areas. Consequently, the general competition legislation was deemed useless. These ideas gave strength to political efforts to implement a special regulation. This movement was particularly rooted in the socialist political environment; it was also strongly supported by many media researchers.²

Political interest has mainly focused on old media, e.g., newspapers and broadcasting. It has focused on other sectors, like magazines, book publishing, film/video production and new, digital channels to a far lesser degree. Several countries have designed special legislation, imposing restrictions on mergers and acquisitions of ownership at both national and regional levels. Also in the European Union, there has been a certain interest in examining the need for cross-border regulation of media ownership, as well as the need for a directive urging the harmonization of legislation in the member states.

These efforts have not, however, been entirely successful. National legislation has very often proved ineffective because market actors have been able to circumvent the specific rules imposed by the legislation, and in some cases the law has not been followed up by forceful sanctions implemented by the regulatory agency. It is often said that no country has really expressed satisfaction with the outcomes of implemented regulations. Although the European Union has commissioned several comprehensive studies about the desirability of a harmonized regulation on the Union level and even issued a proposal for a directive (1996), the efforts have not materialised in any unified policy. In recent years, the interest in developing a coordinated European practice seems to have faded, and some countries have not found it desirable to implement comprehensive legislation. It is interesting to note that Sweden, after serious governmental deliberation, decided against introducing special legislation on

the grounds that limiting the free transfer of media ownership would violate the general Constitutional principle of freedom of the press.

In 1997, the Norwegian Parliament approved a bill for control of media concentration. It was later (2004 and 2006) revised to be more restrictive and was supplemented with more detailed specifications as to the upper limits for allowable ownership in two media sectors, namely newspapers and broadcasting. Executive regulatory authority was assigned to a special governmental body, The Norwegian Media Authority (Medietilsynet, hereafter abbreviated NMA).

The purpose of all European efforts to regulate media concentration has been to protect and promote *the freedom of speech* and to support and protect *media pluralism*, as well as the actual possibility to express opinions freely. The basic, implicit assumption is that concentration of ownership of the media in theory may be adverse to these underlying values in society. Hence, ownership has to be kept below certain levels within each media sector. That is the basic rationale for most national regulations. These ideas are explicitly stated in the Norwegian legislation as the overall purpose of the law.

The following discussion is limited to the Norwegian experience. This is not a serious limitation, as most of the implemented national legislations have more or less the same structure and have experienced similar types of problems when applying similar regulatory tools. However, it seems that Norway has practiced media regulation more vigorously than most other countries, especially in recent years.

Designing the Regulation of Media Ownership: Problems and Chosen Solutions

Control of ownership is justifiable, only if the lawmaker can demonstrate an indisputable causal connection between ownership above certain levels and a risk of hurting the basic values and interests which are to be protected, viz., freedom of speech and media pluralism. When regulating the media industry, the task of presenting the proof of a connection and a need for public control is the challenge for the responsible governmental body, usually the Ministry of Culture, before submitting a Bill to Parliament. In the Bill, it will not be sufficient only to rely on theoretical argumentation. In addition, the Government must present some kind of empirical evidence to support a causal connection between means and ends, namely, that limiting media ownership will protect important public interests.

In the case of the Norwegian legislation, the Ministry of Culture indicated that in "some other European countries" a significant connection between media concentration and reduced media pluralism and hence reduced opportunities for freedom of speech had been observed. Italy and Great Britain were mentioned as examples. The Ministry, politely enough, did not mention the names, Berlusconi and Murdoch. However, the Ministry did not present any comparative study of the likelihood that such forceful media tycoons

might appear as owners in the Norwegian media business environment. Furthermore, when focusing on the domestic Norwegian arena, the Ministry had to conclude that after the last party press newspaper had disappeared, it was impossible to identify any significant relation between dominating media ownership or any trace of a threat, either to freedom of speech or to a reduction of the number of media channels. Hence, the Ministry was left without any convincing, empirically founded arguments for proposing a law to control ownership.

Obviously, being under heavy pressure from the dominant Social-Democratic party in Parliament, the Ministry had to look for other arguments, albeit meta-physical in nature. In this very difficult search for formal reasons to legitimize such a law, the Ministry came up with a rather original legal innovation, namely, the principle of *precautionary measures*.³ The idea of this legal invention was based on a completely theoretical application of a worst-case scenario of future developments in the media industry. Although the Ministry formally acknowledged that there was no evidence that Norwegian media owners had caused any threat to freedom of speech or media pluralism up to the present, it was claimed that one could never know for certain that such phenomena would not occur at some time in the future.

According to this newly invented principle, the Ministry argued that it would be desirable to have a tool that might be mobilized, should a future acquisition of ownership be found to threaten freedom of speech and pluralism. It would be legislation against something which had never happened before, and even without any known risk that the problem would arise in the immediate future. In contrast to standard practice, where new laws are launched to solve known or immediate problems, this one was not.

The lawmakers realized that a law in pursuit of such obscure objectives as freedom of speech and pluralism might be difficult to practice. In order to relieve the Government from the obviously cumbersome task of enforcing the law, the Ministry wisely proposed the instalment of a special agency to oversee the development of media ownership, the NMA. This agency was to be assigned legal means and relevant professional resources for prohibiting all mergers or acquisitions which might be ruled to have unacceptably adverse effects on pluralism and the freedom of speech according to the law.

Because the lawmakers appreciated that it might be difficult to practice the law based on only purely qualitative criteria, certain numerical limits on ownership were defined to serve as criteria of a dominant market position, thresholds that might elicit formal scrutiny. In such cases, the NMA would have an independent and legal authorization to decide whether the dominant position was so grave that it might be prohibited. Furthermore, in such cases the agency was given the executive power to prohibit the acquisition.

The law defines a set of threshold values of ownership to qualify for scrutiny. On the national level the value is defined as 33.3 per cent of the total circulation of newspapers, while it is set at 60 per cent on a regional level. The former version of the law had a more generous percentage, namely 40

per cent. The last version of the law from 2006 also defines certain threshold values for broadcasting and for combined cross-sector ownership. However, for the sake of simplicity the latter are disregarded in the following discussion.

The reason for introducing such numerical criteria is, of course, to make the application of the law more manageable. Without such clear-cut criteria, interventions would be entirely up to the subjective assessment of civil servants in the control agency, which clearly is undesirable. Another practical advantage is that specific criteria provide the media industry with a well defined yardstick of what the authorities will consider an unacceptable level of ownership, and investors may navigate accordingly.

In the recent version of the law, the lawmaker has introduced an opportunity for companies scrutinized by the NMA to appeal NMA rulings. This authority, the Appeal Committee for Media Ownership, here called AC, has competence to overrule any decision of NMA. It is entirely independent of the Ministry and Government in general, except that the members are appointed by the Ministry of Culture. The AC must have at least three members.

By decoupling the appeal authority from the government, the lawmaker has institutionalized a quite different practice than that of competition control. In the latter case, a Ministry serves as appeal authority. The AC structure was probably chosen to prevent political interests from contaminating the professional rulings of the agency. This has been the case in many rulings by the Agency for Competition Control.

The rulings of the AC are final and may not be changed by the Government.

Problems Raised by the Norwegian Ownership Regulation

The law regulating media ownership is based on rather comprehensive governmental studies in the 1990s, but curiously enough, it was not extensively debated. One may safely say that the legislation did not appear as a response to an intensely felt demand among the public. The legislation has been in use for some ten years, having been refined through two amendments. Still, it contains serious flaws, which leave it rather controversial when it comes to taking concrete, legal decisions on the approval or prohibition of specific mergers and acquisitions. Actually, one of the rulings of the NMA was taken to court, and some have been appealed to the AC, which ruled in favor of the plaintiff party or modified the original ruling.

This chapter presents a critical analysis of the law. The basic assumptions on which the law is founded will be examined, and the objectivity of the detailed decisions will be questioned in order to identify areas where subjective opinions and attitudes of the civil servants may contaminate the application of the law. The analysis is concentrated on five of the basic assumptions and principles constituting the foundation of the law.

a) The assumed relation between ownership concentration and freedom of speech. When the legislation was introduced ten years ago, the lawmakers concluded that there was no empirical evidence to support the assumption that high levels of ownership concentration had proven to be harmful to the basic values of freedom of speech that the law was designed to protect and support. Also, during the ten-year lifespan of the legislation, not a single serious incident has been reported indicating that owners had interfered unacceptably in editorial matters. This important issue had been thoroughly investigated by a public committee before the law was enacted, and the findings were presented in the Bill proposing the law as a matter of fact.

On the contrary, the integrity of Norwegian editors has been strengthened by revisions (2004) of a charter of editorial independence, entitled *Rights and Duties of the Editor* (Redaktørplakaten), first issued in 1953 and later revised in 1973 and 2004. This specifically Norwegian invention⁴ declares the obligations of editors to promote the freedom of speech, and acknowledges the independence of editors from owners and other external interests in the editorial processes. However, it presumes that the editor shares the basic values and objectives of his medium. At present there is a proposal to strengthen this institution through a special amendment which specifically, under threat of penalty, will forbid interference on the part of owners in the daily editorial process. Of course, the owners will always have the final word regarding the hiring and firing of editors-in-chief and may thereby in principle execute a strong, but indirect influence on the content and operation of the newspaper. But this type of structural power is impossible to eliminate as long as newspapers are organized as incorporated enterprises, being financed by private investors whose main tool to protect their investment is the selection of the managing director and editor-in-chief. This is in line with fundamental principles of regular corporate governance in any industry, and can hardly be subverted by any law or charter.

It may be argued that any editor-in-chief will inevitably bring certain opinions and attitudes into a medium, and will, through the selection process, be an agent of those owners who appointed him or her. But it is difficult to see that this will imply a serious limitation of the freedom of speech. The role of editors today is not the same as it was some ten years ago, when the legislation was born. Editors are no longer recruited primarily on the merit of their opinions and attitudes. If we confine our focus to the general newspapers, omitting those pursuing certain religious and special political agendas, editors are not supposed to preach or openly promote certain ideologies and opinions. On the contrary, they are supposed to publish a newspaper that appeals to the public in general, where the main concern is to reduce a threatening circulation drop, and if possible, increase the paying readership and the revenues. Another main concern for editors-in-chief today is to reorganize the staff for higher productivity, including executing inevitable staff cuts. All these concerns have replaced the former duty to influence public opinion in directions suggested by the dominant owner group.

Furthermore, economic matters are generally the main concern of the owners, as well. Not very much remains of the traditional strong role of being a *publisher* in the ideal sense of the word.⁵ Today, owners are increasingly concerned with the economic yield of their investment. Not very much remains of the focus on political issues and ideologies. Even the interest of promoting certain cultural values is gradually fading away in favor of an interest in promoting cultural expressions having the greatest appeal to the target market, where the popular art of the younger generations is given priority. Not because of any particular concern for this market segment, but because it is felt to be the most promising potential market for future economic survival. A comprehensive study of the role of the editors in a consolidated Norwegian newspaper group (Orkla Media) found that editors were more occupied with managerial and economic matters than when they worked in an independent and locally owned newspaper. This had led to less attention to journalistic and purely editorial matters (Roppen, 2003: 314).

Neither Roppen's study nor any other investigation suggests that this general tendency is typical for newspapers in a media concern. On the contrary, it gives reason to believe that the tendency is independent of the ownership structure. Most newspapers are more or less desperately struggling to survive in a declining market, with decreasing profit margins. This will inevitably force editors to focus more on current managerial issues than on journalism. Newspapers controlled by a single owner exhibit the same behavior as those with a fragmented ownership. It is therefore difficult to see any significant relation between ownership concentration and an increased need for promotion and protection of freedom to speech. Actually, all other things being equal, there is reason to believe that there is no striking relation at all.

b) The presumed threat of ownership to pluralism. The second and equally important purpose of the legislation is to promote and protect "a diversity of media content". There are many kinds of pluralism. The most common instance is the number of different media channels available in a market. Another type of pluralism that is relevant to our discussion is the diversity of content within one medium and between media in the same market.

In the preparatory reports, the Ministry of Culture never made it convincingly clear that there actually existed a relation between concentration and pluralism. But, one may infer that the underlying assumption was that newspapers with a few or a single owner will have a more uniform content than those with more widely distributed ownership. Another assumption might be that acquisitions and mergers of newspapers will lead to a reduction of the number of titles. These assumptions were not at all supported by evidence, but had more the character of fears that unpleasant effects might appear.

Again, no empirical data were presented at the outset which might support the propositions as to uniformity of content. Actually, when looking at the development of the newspaper industry in the last ten years, we find more empirical evidence indicating that there is *no* relation between uniformity of

content and ownership structure than evidence supporting the proposition.

In this period, the circulation of most newspapers has declined significantly, inevitably hurting the internal economy of the companies. This has led to a general decline in the number of journalists employed and a simplification of the editorial process. But it is important to recognize that this development has indeed little to do with the ownership structure. The underlying, driving force is the declining rate of invested capital. Newspapers having a fragmented ownership structure are equally concerned and prone to respond to this threat as those with few owners. There is not a shred of evidence that fragmented ownership is more efficient than concentrated ownership when it comes to taking resolute action to improve the economy of a newspaper in trouble. On the contrary, some empirical studies reveal a slight tendency that newspapers with one dominant, or few owners are able to implement more determined and vigorous change processes than newspapers with a fragmented ownership, especially when the various fractions have different ideas as to which strategy is best for the paper. Consequently, concentration of ownership may be a better guarantee for the survival of a newspaper than fragmented ownership. It is interesting to note that this is quite contrary to the rationale of the legislation.

When it comes to implementing priorities in the content profile, which clearly may lead to uniformity of content, it is, as we have argued above, mainly a question of deliberate market adaptation, having nothing to do with the ownership structure.

It has been suggested that the content of newspapers owned by one consolidated media group will tend to have more uniform journalism and content than if the papers were independent. The only comprehensive Norwegian study addressing this problem is Roppen's (2003) study of the Orkla Media group of newspapers. Roppen himself describes his findings as inconclusive. On the other hand, he recognizes that an increased focus on economic matters had made most of the newspapers more profitable, thereby benefiting both owners and journalists (Roppen 2003: 317).⁶ One may infer that this has led to a strengthening of the quality of the content, albeit not necessarily diversity of content, which is largely determined by market adaptation.

In order to release the potential economic benefits of creating a newspaper group, owners will look for activities that can be coordinated on a corporate level. In Roppen's study, it is reported that several printing, managerial and administrative functions are coordinated, obviously yielding considerable savings. Also, on the editorial level, a common press agency⁷ produces and distributes content for use in the daughter newspapers. This is largely content of a neutral nature, i.e., consumer-oriented articles. But it may be tempting to let the agency also produce material on foreign affairs, which otherwise would be far too expensive for a local newspaper to produce. This would inevitably lead to uniformity of political content. However, Roppen's study of Orkla Media does not report any standardization of editorial material of either a domestic or an international political nature.

This type of content standardization is an effect of newspapers engaging in various forms of chain cooperation. Formation of chains is a common and well established trend in the modern newspaper business, appearing as an extension of the tradition of using so-called syndicated material. It is important to note that in practice chains are formed regardless of any ownership consolidation. For example, some of the largest independent regional newspapers in Norway together with the Schibsted paper, *Aftenposten*, have for some years cooperated as a newspaper chain – albeit with a main emphasis on advertising, marketing and distribution functions, but to some degree on editorial material, as well.

It is beyond any doubt that formation of, and participation in, chain cooperation is a strategic action which many newspapers, especially small and medium-sized ones, face as a necessity in order to survive in a difficult market. The corresponding effect of standardization may be characterised as a reduction of pluralism. But this tendency cannot be halted by regulating newspaper ownership. At best, ownership regulation can only make chain cooperation more difficult to accomplish in an effective way.

In a 2004 revision, the law on media ownership was expanded to include *cooperation agreements* that would give one party of the agreement the same degree of control as would be available through an acquisition. Although extensive chain agreements in the future may be of this category, it seems to be very difficult for the NMA to prove that a certain cooperation practice is equal to ownership according to the law. The expansion appears as an application of the principle of precautionary measures.

Finally, neither do we find any striking empirical connection between the number of titles in a newspaper market and ownership concentration. There is no instance of acquisitions having the evil purpose of closing down a competing paper. However, in some cases, a newspaper has been taken over and subsequently closed down when a bankruptcy was inevitable in any case. It is interesting to note that such mergers normally have to be deemed allowable by the regulatory agency.⁸ Therefore, one may safely conclude that when it comes to the ambition of preserving pluralism in the form of number of newspapers, the legislation has had no effect.

Summing up, there is no evidence that there is a clear and direct connection between concentration of ownership and pluralism of any kind. One may add that the reduction of pluralism which has occurred is due to different and far stronger forces than those exerted through, and caused by, different kinds of ownership structures. The driving forces are mainly the need to adapt to a declining market and to adapt content to market demands, regardless of the ownership structure.

c) The principle of “precautionary measures”. As described above, the motive for this regulatory invention was a perceived need for a legal tool that might be mobilized, should an acquisition of ownership, even if not found to be a threat to freedom of speech and pluralism when the acquisition occurred, be feared to constitute a threat at some time in the future. For some reason, the

principle was not incorporated into the text of the law, but was clearly stated as the firm intention of the regulation by the Ministry of Culture in the documents submitted to the Parliament (the Government Bill).

In this document⁹, it was acknowledged that some leading actors had pointed out that Norwegian media owners obviously gave their editors a high degree of integrity, and consequently it was of minor interest who actually owned the media. Although the Ministry acknowledged this to be true when observing the behavior of contemporary owners, it was pointed out that “...*one does not have any guarantee that future media owners will behave in the same way. The development has the character of being irreversible, which implies that the authorities ought to safeguard a structure which will stand up to the appearance of other types of owners*” [our translation, emphasis added].¹⁰

Unfortunately, the Ministry did not specify what was meant by “other types of owners”. It probably means owners who more or less take over the editing of the media, dictating the opinions to be published, simply combining the roles of editor and owner.

Interestingly, the lawmaker only had acquisitions and mergers of existing media in mind. Existing media with only one owner, also acting vigorously as editor-in-chief (such as the successful business newspaper, *Finansavisen*) would be exempt from the regulation, because the paper from the start has grown organically without engaging in any acquisition. According to the intentions of the regulation, such a newspaper may theoretically be conceived as an obvious threat to the freedom of speech, but it is outside the scope of the law. Actually, this paradox was not discussed in the relevant governmental reports.

Because a government’s written account of the rationale behind a law proposal may be used as guidance in legal processes, the principle has equipped the practice of the law with a very powerful tool when evaluating a proposed merger or acquisition. To a large extent, the rationale may serve as a kind of amendment to the law, but such documents have less legal force than a regular law paragraph.

Actually, this implicit amendment expands the scope within which the NMA may deny a proposed acquisition. As nobody has the gift of seeing into the future, all propositions about the future behavior of media owners will be equally valid, but a proposition will implicitly have greater weight when formulated by a legal authority. However, when applying the principle of precautionary measures in a specific regulatory setting, the control agency indeed faces a challenge to justify a judgment which is based entirely on assumptions about an unseen future. As we shall see in the following case study, no attempts at such justification are made when applying the principle. Although a very powerful tool, the principle makes it possible for questionable, subjective considerations to creep into the regulatory process. This may be considered to be a major technical flaw of any legislation.

Finally, one may wonder why the legislators chose to introduce such an uncommon legal concept as the principle of precautionary measures, i.e., a tool to meet situations which are presently non-existent, but theoretically may

occur. It has been seen as a throwback to former media regulations which had rules for restraining foreign ownership in Norwegian media. However, such discriminating restrictions had to be eliminated from Norwegian law when Norway ratified the association agreement with the European Union, thereby leaving the door open for foreign, EU-based, acquisitions. Did the Government have a hidden agenda, a desire to perpetuate the old law's restrictions? If so, the legislation has not proven very useful. In 2006, the second-largest media corporation in Norway, Orkla Media, then a fully owned subsidiary of the industrial conglomerate Orkla, was sold to the UK-based media corporation, Mecom. The regulatory ramparts posed no hindrance.

d) The 33.3 per cent level – an arbitrary criterion. In order to make the law more easily applicable, the current version defines certain maximum levels of ownership in various media. Ownership above these levels will “normally” be taken to constitute “significant” (*betydelig*) ownership. The most conspicuous of these is the 33.3 per cent level of control of the daily circulation of all newspapers, free-sheets included. This numerical value has advantages both for regulators and potential acquisition actors as an indicator of allowable market control in the hands of one company or person. However, this rather primitive type of limit also implies severe problems.¹¹

The 33.3 per cent limit may be a useful legal tool, but as a regulatory tool it has some problematic aspects. The main concern is that it is based on neither any rational argumentation nor any empirical evidence that it is a reasonable value. It is more or less taken out of the air as a result of a political compromise. During the preparation of the law, major media actors suggested that 50 per cent would be an appropriate level, while some socialist politicians favored a 20 per cent level. In the first version of the law from 1997, a 33.3 per cent level was chosen. After some years, the level was increased to 40 per cent, but was ultimately reduced to 33.3 per cent again – a move probably prompted by the first rumors of a merger initiative on the part of the media house, Schibsted (which will be accounted for in the next chapter), and a general desire of the new ‘red-green’ government to apply a more restrictive policy on media ownership. Because many associated the amendment with the rumored Schibsted initiative, they found it natural to label the revised law ‘*Lex Schibsted*’. Another rationale relates to the fact that there are presently three major newspaper chains¹² in Norway, and none of them ought to be allowed to acquire either of the other two. This consideration was probably conceived as a reasonable foundation for a political compromise.

The quasi-objective character of the 33.3 per cent limit led the lawmaker to define the number only as a qualifier for a significant ownership level. It was stated that this qualification alone was not meant to be a sufficient reason for prohibiting a merger or an acquisition. But it was defined as a level which automatically will trigger scrutiny by the regulatory agency to determine whether the acquisition might be considered to endanger the freedom of speech and pluralism. Until this year, the limit was for all practical purposes assumed to

be an objective demarcation of maximum allowable media ownership. Lower levels were assumed by the media industry to be exempt from scrutiny and the subjective evaluations on the part of the civil servants in the Media Authority. As we shall see in the next chapter, this understanding is no longer unambiguously applicable to current regulatory practice.

e) The principle of consolidation. Although not prescribed by the law, but vaguely indicated in the preparatory documents sent to Parliament, the regulatory agency applies a consolidation rule of ownership that appears questionable. According to this rule, a company owning more than 50 per cent of another media company will be considered having full control of that company, and consequently it will be ascribed the total audience or newspaper circulation of that company.

Although such a rule may be applicable for most industrial companies quoted on the stock exchange, it appears questionable when applied to many media companies. Newspapers which are organized as incorporated companies have unusually strong restrictions on the maximum voting power which may be exercised by any single owner. Actually, the by-laws of some of the major regional newspapers define a limit of as low as ten, and even five per cent.

In the case of Norway's largest media corporation, Schibsted, we find another type of unusual, self-imposed restriction. Here the by-laws cannot be changed or the company sold without the consent of holders of 75 per cent of the shares. Inasmuch as one major shareholder, a foundation, controls 26.1 per cent of the voting shares, it is practically impossible to establish full control of the company without the consent of that single shareholder. Actually, the limit could be set at any fraction of the total number of outstanding shares. The outcome would in principle be the same because a financial actor may freely adapt to any limit by clever, albeit expensive, use of ad-hoc financial instruments.¹³

In essence, the consolidation rule is very unfavorable in the process of calculating the theoretical control of daily circulation for newspaper companies that own shares in other companies. According to the consolidation principle, the company will be assumed to have total control, even if it does not in practice.

It appears rather grave that this principle is based on highly questionable assumptions, with no foundation in empirical facts.

The Case of Media Norway Inc.

During the first eight years of the media ownership regulation, the NMA vigorously studied all relevant mergers and acquisitions in Norway. None were of national magnitude because they were regional and local newspapers. The outcome was variable. One case simply dissolved when one of the parties to a merger went into bankruptcy. Another acquisition was forbidden, but the decision was taken to court and finally reversed by the Supreme Court. Apply-

ing the law has proven to be a very demanding task for the regulatory agency, not least because the evaluation of every case inevitably has involved a high degree of subjectivity, and hence been questionable and easily challenged. Unfortunately, no formal evaluation of the legislation has been undertaken.

It was not until 2007 that the first major trial of the strength and applicability of the law occurred: the proposed Media Norway merger. This case, the first of national magnitude, will probably be an important test case for sustaining the regulation, or adapting it to a changed media market structure.

In 2006 Schibsted, through its newspaper, *Aftenposten*, and four leading regional media houses, all owning the dominant newspaper in their regions, started negotiations to merge into one national holding corporation. Actually, it is interesting to note that the process was initiated by the regional companies, which approached Schibsted. During 2007 the plans materialized and were finally approved by the boards of three of the four regional media houses and *Aftenposten*, while the general assembly of one of the partners, Adresseavisen, decided to abstain in the last minute. The consolidated corporation, now with four partners, was named Media Norway Inc. (Media Norge ASA) and would be the greatest national newspaper company by far. The strongest partner in the consortium would be Schibsted because the company participated with its fully owned paper, *Aftenposten*, and because Schibsted held substantial minority investments in the regional partners.¹⁴ Consequently, Schibsted insisted on holding a majority of 50.1 per cent in the consolidated group. It should be emphasized that the merger was initiated and run as a voluntary joint project. It was not at all a hostile take-over by the strongest member of the consortium. Actually, the five newspapers had cooperated closely in many ways, functioning as a loosely coupled consolidated corporation, but without any ownership integration, apart from Schibsted being a major shareholder in all the four regional media houses.

In late summer 2006, when the plans were revealed to the public, representatives of Schibsted and the involved parties approached the NMA for consultations and negotiations. The plans were clearly within the scope of the ownership regulation, representing by far the biggest case ever presented to the agency.

In June 2007, after a long process of hearings and negotiations as prescribed by the law, the NMA announced its intention to prohibit the proposed merger. During the negotiations, Media Norway had been given the opportunity to modify the plans and to present evidence in support of the merger. However, this clearly failed to impress the regulatory agency. Finally, at the last meeting in the negotiation process Schibsted brought several seemingly important proposals to the table:

- First, the Schibsted negotiators expressed an intention to liquidate or reduce the company's holdings in other regional newspapers¹⁵, thereby lowering Schibsted's share of the total national circulation to 31.8 per cent, well below the guiding intervention level of 33.3 per cent. Furthermore, without formal consent of the corporate board, they expressed the pos-

sibility that Schibsted might agree to reduce their ownership in Media Norway to 49.9 per cent, thereby renouncing their supposed ‘full control’ of the merged company.¹⁶

- Second, Schibsted pledged to introduce independent foundations into the by-laws of each of the four relevant newspapers. These foundations would be given authority to approve or disapprove the recruitment of future editors-in-chief, as well as changes of the publishing platform of each newspaper.

Although the NMA expressed appreciation of the latter proposal, neither proposal was considered important enough to lead to any modification of the agency’s evaluation and final ruling. The decision was firm; the merger was found inappropriate and prohibited on July 2, 2007.

The Merger and Competition Law

In addition, the merger clearly qualified for scrutiny according to competition law. It was of national magnitude and doubtless would have an effect on several media submarkets: above all the newspaper market per se (the information and news markets), but also the markets for printed advertisements of various kinds as well as the printing market on a national and regional scale. The Competition Authority (CA) launched a formal inquiry in April 2007, parallel to the ongoing investigation under the media concentration law. The CA worked impressively fast, arriving at a final conclusion on June 11 the same year.

The Authority concluded that the merger would have “marginal or no effect” on the competition in the market for distribution of news by print, or electronic media, nor would it affect the other product markets on which the four companies were operating – with one exception: the market for printing national and major regional newspapers. In this area the CA concluded that Media Norway would have a near monopoly in three major cities (Bergen, Stavanger and Kristiansand). In order to solve this problem, the CA did not forbid the merger in the print market, but instead formulated a set of business rules regarding the future relations between the printing plants that enjoyed monopoly positions and their customers. The conditions were rather mild, mainly aiming at preventing Media Norway from taking unacceptable advantage of its position. In order to control the future business practice, the CA requested the instalment of an external and independent business controller, authorized to oversee the future conduct of the printing business of Media Norway. The ruling was immediately accepted by Media Norway.

The interesting feature of this ruling by the Competition Authority is that the merger was found to have no significant, negative consequences on competition in the market for dissemination of news and information, neither on the national, nor on any of the regional markets. Furthermore, the Agency acknowledged that the merger might yield positive effects, thereby giving a

national economic gain which would offset the costs arising from reduced competition in the printing market, provided that the imposed restrictions were implemented effectively.

Obviously, competition regulation yields a quite different outcome than specific regulation of media ownership. It is also interesting to note that the respective laws apply different types of remedies when proposed action is unacceptable. The CA approved the merger, but on the condition that specific requirements be accepted. The NMA, on the other hand, forbade the merger and was not able to formulate any conditions that might render the merger acceptable.

Clearly, the former way of practicing policy would seem the best way for industry, and a more efficient way of implementing public policy, as well.

A Critical Examination of the Reasons for Prohibiting the Merger

Earlier, we presented an inventory of what I consider to be the major flaws in the current regulation of media ownership in Norway. In this chapter we will present a critical examination of the arguments presented by the NMA in the case of Media Norway in the light of those flaws.

a) The presumed relation between concentration and freedom of speech. Although the NMA presented a very detailed and comprehensive document in support of its decision, it fails to give a single argument of a factual nature that supports the pivotal presumption that concentration of ownership reduces freedom of speech. The only reference made in support of the assumption is to the text of the Bill that the Ministry of Culture presented to Parliament (Ot. prp. 30, 1996/1997). However, this document is a political document arguing for the law, rather than an objective analysis based on empirical fact. In spite of this, the Bill is raised to the status of *canon*, i.e., a truth not to be questioned. Or, to draw a somewhat drastic analogy, it resembles the Sharia laws, which claim to rest on the Koran as an irrefutable, authoritative source.

This tendency to use the Bill (Ot.prp. nr. 30) as a canonical text is strikingly illustrated by a quotation from it incorporated into the decision issued by the NMA, where the Authority defines the legal *rationale* of the legislation as “... *the latent conflict between ownership concentration and owners’ influence on one side and the factual possibilities for exercising freedom of speech on the other side*” (Medietilsynet 2007: 35).

b) The presumed threat of ownership to pluralism. This assumption, too, is supported only by references to the Bill (Ot.prp. nr. 30). A typical citation is this: “*Preventing undesirable concentration of ownership is regarded of central importance in order to protect the freedom of speech, because concentration of ownership in itself is considered to be a threat against pluralism in the media*” (Medietilsynet 2007: 36).

No effort is made to discuss the validity of the canonical text in the light of the many changes that have occurred in the Norwegian media sector since the law was formulated back in 1996. One of the most striking differences between the situation then and now is that the number of available media channels has increased dramatically. The only medium which has declined in numbers is newspapers, which most probably has nothing to do with ownership concentration. The number of broadcasting channels and magazine titles has increased, and the number of internet-based channels has multiplied from almost zero to an overwhelming number. This has led to a structural change from a situation characterized by a lack of channels serving an abundance of content, into one with an abundance of channels and a deficit of available content. This lack of content is so desperately felt, that to an increasing degree the audience in general is often invited to deliver content to fill the capacity of the many channels.¹⁷

The decision of the NMA takes no notice of these changes or their implications, but sticks to newspapers as the only contributor to media pluralism, assuming that concentration of ownership will cause a future decline in the number of titles. This narrowness of scope inevitably leads to disputable conclusions regarding the actual and future development of pluralism.

c) The principle of precautionary measures. This powerful principle available to the regulator is applied in several connections in the evaluation document and would appear to be the strongest argument for the final conclusion. At the outset, the fusion partners had agreed to incorporate the independence and integrity of the editors-in-chief employed by the corporation into the statutes and by-laws of Media Norway. The NMA considered this “positively”, but taking the implications of the principle of precautionary measures into account, concluded that there was no guarantee that such virtues would prevail in the future. The agency simply stated that “*such internal matters ... would not be of particular importance for the evaluation of the relevance of a prohibition*” (Medietilsynet 2007: 33).

Commenting on the proposal to establish independent foundations to approve the appointment of editors-in-chief, put forward in the final consultations with the control agency, the NMA assigned it no significant importance. As the final argument in this connection, the agency stated that “*The law on media ownership is founded on a principle of precautionary measures, and on a conception that ownership by itself has significance for media pluralism*” (Medietilsynet 2007: 36). Although the argumentation here appears somewhat fuzzy, it is apparent that it was feared that the proposed foundations would not necessarily prevail in the future, and that the owners might overrule any authority of a foundation within the organization.

This demonstrates the force of the principle. Actually, it may be used to categorically brush aside many arguments without presenting any factual reasoning. Hence, it appears to be an open question, whether application of the principle will be accepted as valid when the prohibition is brought before a regular court.

d) The 33.3 per cent level – an unjustified criterion. Although Schibsted proposed to reduce its holdings in two regional newspapers, thereby arriving at a lower fraction of total daily newspaper circulation, the agency still insisted that Schibsted would play a dominant role in opinion formulation processes in Norway. The argument for this was a count of the total number of newspapers being controlled by Schibsted (six of the ten largest newspapers). Thus, in the eyes of the NMA, the 33.3 per cent level defined in the law no longer had any importance. A new ratio was invented *ad hoc*, namely, the number of controlled newspapers in relation to the ten largest national titles.

This argumentation seems problematic for two reasons: First, because the invention of a new ratio to be used in the evaluation process would seem to exceed the Authority's prerogatives. Second, it seems that the 33.3 per cent ceiling is applied arbitrarily. In one instance the maximum level may be used to deem a concentration in excess of it to be unacceptable. In another instance, when the concentration level is below the magic number, it does not qualify for ruling a concentration to be allowable. This ambiguity appears as both a confusing and questionable application of the law.

In support of the proposition that it does not matter if Schibsted reduces the control percentage below 33.3 per cent, the agency also pointed out that Schibsted could be ascribed a very dominating role in the area of digital news media. Because such a consideration is not defined explicitly in the law, this argument, too, appears to introduce a new amendment of the law, which is a very questionable practice for a governmental agency. NMA was obviously well aware of this: "*A considerable ownership in electronic media cannot per se authorize a prohibition according to the law on media ownership §9. Electronic versions of newspapers must nevertheless be taken into account when evaluating the ownership position of a company in the newspaper sector*" (Medietilsynet 2007: 35, emphasis added).

This text may be taken as an indication that the NMA realizes there is no legal way of taking ownership in electronic media into account, but considers it so important that it must do so, anyway. An instance of 'the end justifying the means'.

However, as seen from the lawmakers' standpoint, such an implied amendment seems highly relevant because the digital newspapers already play an important role in society. This development will obviously increase in strength as newspapers tend to change into a character of magazines and electronic media play a more important role in the distribution of news at the expense of newspapers. However, to meet this regulatory challenge, it will be necessary to equip the law with formally correct amendments, i.e., amendments that have passed Parliament. As it is today, the regulator obviously finds it difficult to take this development into account within the framework of the law.

e) The principle of consolidation. When calculating Schibsted's control of daily national circulation, the NMA applied the principle of consolidation and assigned 100 per cent of the circulation from newspapers where the company held

more than 50.0 per cent of the shares, non-voting shares included. According to the original plans, Schibsted would end up by controlling 50.1 per cent of the shares in Media Norway. The remaining 49.9 per cent would be owned by the merged media houses and private investors. Following the standard principle of consolidation applied by the NMA, Schibsted would inevitably be ascribed total ownership of the consolidated company. In order to avoid this consequence of the consolidation rule, Schibsted declared a willingness to reduce its ownership to 49.9 per cent in the final stage of the negotiation process, assuming that the agency would apply the rule in a consistent fashion.

In order to defeat this tactical manoeuvre, the agency *ad hoc* introduced a new principle borrowed from anti-trust legislation.¹⁸ This principle authorizes the competition control agency to perform a concrete evaluation of the real voting power of a control-seeking actor. The application of this principle, borrowed from competition control, is reflected in the following statement by the agency: “*The decisive point is whether the owner probably will have a factual majority on the general assembly among the shareholders showing up, not the total number of shares in the company*” (Medietilsynet 2007: 36). In support of this new policy, the agency pointed out that experience shows that some odd-lotters (minor shareholders) and institutional investors often abstain from attending the general assembly, thereby increasing the voting power of larger owners, who do attend.

By importing this new regulatory principle into media regulation, the agency once more enters a complicated territory with many questionable issues. First, there is no way of knowing what ownership share might be considered safe to offset the lack of attendance of odd-lotters and institutional investors. Would it be 30, 40, 45 or 48 per cent? Second, again the agency introduces an amendment to current legislation as this new approach to consolidation is neither prescribed in media legislation nor mentioned in the Bill (Ot. prp. 30). Hence, the agency again is on the verge of acting as a law-maker. Third, it seems difficult to see how majority voting power would give Schibsted a better opportunity to influence the opinion making process in Norway, which is at the core of this discussion. As we have argued above, there is no empirical evidence that the corporate management of Schibsted of today has any ambition to interfere with political and cultural processes in the country. Their main concern is to maximize shareholders’ value, no more, no less. That is what they are paid for, and that determines their remuneration – not their performance as public opinion-leaders.

The Final Ruling – Approval of the Merger

The NMA ruling was immediately appealed by the four merging companies. Several facts and arguments were presented to support the appeal.

1. While the case was under investigation by the NMA, Schibsted had decided to sell their holdings in *Adresseavisen*, a major regional newspaper,

and part of their holdings in another paper. Consequently, Schibsted's holdings of the total national press circulation would be reduced to 31.5 per cent, well below the 33.3 per cent defined by the law. An offer to dispose of the shares was explicitly presented to the NMA, but was not considered significant enough to change the situation.

2. The NMA ruling cited Schibsted's position in the internet market as an important factor that contributed to the final ruling. According to the plaintiff parties the argument was irrelevant, mainly because internet involvement did not imply any effect within the sense or scope of the law.
3. All four companies had decided to set up foundations to control and safeguard the independence of the editors and of the existing publishing platform of the newspapers, but the NMA had neglected or paid little attention to this important fact. According to the plaintiffs, those foundations must be recognized as effective tools for satisfying the main intentions of the legislation on ownership control.
4. Finally, several detailed arguments of a formal legal nature were presented, indicating that the agency had acted in a manner that was inconsistent with a proper application of the law. (These technical and rather complicated arguments are not important in our connection and will not be considered here.)

The Appeals Committee for Media Ownership initiated its deliberations in October 2007. After negotiating the legal competence of the individual members, which led to the dismissal of three members, the work began with a panel of three persons. Their unanimous conclusion was presented on February 26, 2008, and appears in many ways a rather sensational ruling.

The Appeals Committee supported the arguments of the NMA on several fundamental issues. It confirmed, for example, that the conditions for public intervention were fulfilled. Although the Committee explicitly stated that public intervention in the area of freedom of speech must be exercised with great care, it concluded that in this particular case, the merger would reduce pluralism and consequently might hurt the freedom of speech. Hence, the Committee decided that there was a satisfactory reason for NMA to intervene.

The rest of the discussion preceding the final ruling is not easy reading. Clearly, it is written by lawyers – for lawyers. However, the final ruling is clearly stated. The Committee finds the establishment of Media Norway “problematic”, especially when seen in connection with Schibsted's dominant position in the Norwegian media market in general. However, the Committee acknowledges that participation in the merger does not change the total ownership position of Schibsted in the national newspaper business. Consequently, there is no basis in the law for intervention.

Thus, the ruling of the NMA was reversed, allowing Schibsted to acquire 50.1 per cent of the voting shares in Media Norway Inc. But the Committee set as a precondition that Schibsted dispose of its shares in the regional newspa-

per, *Adresseavisen*, and 27 per cent of the holdings in another, lesser regional newspaper group, just as had been suggested by Schibsted during the negotiations with the NMA almost a year ago. Furthermore, the Committee required the four merging companies to establish foundations to ensure the integrity of the editors-in-chief and preserve the existing publishing foundations of the newspapers of the group – a condition identical to what had already been decided by the boards of the companies and presented to the NMA during the negotiation process.

The final acknowledgement of the merger arrived fourteen months after the boards of the merging companies decided to consolidate into Media Norway, and after considerable resources had been spent on huge amounts of work by civil servants, company executives and a number of lawyers. One may indeed conclude that the case had been subjected to careful evaluation.

It is interesting to note that if the media control agency had implemented a similar practice as the agency for competition control, arriving at a negotiated compromise, the case could have had the same outcome as the final ruling of the Appeal Committee – more than half a year earlier.

Concluding Remarks – Obsolescence and Paradoxes

This paper analyses the applicability and relevance of the current Norwegian regulation of media ownership with a focus on the newspaper market. The analysis indicates that the legislation has serious flaws. The most grave of these is a dubious relation between the basic values which the law is said to protect and the regulatory tools created by the legislation (the law text combined with the preparatory documents). Furthermore, some of the principles to be applied, especially the principle of *precautionary measures*, appears to be of disputable relevance and legitimacy. A consequence of this principle is that it leaves the door wide open for uncontrolled subjectivity to creep into formal, public policy decisions.

The case study of the proposed Media Norway merger, which the NMA, the agency charged to oversee media ownership, ruled to be against the law, shows that many of the premises on which the decision was made may be disputed. The reason for this seems mainly to stem from flaws and ambiguities inherent in the legislation. Especially, the NMA's pronounced tendency to treat the governmental preparatory documents submitted to Parliament as *canon* arms the agency with a powerful weapon, but also leads to some questionable conclusions, which were subsequently rejected by the Appeals Committee.

Perhaps the most striking weakness of the legislation and its application is a low degree of correspondence to actual facts in the current media market. The legislation was introduced some ten years ago and would thus appear to be founded in the media market and political situation that prevailed in the years before 1997. Today, the main problem of many newspapers is to survive in an increasingly competitive market where new types of entrants in the me-

dia business severely threaten the position of traditional newspapers. In order to respond to this, newspapers have to rationalize and cut production costs, thereby inevitably hurting quality, which in its turn may reduce the attractiveness of newspapers in the media market.

Newspapers have also found it necessary to establish new ownership structures, which may open up for cooperation and joint ventures in order to improve efficiency, enabling them to take part more vigorously in the new markets made available by new technology. The Media Norway initiative is a good example of such a strategic effort to prepare for an even more difficult situation than exists today, where the respective regional partners have found it difficult to adapt to future challenges on their own.

The current legislation of media ownership in many ways appears to thwart such efforts. Although the law was designed to support the future growth and development of Norwegian newspapers as vehicles of freedom of speech and pluralism, this case study indicates that it may actually represent a threat. A truly paradoxical outcome.

Unfortunately, the ruling of the Appeal Committee did not at all address this fundamental issue, nor has the NMA.

Notes

1. An earlier and shorter version of this article was presented before the 18th Nordic Conference for Media and Communication Research, Helsinki 2007.
2. Such ideas first emerged mainly among researchers at North American schools of journalism, who used the business behavior of well-known international media 'moguls' as their empirical foundation. The ideas were later imported to Scandinavian research environments, claiming universal validity of the foreign empirical data and the normative inferences suggested by the American scholars.
3. In Norwegian: *Före var*-*prinsippet*, i.e., being mentally prepared for the unexpected. A common Norwegian phrase, the suggested principle is not commonly used in law texts other than in documents relating to traffic safety.
4. This charter is a well-accepted contract between the Norwegian Media Business Association (MBL) and the Association of Norwegian Editors.
5. In Scandinavia we still find examples of this rare species operating on a national scale – like the Bonnier family. In Norway the great publishers are all gone, the Schibsted dynasty is the closest thing we have.
6. It is important to note that Roppen's study was performed on Orkla Media well before the entire group was sold to a foreign company in 2006. The new owner is Mecom Inc., controlled by David Montgomery. After the acquisition a comprehensive reorganization has taken place, which seems to have improved the business performance and profitability of the group.
7. Avisenes Pressebyrå, is fully owned by Orkla Media, now Edda Media. The agency also serves other newspapers than those belonging to the parent company.

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8. The best known example is from 2002, when the only two newspapers in Bodø in northern Norway (*Nordlands Fremtid* and *Nordlandsposten*) agreed to merge.
9. Ot.prp. nr 30 (1996-1997).
10. Ot.prp. nr 30 (1996-1997): 11, as quoted in Medietilsynet 2007: 33.
11. For a comprehensive discussion of the problems of measurement, see Cavallin (2001: ch 4).
12. As used here, 'chain' signifies a group of newspapers exercising some kind of cooperation, regardless of the ownership structure. The three major chains in Norway are Schibsted, A-pressen and Edda Media (the former Orkla Media, now fully foreign-owned).
13. An illustrative example of such circumvention of the strict limits on voting shares occurred in 2007 when the Annual General Meeting of *Stavanger Aftenblad*, where Schibsted had acquired sufficient voting power to approve the proposed merger of the company with Media Norway. For reasons unknown, the Oslo Stock Exchange declared the cooperating parties to be a "consolidated group", but did not intervene.
14. The holdings were: Bergens Tidende, 52.8%; Stavanger Aftenblad, 52.9%; Fædrelandsvennen, 25.0%, Adresseavisen, 34.3%. The latter decided to withdraw from the merger, but Schibsted's ownership remained unchanged. The percentages indicate holdings after new acquisitions, following the decision to merge.
15. Adresseavisen and Harstad Tidende Group.
16. This appears to be an improvised, last-minute effort to test out the attitude of the NMA towards a significant change in the control structure of the merged corporation, which was assumed to be more in compliance with the legislation. Actually, the main shareholder of Schibsted, Blommenholm Industrier, controlled by Mr. Tinius Nagell-Erichsen, is said to have issued an absolute order to the Board *not* to engage in any merger where Schibsted would have less than 50.1% voting power.
17. This is overwhelmingly apparent in digital media, but it is also observable to an increasing degree in traditional newspapers.
18. This new principle is not defined in either the law on ownership control or the Parliamentary Bill (Ot. prp. 30).

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Chapter 7

Newspaper Acquisitions and Swedish Media Policy

The Past, The Present and The Future

Mart Ots

Periods of structural change in the newspaper sector coincide historically with increased interest in regulating these changes through media policy. Over a long period of time, Swedish policy has chosen positive incentives to promote diversity. That is, competition law has rarely been used to prevent dominant newspapers from acquiring smaller ones; instead, press subsidies have been used to increase survival and independence among the latter.

Despite having kept many newspapers alive and independent for thirty years and thereby preventing any dramatic structural changes on the market, time is taking its toll on the Swedish policy system. Over the last decade the distribution of ownership on the newspaper market has started to change at an accelerating pace. This paper explores the effects of the current media policy in the light of pluralism. Finally, different political responses and future policy directions are discussed.

Media Require Separate Policies

Newspapers, along with other mass media, are of certain political interest. Because they uphold functions and provide benefits to society that are wider than their utility as a consumer good, governments have found it worthwhile to pay special attention to the regulation of media markets. That is, in addition to entertaining and informing their audiences, newspapers also provide broad, societal services, including a ‘watchdog function’ for the public interest (Lichtenberg 1990), and the sharing of cultural expressions, “expressing different voices and views, helping public opinion to form on issues and facilitating debate” (McQuail 2005: 162).

We may thus say that it is in society’s interest that media markets serve these other functions. However, competitive actions that appear rational from a profit-maximizing business perspective may at the same time reduce the number of voices and views, restricting discussion and debate (Dennis 1978). Because of these conflicting interests, there is a general assumption that an entirely free

market will not be the best mechanism to cater for all stakeholders' needs. Indeed, it may be counter-productive with respect to the public's interest in media (McChesney 2004). As a consequence, governments use the policy tools of special privileges and restraints to govern the media supply.

The Concept of Pluralism

Pluralism is generally seen as the number of voices, cultural and political, that are given the opportunity to speak. Media and their output are important contributors to pluralism at the societal level (Cavallin 2000). Two measures of diversity that are sometimes distinguished from each other are *external* and *internal pluralism* (Hallin and Mancini 2004). The first one is the diversity of voices when looking at the entire media system: roughly speaking, the number of independent media outlets. Internal pluralism, however, refers to the diversity within each medium: that an internally pluralistic medium will allow more opposing voices to confront each other in any given newspaper or TV channel. The northern and central European press (including the Scandinavian and German-speaking countries) have a history of focusing on external pluralism through parallel papers with different political affiliation, while the Anglo-Saxon tradition concentrates on the internal pluralism of each medium, thus diminishing the importance of political ties and imposing a responsibility on each medium to maintain neutrality and balance in news reporting (Hallin and Mancini 2004). In recent decades, however, the trend has been for media companies to evolve into listed, profit-oriented entities (McQuail 2005, Harcourt 2005), which leads to a focus on audience expansion rather than political exclusivity. The result has been a de-politization of the Northern European press over the past two decades and a move toward the professionalized Anglo-Saxon model (Weibull and Anshelm 1991, Nieuwenhuis 1992, Weibull 1995). As a result, for the average northern European newspaper reader, internal diversity is of increasing importance. The media policy system is, however, still primarily designed to deal with the traditional media landscape.

Pluralism is said to be contingent on a wide range of factors. Some of the most important relationships between public policy and pluralism are represented in Figure 1. This shows that looking at the diversity of suppliers or ownership alone is not enough to determine the degree of pluralism. Rather, the size and wealth of the market, the diversity of suppliers, and the consolidation of resources also play important roles. Public policy here can potentially exert direct influence over three of these elements. Earlier studies of newspaper mergers in the Nordic countries (Alström and Nord 2000, 2002, Andenæs 2003) have more specifically investigated the impact of mergers on the diversity of output.

Ownership Concentration – Driving Forces and Effects

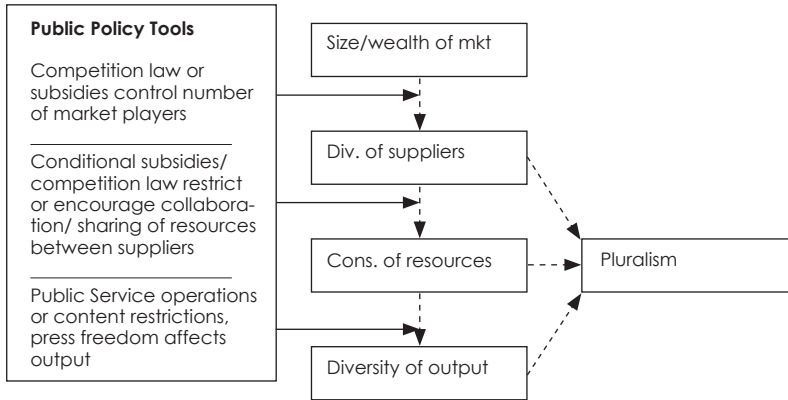
Mergers and acquisitions have been shown to occur for a vast number of reasons, for instance, to obtain market power or to overcome barriers to entry and gain access to new markets (Hill et al. 2001). For media research, however, Doyle (2002) points to two reasons why issues of mergers and media concentration are of interest. On the one hand, *pluralism* – that fewer media owners means fewer media voices; on the other, *efficiencies* – that fewer owners means less duplication of resources. The first is a societal argument, viz., that a less concentrated media sector works in the interest of the consumers, whereas the second is an argument of economic rationality for the industry, viz., that a more concentrated media sector increases potential productivity and the competitiveness of persisting market players. Clearly, there are substantial economies of scale and scope in newspaper production, and profitability has been shown to have a general correlation with size of circulation (Doyle 2002).

While both arguments are of interest for the media firm, media policy makers have mainly been concerned with the issue of pluralism. But, since competition in the media sector is increasing, and a sustainable economic situation for media companies is a prerequisite for the existence of pluralism, newspapers' economic arguments have lately attracted more interest from legislators. The result is a conflict of objectives: on the one hand, preservation of pluralism through preventing mergers and, on the other hand, helping newspapers to survive and maintaining pluralism by allowing mergers.

As a consequence, it is now questioned whether increased ownership concentration per se has a bad impact on diversity of output. Media ownership is often regarded as a convenient substitute measure for this, but researchers still argue whether the measure is adequate – in other words, whether less ownership concentration always results in higher degrees of pluralism and vice versa (Cavallin 1998). Some hold that ownership concentration and pluralism are incompatible (Cavallin 1995), while others claim that some concentration may increase output quality (Napoli 2004, 2006) as well as product differentiation and audience choice (Van der Wurff 2005).

Even though a take-over means a shift in ownership, it does not necessarily mean a shift in editorial or strategic independence. Several authors observe that integration between business units means better efficiency and economies of scale, but at the same time, lost independence of the individual unit (Lorsch and Allen 1984, Lawrence and Lorsch 1986, Goold and Quinn 1990). We may say that according to theory, the further the search for synergies is taken, the greater the restrictions on freedom and hence the greater impact on pluralism.

At the same time, Doyle (2002) suggests that diversity may in fact increase with more integration. This paradox is based on the assumption that resources can be freed through the integration of areas that have little impact on diversity and transferred to production of better and more diverse content output. In this sense, not all increases in dependence between papers have negative impacts on pluralism.

Figure 1. Media Policy Influence on Pluralism

Source: Doyle (2002: 27; adaptation)

Policies for Increased Media Diversity and Pluralism

Policy-makers have a handful of tools to work with in order to improve media diversity (Sanchez-Tabernero and Carvajal 2002, Doyle 2002) (Figure 1). First, *subsidies* can be used to inflate the size and wealth of the market, making more economic space for media actors than the market can support on its own in terms of audience and advertising revenues. This can be both direct support and indirect support such as, for instance, tax exemptions. Second, *competition law*, *upper limits of ownership* and allocation of *concessions* have been used to control supply and avoid dominant positions. Third, *public service mandates* may be a way to manage resources in the media sector. Also, *conditional subsidies* may be used to encourage more efficient collaboration around resources, such as technology or distribution systems. Traditionally, policy-makers have made few attempts to control how private firms manage their resources, for instance, how content is recycled through multiple single- or cross-media operations or how the degree of integration or collaboration between firms affects pluralism.

When it comes to content diversity, press freedom has been considered an important factor. Internationally, much focus has been put on competition law to prevent any actor from obtaining dominant market power and to regulate horizontal ownership of media suppliers, predominantly at the last stage of the value chain (Harcourt 2005, Doyle 2002). In short, policy is geared toward structural market control.

In the tension between economic rationales for industry concentration and the public interest in more diversity through less concentration, attempts have been made to find a middle road. This middle road would allow for ownership concentration in areas where they do not directly affect content output in exchange for maintaining the range of editorial outlets. The Joint Operating Agreements

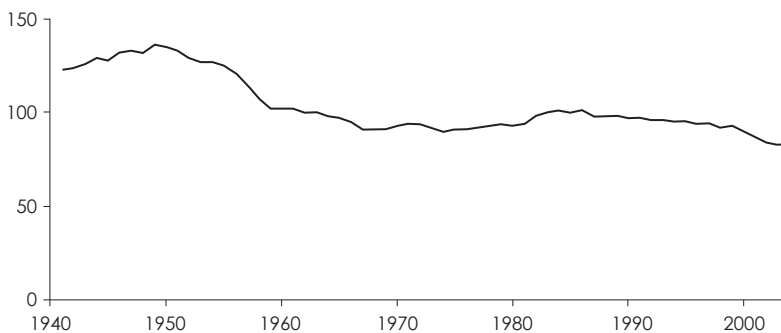
(JOA), primarily used in the United States, provide in this way for collaboration between newspapers in, for example, printing, marketing and distribution activities as long as the editorial departments are kept separate (Busterna and Picard 1993, Borden 1996, Chambers and Howard 2005). Thus, pluralism is seen to be upheld as long as editorial departments are not merged and the product consists of at least 50 per cent original (in-house) material – the rest can be bought from news services or shared between newspapers. More countries have tried to separate the questions of ownership and editorial independence. In Norway, editorial agreements have been introduced in the form of contracts whereby the owner agrees not to interfere in editorial matters (Rolland 2005).

Swedish Press Policy in the Past

Sweden has been categorized as a “democratic corporatist” media system (Hallin and Mancini 2004). In short, this means that limited state intervention and developed commercial markets live alongside a tradition of clear and diverse political positions in the press. The Swedish press policy tradition is based on a preference for using subsidies rather than regulation to create a diversity of suppliers (Cavallin 1995, Sanchez-Tabernero 2002).

The press subsidy system was born in the late 1960s when around forty newspaper titles had been wiped out in the span of about fifteen years (Figure 2). Contributing factors behind this first wave of market consolidation were increased competition and the introduction of TV and radio (Hadenius and Weibull 2003). This meant that cities that previously had had three or four competing local newspapers representing different political affiliations were now left with one or two. In order to protect regions where external pluralism in the form of competing newspapers still existed, an advertising tax was imposed on all print media and then handed out as subsidies to those in need. That connection between tax and subsidy is long gone, however.

Figure 2. Number of Daily Newspapers 1941-2004 (4-7 days/week)



Source: Karl Erik Gustafsson; www.fs.se

The architects behind this political turn were the Social Democrats and the Center Party, both of which happened to have several affiliated newspapers in threatened secondary positions on their respective home markets. In 1999, fifteen cities still had more than one daily newspaper supplying local news, to a large extent thanks to the subsidy system.

The Swedish press support system includes two different subsidies: joint distribution support (*distributionsstöd*) and operational support (*driftsstöd*). However, the term ‘press subsidies’, as used in this paper, refers to the operational support, which in 2005 accounted for €44 million, or more than 80 per cent of total press subsidies (Gunnarsson and Gustafsson 2004). This subsidy has been distributed based on a quite technical method that collects data on market coverage, circulation and proportion of in-house content production.

The original design of the system was founded on the notion of an ‘advertising spiral’, which proposed that papers with a majority share of the market in a region will get a more than proportionate share of the advertising market. Later, the ideas were modified to a theory that took household coverage as an indicator of competitive strength (Gustafsson and Hadenius 1976). The assumption is that papers having the stronger household coverage attract more resources, with which they can improve content, gain more readers, and attract even more advertising until the competitor eventually is forced out of business. Thus, subsidies are distributed from the Press Subsidies Council (Presstödsnämnden) to any paper with more than 2 000 paying subscribers and less than 25 per cent household coverage within its home region (*Presstödsförordning* 1990). Further, it must be a separate publication, that is, a minimum of 51 per cent of the editorial content must be unique to the paper. The size of the subsidy is related to the circulation of the paper, with a substantial increase to secondary papers in the three largest cities.

The slogan, “diversity, competition and choice” captures the overarching philosophy guiding press policy (Finansdepartementet 1993). While the policy measures have shown success in preserving some external diversity (Riksdagen 1996/1997), it has never been made crystal clear whether the philosophy implies content diversity, ownership diversity, pluralism or something else. Neither has ‘choice’ been specified as to whether it means choosing between different local newspapers, all printed newspapers, or all newspapers regardless of distribution form. The introduction of new technology and the deregulation of broadcasting markets have increased the number of potential choices and inter-media competition dramatically. The implementation, however, has often aimed to preserve printed newspaper titles (diversity of suppliers) in order to make room for as many voices as possible and to prevent ownership concentration within the local and regional press. Other aspects of pluralism (cf. Figure 1) are left largely unattended to.

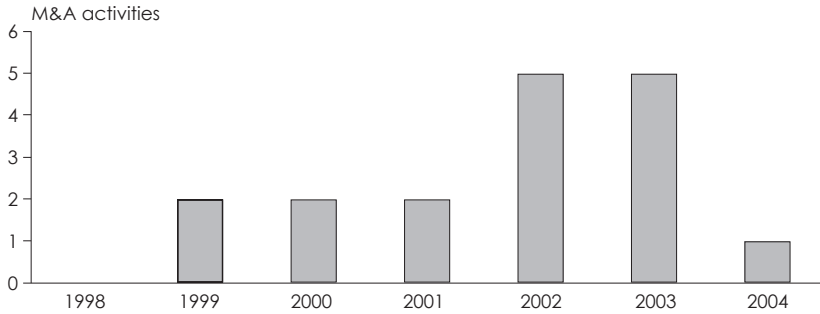
Over the last decade the Swedish authorities, like many of their European counterparts, have found it difficult to find the resources to raise the levels

of general support, including press subsidies. At the same time the subsidy system has been questioned as such. Some of the most common criticisms claim that the system creates *unfair advantages* for some wealthy owners of profitable secondary papers that nonetheless receive support (Holmqvist 2005), and that it *rarely manages to mend the underlying problems* in the newspaper operations, but rather diverts focus away from the need of more fundamental policy measures (Cavallin 2000). On a market level, the Bonnier group in particular has argued that the system prevents a much-needed restructuring by the industry in order to meet new competition from other media (Carlsson and Hedin 2005). More fundamental to the design of future measures, today's increasingly fragmented and individualized media consumption patterns demonstrate the need to regard media as a connected system and to apply a holistic policy solution, rather than treating the media as separate silos (Nord 2008).

M&A Activities in Sweden 1999-2004

Until 1999, M&A activities were rare in the Swedish regional press. In fact, the industry has a tradition of resisting any forms of collaboration, whether between owners or political allies. This absence of synergies has been noted on the advertising market, in distribution systems, and in print operations (Utbildningsdepartementet 1979, 1985; Melesko 2004). As a result, the press support system has developed a set of specific tools to promote and encourage increased collaboration with clear financial incentives.

By the turn of the century the pace had started to pick up in a second wave of industry consolidation. Especially vulnerable to take-overs were the remaining fifteen secondary dailies, which with few exceptions were characterized by exceedingly bad finances. Over a period of 24 years, since 1975, only five secondary papers had disappeared from the market. Since 1999, however, eleven out of a total of seventeen take-overs or mergers between dailies have involved papers facing local competition. Eight of them have been acquired by their competitors, while three have closed deals with newspapers outside their region. Today only four cities remain where two mutually independent papers compete. The papers in at least two of the four cities are currently in merger negotiations. As a result, ownership diversity is no more than a memory on the vast majority of regional newspaper markets. So far, the competition authorities have done nothing to interfere with this process, yet legislators have expressed their concern about the inability of the press support system to meet the development (Konkurrensverket 2006).

Figure 3. M&A Activities in Provincial Press 1998-2004

Source: Ots (2005).

Present Forces of Market Concentration

Research indicates that the forces of consolidation work on several levels. Although the press support system has maintained ownership diversity in affected cities for some thirty years, the general perception is that the system no longer can keep up with the changing environment. The subsidies inflate market size by supporting papers having minority shares of their local markets. Today, a number of dailies are totally dependent on press support for their survival. These papers provide potentially greater external diversity to readers in some fifteen cities. However, increased competition from other media for both consumers and advertisers is eating into their budgets at a faster pace than the subsidies grow. In short, at the current levels the subsidies cannot do what they are supposed to do.

In light of the trend shown in Figure 1, we may conclude that the effect of the subsidies has been positive over a period of years, but as markets and consumer preferences change, one may ask whether the future benefits of the system actually might be greater than the drawbacks. The key question is: do the subsidies really help us to increase pluralism in the media landscape in an efficient manner?

The Market Level

Press subsidies result in an inflation of local press markets, providing capital injections where pure consumer and advertiser expenditures are not enough to feed several actors. However, it is evident that regulators have increasing difficulties with the blurring of market boundaries. Inflating the newspaper market has decreasing importance if consumers and advertisers seamlessly switch between media types and delivery systems.

Especially over the past fifteen years, technological developments and new competition have rapidly changed the rules of the game for newspapers on their home markets. Newspaper managers are clearly aware that even though

it may be editorially challenging to have a local newspaper competitor, the commercial battle stands between newspapers and a wide range of new aggressive entrants such as TV, radio, internet, free sheets, direct mail and cell phone operators (Ots 2005). Newspaper firms are adopting convergent strategies, acquiring both radio stations and digital distribution technologies. Collaboration between competitors has become an essential means to prevail on the market and to strengthen the newspaper medium in the eyes of both advertisers and consumers. Meanwhile, legislation rests heavily on the printed form of distribution and views the battle as if it only stood between printed papers.

A Diversity of Suppliers

Operational subsidies to secondary papers are prerequisites to acquisitions, since without them, the deals would not be financially viable. Without the financial injections from competing primary papers, secondary papers would not survive. If bankruptcy is the alternative, the present ownership concentration is the preferable option in order to protect diversity of output. The motives of the acquirers are not primarily profit, but to strengthen the daily press vis-à-vis other media by maintaining high barriers to entry onto the local market. From the perspective of total pluralism rather than merely newspaper diversity, this may indicate that subsidies are being used in a manner that minimizes the breathing space for new entrants who might contribute to a broader distribution of ownership and a more diverse supply of local media. Further, the system has not managed to solve the underlying problems with the secondary papers and have any lasting effect. A large majority of the recipients of subsidies suffer from notoriously bad finances, yearly cutbacks in personnel, difficulties in financing investments in production equipment, ageing readers and declining advertising revenue.

Consolidation of Resources

The press subsidies also provide incentives to allocate internal resources between the papers in ways that preserve diversity of output. In this case it means keeping two separate titles, with separate editorial staff. More specifically, by their supporting only separate editorial products, they allow integration and lost independence in areas that can increase efficiency, but do not directly affect the content output. From this perspective, subsidies still have positive effects on resource allocation and largely manage the situation as well as a competition law of the JOA type would have done. However, before the mergers, press subsidies were used by the secondary papers to resist more efficient forms of market collaboration. In other words, the subsidies were counterproductive until all the financial alternatives were gone.

Diversity of Output

The effect on diversity of output is more difficult to assess, but one important note is that ownership diversity, or the number of newspaper titles that the system aims to preserve, has diminishing importance for output diversity. Increasingly, news wire services and other forms of collaboration around content are gaining ground. Emphasis is shifting toward the news selection process rather than editorial products. In international studies it has been shown that market concentration can produce both negative and positive effects on output diversity (Napoli 2004; 2006; Van der Wurff 2005). On the other side are empirical findings that indicate that audiences see few substitutes to newspapers as transmitters of local news and local advertising (Grusell 2005).

Pluralism

Thus, the effects of subsidies on diversity of suppliers and resource allocation have been both positive and negative with respect to pluralism. However, one important issue concerns the question of *access* that audiences have to the increased pluralism. Less than half the Swedish population live in cities where more than one local daily newspaper is distributed. In these cities the circulation of the secondary papers is decreasing faster than the average for the branch as a whole. Most of these papers struggle with the problem of ageing audiences more than the average paper. Because it favors a certain distribution form, the policy measure is heavily skewed towards older members of society. Thus, with respect to pluralism, the subsidy system is bounded both geographically and demographically, and the trend points toward a diminishing contribution to media diversity that meets a majority of consumers.

The Road Ahead, Political Games, Agreements and Disagreements

So, these are interesting times. It is clear that the Swedish press policy system is losing its influence when diversity of ownership exists in only four Swedish cities today. The subsidies have become institutionalized tools that are designed to preserve newspapers rather than pluralism, a troublesome situation on a twenty-first century media market. This is likely the beginning of the end for the system as we know it, but this may also be the dawning of a new era in Swedish media policy. The problem, however, is that there are no good suggestions as to what this new dawning should look like.

Even though many of these problems are recognized, changing the system runs up against some practical problems. Cutting the subsidies will eventually mean that an unknown number of the twelve daily newspapers that receive support will disappear – blood that few politicians wish to have on their hands. If the remaining independent subsidy recipients are acquired by local competi-

tors, the effect will likely be more subtle. They will lose their independence in steps as long as they are unprofitable, and eventually turn into branded editions of the primary paper. Only when brand equity is close to zero will the newspaper officially disappear, but its contribution to external pluralism and content diversity will have been gone long before that.

In other words, we are at a crossroads where we have to choose between a dramatically increased reliance on subsidies in order to preserve both ownership and output diversity, or a stronger reliance on market forces to distribute resources and re-shape the media landscape. An unchanged policy position would only conserve the system for a time, since the secondary newspapers over time would disappear as separate editorial products, if only at a slower pace than without the subsidies.

Not being able to find a middle road, a divided Swedish Press Subsidy Council presented some adjustments to the press subsidy system in January 2006. The suggestion was a compromise: a decision to decrease the support to some titles, like merged papers and metropolitan papers, while making small increases for others. That amounts to keeping everything as it is and waiting for something to happen. The rightist members of the committee submitted reservations, while the leftist coalition appeared reasonably content.

Some Alternative Political Visions of the Road to Media Pluralism

Aptly, the debate on press support has been called “the ‘Dancing with the Stars’ of media politics” (Jönsson 2008). Although the current system with press subsidies and public service broadcasting is kept reasonably intact, individual parties market their political visions with varying intensity, switching partners and, most of all, changing foot according to how the political wind is blowing. Today there are essentially three different tracks in politics on how to deal with media concentration. These correspond well with the available public policy tools presented in Figure 1.

1. Pluralism through conditional subsidies and public service

Assumption: Concentration is best prevented by giving positive financial incentives for media to stay independent

The Social Democrats want to expand the subsidy system despite its apparent flaws. In their judgement, the market cannot and will not protect the citizens’ right to diversity of content, opinions and voices (Socialdemokraterna 2008). The media system needs to be protected from the forces of commercialism, and if the choice is left to the consumer and advertising markets, the tendencies pull towards local monopolies. “We want rules to hold back ownership concentration on the Swedish media market”. “The press subsidies should be expanded in order to strengthen the newspapers competing with those in market-leading positions,” the party stated in 2002 (Socialdemokraterna

2002). Recently, the Social Democrats have positioned themselves as the only true protectors of public service broadcasting and the press support regime (Israelsson et al 2007). A surprised newspaper industry could a few years ago hear then-Minister of Culture Marita Ulvskog encourage popular movements to start public service-like newspapers, inviting media firms to partner up with the Social Democrats in the cause of pluralism (Estmer 2005, Andrén 2003). Most actors refused to take this seriously, and no further propositions in that direction have been made.

2. Pluralism through competition law

*Assumption: Mergers are not bad for pluralism,
and a healthy market economy will produce diverse content.*

Although several academics may disagree, the Conservative Party has long argued that a free market would solve most problems, also in the cultural sectors. Accordingly, Conservative members of Parliament have produced numerous motions proposing that press support should be abandoned, and the Press Subsidy Council with it (e.g., Riksdagen 2005/06a, Riksdagen 2005/06c, Riksdagen 2005/06d, Riksdagen 2007/08). However, the party has not been able to elaborate this position into any concrete suggestions of a constructive media policy (Riksdagen 2005/06b). The most prominent idea is that the government should only focus on providing what is not commercially motivated in a market economy – preservation of artefacts of the cultural heritage, youth culture in schools, and support of artists. Regarding the media, the state should only sponsor public service broadcasting in a very narrow definition – essentially minority and youth productions. Newspapers or other media are not mentioned (Riksdagen 2005/06b).

Nevertheless, it seems like free competition is easiest to argue for in opposition. Since the Conservatives assumed office in 2006 a surprising turn in their media rhetoric has taken place. The European Commission has for some time criticized the Swedish press support system for protecting the industry rather than cultural values. A renewed interest on the part of the Commission in 2006 forced the government to explain the Swedish standpoint. The Conservative Minister of Culture, Lena Adelsohn Liljeroth, now appears to be one of the most enthusiastic supporters of the current subsidy model. Press support is vital to diversity on the media market, she asserts, and adds that the government coalition has agreed to add another €5.5 million (MSEK 60) to the pot (Adelsohn Liljeroth 2007). At the same time, funds are proposed to be shifted away from metropolitan papers that have enjoyed higher subsidy levels in the past, in favor of a higher subsidy ceiling for provincial papers. The net effect of such a change would, however, be a cut in total support by roughly 10 per cent or €5.4 million (MSEK 50). The Government claims that this is a compromise in order to please the Commission. Critics argue that they are only using the EU as an excuse to start deconstructing the Swedish model.

3. Pluralism through public service operations and competition law:

*Assumption: Ownership concentration is not a problem,
but we must still protect content diversity*

The Liberal position is that policy should focus on promoting desirable diversity of content output rather than supporting media firms or media types. Technical convergence has rendered the need for a newspaper-specific press subsidy obsolete. In the Liberals' view, the diversity of content available to the consumer has not decreased, but rather increased due to the use of internet and deregulated broadcasting markets (Riksdagen 2004/05). Their belief is that the newspaper market should be allowed to evolve more freely in keeping with technological developments. The best way to do this is to gradually phase out the subsidies over some years, while lifting the restrictions on cross-ownership that have prevented newspapers from owning local radio stations (Riksdagen 2005/06e). It also means encouraging, not preventing, collaboration between newspaper firms. Some titles will eventually disappear from the market, while others have breathing space and an opportunity to challenge inter-media competition on multiple platforms.

What the Liberals want to see instead is an increased emphasis on public service *content* in all broadcasting and digital media. 'Public service' from their point of view essentially means all aspects of cultural (including service to linguistic minorities), educational and other content that a strictly commercial market does not cater for. Their solution, which resembles the recommendation put forward by British Ofcom, rests on state-funded content pools, which are open to any operator who wants to produce and distribute content of Public Service quality standards, regardless of distribution channel (Ofcom 2004, McNair 2005). This way, public service resources can always be channeled to the media where they generate the best value in terms of serving the public interest. Some countries, like The Netherlands, have shown that funds of this type can be applied to print media just as well as to audiovisual media. In an open letter, former Liberal Party leader Lars Leijonborg (Leijonborg 2008) suggests that the financing of these public service funds should come from the auctioning of broadcasting frequencies. Considering the problems frequency auctions have caused the commercial radio market in Sweden, both in terms of content quality and market concentration (Norbäck and Ots 2006), this financing option should be approached with some caution.

Issues in Future Media Policy

A Holistic Perspective

When boundaries between media markets are blurred, press policy is increasingly difficult to pursue in isolation from other media. Newspapers were the only local and regional media available in Sweden in the 1960s. When the press support system was established, no commercial broadcasting media were

permitted, and public service TV and radio only produced national content. Today, newspapers are no longer the sole voices in a city. Through deregulation of broadcasting markets and the emergence of new media markets such as internet and the daily free sheets, external diversity can – without judging the quality of these new media – be said to have increased. Newspapers still have strong positions as suppliers of local news, but if external diversity is sought, a press support based on subscribed printed news alone cannot be the most effective way to achieve the goal.

Building policy to promote pluralism must start by formulating the goals rather than the means. As media firms adopt cross-media strategies, it makes little sense for policy to treat each medium as a separate silo. This suggests a move from a single-medium perspective to a media market perspective, pinpointing where audiences access content and where interventions create the most value.

A Dynamic Perspective

Societies are constantly evolving, both technically and socially. Because of the rapid development of new media, researchers like Petersson et al. (2005) have expressed the need for a policy concerning media content performance and quality that is neutral vis-à-vis the technical distribution system. Similarly, consumers evolve in their patterns of usage and interaction with media. When dealing with media policy, the relative importance of media channels for pluralism will change. A policy system should therefore aim to be firm on the goals, yet adaptive to the dynamic context in which they may be achieved.

A Consumer-centered Perspective

There are many measures that can be said to increase pluralism. The question however, is where scarce resources are most efficiently applied. With changing audience preferences, this work must start with the individuals who are supposed to enjoy the media. Focus should move from the supply side and support of the daily press at all costs toward creating a better understanding of consumers and *their* perception of pluralism and its value. That is, a shift from industry protection to pluralism at the point of consumption. In a globalized, digitalized, and personalized media world, consumers can access an abundance of media at almost any time and place. On an international level, Van Cuilenburg and McQuail (2003) note a broad policy shift toward securing free and equal access to social communication systems. Such a development indicates a new role of policy as facilitating consumers' own creation of pluralism through communication, participation and interaction rather than conceiving of pluralism as residing in media products themselves.

Over the years, regulators and academics have tended to put a lot of national pride in the large number of newspaper titles and high newspaper readership figures that Sweden can display. Morning dailies connote education, literacy

and sophistication. Now it is time that policy-makers break free from this view of printed newspapers as being superior tools for democratic pursuits. When technology and customer preferences change, it is important to stay true to the pluralism motives rather than to the medium itself. This means a move from press policy to media policy.

As for the tools available, subsidies in their current form appear to have lost their power, and nobody at this point seems to consider public service operations a viable option for all media. While some indicators point toward a more liberal system in the Anglo-Saxon tradition, the Swedish competition authorities have yet to show a willingness to lead the way.

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Chapter 8

Instruments for Press Policy in The Netherlands

Lou Lichtenberg

The aim of government media policy in The Netherlands is to maintain and promote diversity of the media, insofar as this serves the interests of providing information and opinion-formation. For press policy, too, this goal has been declared by Dutch governments in many policy memoranda, which have both followed and elicited many debates in Parliament and between media actors. Pursuant to that goal, several policy instruments have been introduced, especially after the Second World War. Together, these instruments form a system of mutually reinforcing measures: the effectiveness of any given measure may be increased to an extent corresponding to the effectiveness of each of the other measures.

Policy Purpose and Instruments

The media policy debates in our country start from the notion that the freedom of speech, being of fundamental importance to the social, economic, cultural and political development of each individual in society, consists not only of a freedom to express and distribute one's opinion, but also a freedom of information, the right to receive a wide and diverse range of information. Therefore, public freedom should encompass more than just the freedom to express views or to cancel a newspaper subscription. To guarantee real freedom of information, communication, speech and press freedom it was desired that in addition to this passive, defensive position the government should be more active and create the conditions for real freedom, i.e., to commit to a policy aimed at upholding and enhancing the diversity of the media.

Thus, a 'duty of care' was promoted as an element of press policy, based on the vision of a more active sense of receivers' freedom and right of information as a basic right, as set out in Article 10 of the European Convention on Human Rights. This duty of care has been accepted more and more by constitutional courts, by the European Court of Human Rights and by governmental memoranda in several countries of the Council of Europe.

Acknowledging this duty, most states have developed certain instruments of market intervention. These include limits to horizontal or vertical concentration; favoring effective competition; restricting media ownership; favoring internal pluralism; favoring content-related diversity; and providing for transparency with respect to media concentration. A modern duty of care also includes a policy aiming to uphold and enhance the diversity of the commons on the internet.

In The Netherlands current press policy is more or less based on three pillars: measures aiming to maintain as much diversity as possible through financial support, a set of 'do's and don'ts', and encouragement of self-regulation on the part of the press.

Financial Support

In The Netherlands of the 1950s and 1960s some *general support measures* were presented for the press in general. These measures, like reduced rates for postal services, telex and taxes, aimed to improve the general economic climate of the press as a whole, without considering the specific economic position of the individual newspapers or magazines.

Later on, due to a growing number of mergers and the formation of groups, especially in the daily press, more support was introduced. First of all, a temporary measure to compensate newspapers for the introduction of commercials on radio and television was extended in 1967. This measure was especially created for newspapers that were unable to adjust to the new situation after the introduction of this new advertising medium. In 1971, the government also decided to establish the Press Fund as a form of *direct financial support* for individual newspapers and magazines. On the basis of the 1987 Media Act, the Press Fund was continued as an independent governmental agency.

The Netherlands Press Fund is managed by a board whose members are appointed and dismissed by Royal Decree on the recommendation of the Minister for Culture. Board membership may not be combined with employment in a Ministry, or with board membership or employment with a newspaper, magazine or publishing company. The Board of the Press Fund decides on applications for financial help. The Press Fund is financed out of the revenues from advertising messages generated by the Radio and Television Advertising Foundation and the commercial broadcasting establishments. Each year, the Minister for Culture determines whether the Press Fund may receive new finances, based on the current balance of the Fund.

Newspapers or magazines have to live up to a number of criteria in order to qualify for this financial support. According to those criteria it is only possible to extend temporary loans, credit facilities or subsidies to dailies, non-dailies or magazines – the latter only under special circumstances – for their reorganization or restructuring plans in order to make them profitable again in the near future. Financial support may only be provided for press products which also meet criteria such as:

- the paper must to a significant extent provide news, commentary and background information covering diverse aspects of present-day society, with a view to political opinion-formation;
- it must be edited by an independent team of editors on the basis of a statute expressing the editorial identity of the press product;
- it must be generally available for a purchase price;
- the continuation of the press product involved is threatened or has been rendered impossible, and the requisite support cannot be obtained elsewhere.

Since the early 1980s it is also possible for the Press Fund to support *research projects* for the press industry in general and *joint projects* of newspapers or magazines to improve the general position of the companies involved. On the basis of that support measure the Press Fund has participated in financing research and joint projects aimed at problems like the functioning of journalism, functions of dailies, the improvement of the position of dailies as advertising vehicles, functions of dailies for youth and for minorities, ethics and the internet, the functions of the internet for information supply and opinion-formation, the improvement of the distribution of dailies, the creation of a code for mergers, the financial position and the functions of the local newspapers, the position of evening dailies in the bigger cities, a civic journalism experiment of a regional newspaper, and looking for new business models for internet information products.

Finally, in this context a special temporary compensation measure for newspapers operating at a loss must be mentioned. This *general-specific measure* was introduced in 1981 for all dailies in comparable circumstances, viz., a relatively insecure competitive position on the market, with both limited circulation and wide geographical distribution. This experimental compensatory support scheme operated for a period of six years in the 1980s and provided subsidies to sixteen dailies for *in toto* nearly € 41 million.

Starting in 1990, this compensation decree was stopped for evaluation in order to decide whether or not it should be continued. On the basis of this evaluation the Board of the Press Fund concluded that the measure had been an adequate instrument for maintaining the diversity of the daily press, but that this kind of compensation measure could no longer fit in a policy to stimulate innovation. Due to these conclusions the support measure was terminated.

In July 2002, on the advice of the Press Fund two new *experimental support measures* were added to the forms of direct financial support. First, a measure to support newspapers and magazines of *minority groups* was introduced; it especially targeted new papers or existing ones with frequencies of less than once a month. In the years 2002-2007, fifteen applications from these papers were granted for *in toto* € 1.7 million. Second, an experimental stimulus was introduced for the benefit of *internet information products* with innovative plans. In the period 2002-2007, twenty-five applications for this kind of financial

support were granted, totalling some € 2.5 million. These two experimental support measures are currently being evaluated; the results of this evaluation are expected in May 2009.

So far, the Press Fund has financed more than one-hundred projects of newspapers, magazines and internet information projects for more than € 65 million, and about sixty research projects for about € 10 million.¹

The Regulation of Media Concentration

Such a policy system to maintain and promote diversity of the press through financial support might be more effective if there were also some regulation of mergers to support the press in securing editorial identities when there is a tendency towards more concentration. Financial support to the press alone cannot stop press concentration. For the sake of press diversity it may also be necessary to create a system for the approval of proposed mergers in the press to prevent the loss of independent editorial papers or magazines.

In the period 1968-1984, the Dutch Press Advisory Council published several recommendations to introduce a press merger regulation, but most of these recommendations were not accepted. In 1989, the Board of the Press Fund was asked by the government to revisit the topic. The results of this study were:

- First of all: Information from the past did not clearly indicate the necessity of a special press merger act. On the contrary, many unprofitable newspapers survived precisely because they were part of newspaper groups.
- But secondly, neither could the past record ensure that it would not become necessary to have a special press merger act in future. Some risks must be taken into consideration, too. Those risks are:
 1. the existing laws to prevent possible damage to press diversity due to mergers might prove to be ineffective, inadequate or not sufficiently watertight;
 2. uncertainty about the international pressure towards mergers – the influence of a Berlusconi or a Murdoch;
 3. changes in management style: more and more newspapers are being managed by individuals with little or no experience in the newspaper branch and with no special affection for newspapers.

For these reasons the Board of the Press Fund presented a concrete draft of a press merger act and advised the government to introduce such an act. These proposals were broadly discussed by experts in the press branch, by law experts and by the government and the Parliament. In these discussions, one group believed that such an act would be effective and useful, but another group could not support the proposal for fear of its unconstitutionality, i.e., an incompatibility with press freedom and the prohibition of censorship.

Ultimately, a majority of the Government, and later of the Parliament, accepted a kind of middle course between a law and no law, viz., the newspaper publishers should create a system of self-regulation. In February 1994, all the publishers of newspapers agreed on such a system of self-regulation. According to this system, all intended moves toward concentration that would give the daily newspaper companies involved a market share of one-third or more of the total circulation of newspapers in The Netherlands are forbidden, unless an independent committee of experts nominated by the Newspaper Publishers Association explicitly declares that it has no objections to the intended transaction(s). This independent committee could only make such a declaration provided the merger in question would not result in a significant and structural hindrance to current competition in the Dutch daily newspaper market. In its judgement the committee could also take many other criteria into consideration, such as the structure and developments in the newspaper market in general, the economic position of the enterprises involved, the diversity of the press and the options available to readers in the newspaper market.

As of 1997, mergers and takeovers fall under the supervision of the Competition Authority, the NMa. For that reason this self-regulation of concentration on the part of the publishers stopped. The NMa can impose conditions on takeovers or mergers, or take action when a position of power is abused. The NMa also looks at market shares, but certainly not exclusively so. Processes that take place within a group, including mergers of daily titles, generally fall outside NMa's scope of supervision, however.

In the meantime, a special media cross-ownership regulation was introduced into the Media Act. Under this law a commercial broadcasting establishment may only broadcast, or commission the broadcasting of a programme service provided by it, if it has obtained permission to do so from the Dutch Media Authority. Permission may be refused if (among other reasons) the commercial broadcasting establishment, or one or more of the legal persons or companies with which it forms a group, jointly or individually has a share of 25 per cent or more of the market for daily newspapers.

Since 2000, the Media Authority has also been responsible for monitoring concentration in the broader area of media and information,² as the government is concerned about the harmful effects this might have on the pluralism and independence of news and information in The Netherlands. The Media Authority publishes yearly reports about the markets for newspapers, radio and television, cable distribution and audiovisual production. The reports show that three companies control the greater part of most markets, with a number of smaller companies sharing the rest. The Media Authority recommended introducing special rules on media concentration to supplement the overall supervision by the Competition Authority.

In 2007, new temporary rules were introduced. These rules were presented in a Temporary Law on Media Concentration, which has a term of validity until 1 January 2010. It will be reviewed in 2009. On the basis of that review, a decision

will be taken either to terminate this legislation or to continue it, with or without amendment. On the basis of these new rules the previous rules on cross-ownership, which set limits on combined ownership of newspapers and television, were abolished. Instead, concentration among daily newspaper companies is prohibited when such concentration leads to a market share of 35 per cent or more of the total Dutch market for daily newspapers (this includes both paid newspapers and free newspapers). Furthermore, a limit is set on the maximum percentage of combined market share that may be acquired via concentration on the three markets: daily newspapers, radio and television. This maximum is set at 90 per cent of the combined markets (300% in total). This means that on each of these three markets, at least three players will be active.

These new rules for media concentration also encourage more cooperation between publishers and public and commercial broadcasting units. In that context the Dutch Media Authority also presented a detailed set of measures to promote public-private multimedia cooperation.

Self-regulation of the Press

One aspect of the third policy pillar has already been described in connection with the second pillar: the attempt to introduce self-regulation through merger monitoring. In addition, the publishers' association, together with the union for journalists and other media organisations and the government, agreed on more measures for self-regulation. Some of these, too, are co-funded by The Netherlands Press Fund. These include measures like:

- Continuation of the editorial statutes, whereby the editorial identity of each press product is prescribed along with the rights and duties of the independent editing team and the publisher.
- Continuation and reinforcement of the Press Council. According to Article 3 of the Statutes of the Foundation, the Press Council is charged to examine complaints against violations of good journalistic practice. But not every complaint leads to such an examination. Only persons who are directly involved in a case of journalistic (mal)practice, may complain. The Press Council has no power to impose a penalty on the journalist. Neither can the Press Council assure the plaintiff financial compensation. The Press Council gives its opinion on a complaint and publishes its decision on its website and in the professional magazine for journalists. Also, it circulates its decisions widely, sending them to the national news agency and to several other media. The Press Council is looking into the possibilities of playing a more active role in the public debate on journalistic practice. In that regard the Press Council has also produced a guidebook for journalistic behavior, presented in April 2007.³
- The creation in March 2005 of the News Monitor, still in operation. Its objective is to provide empirical data that can be used for reflection and

discussion within society and among journalists about the quality of journalism. The News Monitor does not judge the quality of journalism, but rather provides the objective data needed for a broad discussion of journalistic practices.

The Netherlands News Monitor consists of three parts: a continuous monitor, an event monitor and an issue monitor. The Continuous Monitor focuses on general content features such as themes, genres, sources of mainstream newspapers, regional newspapers, and several television news programs. Moreover, it looks at political news coverage in more detail, documenting the principal actors, the issues discussed as well as the type of sources. The Event Monitor concentrates on high-profile matters, *affaires*, revelations or scandals that – often in a relative short period of time – attract a lot of attention. Journalistic criteria (imposed by the journalists themselves) form the basic principles for the Event Monitor. The monitor will investigate whether event coverage is detached, trustworthy, factual, well-founded, etc. For the Issue Monitor it is important to follow a certain issue for a longer period of time. The issues studied may be considered of lasting importance in the public debate. The news coverage about these issues will be followed over time, making it possible to discover shifts in tone and framing in the public debate about the issues involved, which might also be related to concrete events.⁴

- The creation in 2004 of a Media Debate Agency, for the organisation of public debates on media issues and the functioning of journalism.⁵

Some Final Remarks for Discussion

The printed press all over the world is facing many similar problems; there are general indications that print has to deal with structural stagnation, besides its temporary financial economic problems. Structural problems are being caused by the fact that the newspaper and magazine market is showing signs of saturation: circulation-figures show stability or decline; the average time spent on reading shows a downward trend. Advertisers seem to be less interested in printed products than they used to be. Print also has to deal with rising costs of home delivery, postal services, newsprint and investments in new technology. At the same time, newspapers and magazines face more competition, especially from other suppliers of information, such as websites, audiovisual media and free papers. Commercials on television, direct marketing and online advertising and merchandising are growing in popularity. Publishing companies are trying to find new ways to renew their ties to both readers and advertisers, and to innovate.

According to experts in the field, real innovation will only be possible through making use of media convergence. The publishing companies should realize that their information product might be published in other forms than

print on paper. That is, their product may be conceived as a branded package of content published through old and new media. Innovation is very important for their survival, for finding new positions in present and future media developments; but this is also very important for society as a whole. Especially minority groups and people in some regions and situations of social economic disadvantage lack information that focuses on their personal needs. The publishing companies may also take advantage of the fact that several functions of printed media can be fulfilled easier, faster and perhaps also better by electronic means. Practically all information of a practical nature and special interest information is fit for electronic publishing. People in general, and the younger ones in particular, prefer more audiovisual media, read less, and if they read papers or magazines, they prefer images, infographics and colorful presentations. Stimulating the production and use of new electronic services may be essential also for the information supply of these groups.

The future information society also calls for a fundamental change in government media policy. A new media policy still has to recognize that the freedom of expression and the freedom of the media are and will remain one of the cornerstones of a democratic system. For that reason governments should keep their distance from the media, and from the press. But, as was described earlier, besides this distant, passive, defensive role of the government it has been recognized more and more that for real freedom it will be necessary for the government to assume a 'care function', i.e., to commit to a policy aimed at upholding and enhancing the diversity of the media. Such a care function should not be implemented as an element of a welfare state, but mainly as a policy instrument of a state based more on the concept of a civil society, a kind of state formed by social contract, in which people operate more as *citoyens* instead of being primarily addressed as customers or consumers. A state in which governments acknowledge that society may do what society can do, and where public resources are being used primarily to take care of vulnerable groups, to help them soon to reach a situation in which self-help dominates.

In this electronic age this implies that present-day restrictive and media-conservationist media policy (a policy of do's and don'ts, financial contributions and offsetting of losses), including press policy, has to be transformed into a policy with instruments of a more stimulating and innovative character. To stimulate publishers and editors to find new ways of fulfilling the information function of their products on new information carriers, for example.

In general, larger companies have enough time and money to experiment with those new services with printed or electronic news carriers. But sometimes smaller companies are not in such a position to experiment with new services. Of course, the problems of entrepreneurs and the possible effects of the ways in which they are trying to solve those problems are primarily their own business. However, media may also have aspects of more general interest. Their tasks – supplying information and providing news services – are so important that in some cases leaving newspapers to deal with their problems on their own may be too risky for a free and diverse information supply through the

press. In this vision their problems may also be partly the problems of society as a whole. In those cases, arguing from the 'duty of care'-function of governments in a civil society, it may be advisable to help companies – on a temporary basis – in order to make self-help at a later date an option.

Recently, the Dutch government published a new memorandum on press policy to the Parliament.⁶ In reaction to the advice of the Dutch Press Fund⁷ and the Council for Culture⁸, the Cabinet put forth some new thoughts on policy and proposed changes in some support measures. Among these were

- continuation of the temporary and modest financial support from the Press Fund to newspapers, magazines and internet information products, including a two-year extension of the temporary experimental measures on financial support for minority papers and internet information products;
- introduction of new additional possibilities for financial support: also newspapers and magazines of *profitable groups*, *new* newspapers and magazines and *free* newspapers and magazines may apply for financial help from the Fund;
- some more financial support for activities concerning self-regulation of the press were offered;
- more research of the information supply in local and regional areas, as commissioned by the Dutch Media Authority and the Press Fund;
- the formation of a study group to investigate the desirability and possibilities of a new special fund for journalists in areas of armed conflicts.

In this memorandum the Cabinet also stated that it was not yet convinced of the necessity for the government to subsidize press innovation. However, due to new negative developments in the financial-economic situation of especially the daily press, on 12 December 2008, the Cabinet sent a new additional letter to the Parliament announcing the formation of a Temporary Innovation Commission for the Press and the possibility of special funds for co-financing press innovation and lower tax rates for the press. On 18 December, the House of Representatives accepted these policy proposals. The Temporary Innovation Commission for the Press will investigate within the shortest possible time-frame the innovation needs and plans of the press and propose some concrete funds for this in combination with financial support from the Press Fund. Secondly, this Commission will also be asked to offer some new ideas for the improvement of the future information supply in The Netherlands.

Notes

1. For more information: www.svdp.nl (use the search term 'English').
2. For more information: www.mediamonitor.nl and www.cvdm.nl
3. For more information: www.rvdj.nl

4. For more information: www.nieuwsmonitor.net
5. For more information: www.mediadebat.nl
6. Minister of Education, Culture and Science: Policy letter to the Parliament on the (broad) press policy. House of Representatives, session 2008/2009, 31777 nr 1. The Hague, November 14, 2008. This letter was followed by a letter on December 12, in which a feasibility study of introducing lower tax rates and the creation of an Temporary Innovation Commission for the Press were announced (HR, session 2008/2009, 31777 nr 2).
7. Dutch Press Fund, Advies Persbeleid (Advice Press Policy), August 28, 2008, a report on a 'stimulus fund for the press' (*Rapporten Stimuleringsfonds voor de Pers*; R10. Diemen: AMB Publishers (ISBN 97890 79700 03 5). Also published as an annex to the policy letter submitted to the Parliament, House of Representatives, session 2008/2009 31777 nr.1.
8. Council for Culture, Advies Persbeleid (Advice Press Policy), August 4, 2008, published as an annex to the policy letter submitted to the Parliament, House of Representatives, session 2008/2009 31777 nr.1.

The Proposed Acquisition of ProSiebenSat.1 by Springer AG in 2005

Olof Hultén & Sune Tjernström

On August 8, 2005, the dominant press group, Axel Springer AG, applied to the regional media authorities in Bavaria, Rheinland-Pfalz and Berlin-Brandenburg for permission to acquire ProSiebenSat.1, one of the two dominant commercial television broadcasters in the country. If permitted, the merger would have created one of Europe's biggest media corporations, spanning FTA and pay-TV, newspapers, magazines, online services, and the printing industry, most of which in Germany.

The merger had to be cleared by the German Commission on Concentration in the Media Sector (Kommission zur Ermittlung der Konzentration im Medienbereich, KEK), which is the authority mandated to protect pluralism in private broadcasting. Because of the economic size of the proposed merged group, it also had to be reviewed by the German Competition Authority (Bundeskartellamt). Both authorities came to the same conclusion: the merger could not be allowed. That turned out to be a controversial conclusion, not only because Axel Springer AG has a lot of influence in the country and in this case had the support of politicians in a number of the states in Germany. Other critical voices pointed out that in preventing the merger, the two authorities had put German media companies at a disadvantage in relation to foreign-owned rivals, which might enter the German market and take control of important media enterprises.¹

This chapter summarizes the most important arguments of the reviews by the two authorities. It is the purview of the German Competition Authority to review mergers with a focus on the effects on economic markets (*Marktmacht*). The KEK has to examine all mergers and changes of ownership in private broadcasting, with a focus on the effects on pluralism and opinion formation in electronic media (*Meinungsmacht*).

The German Media Market – A Brief Overview

Our purpose in this overview is to describe the German media landscape in 2005 as an aid to understanding the case presented further along. The material pre-

sented here is largely based on the documentation presented by KEK (2006) and the Competition Authority (Bundeskartellamt 2006) in their final decisions. The sources are publicly available German data bases on the media industries.²

Germany is the biggest television market in Europe. Competition for viewers among a great number of channels is very sharp. At the end of 2005, there were 37 nationwide free-to-air channels, as well as a number of regional services in different states (*Bundesländer*). In addition, fifty national pay-TV channels were offered via subscribed services. Four broadcasting groups dominate, two public (ARD and ZDF) and two private (RTL and ProSiebenSat.1 Media AG). Channels are distributed by satellite, cable and/or the digital terrestrial network. The four groups' channels attracted more than 90 per cent of total viewing in 2005 (KEK 2007: 3).

Television

Table 1. Share of Television Viewing, August 2004-July 2005 and Share of Advertising 2004 (percentages)

Group	Audience, %	Ad., %	Type of Channels
ARD I+III	27.3	5	Nationwide and Länder general channels
ZDF	13.7	3	Nationwide general channel
Other public	3.1	-	Niche channels
Total public sector	44.1	8	
RTL group	25.4	38	Nationwide general and niche channels
ProSiebenSat.1 Media AG	22.1	45	Nationwide general and niche channels
Disney	7.4	5	Nationwide general and niche channels
Viacom	1.5	n a	niche channels

Note: Television viewing shares are annual averages of viewing time. The base for both viewing and advertising is freely available broadcast channels.

Source: GfK-Fernsehpanel.

Radio

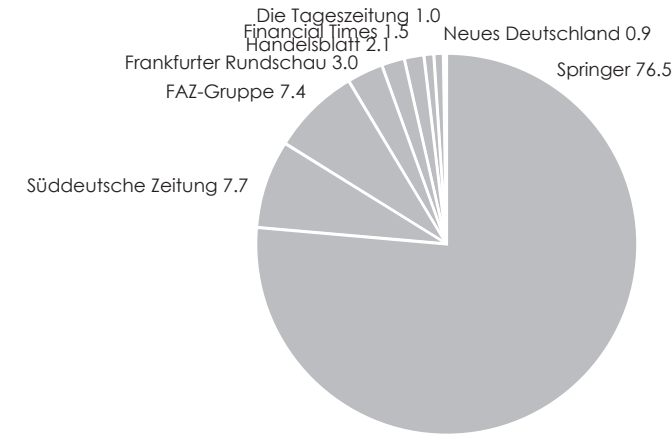
The radio market is fragmented into many groups, regional and local. Neither KEK nor the Competition Authority gives a full picture of ownership, audience shares or advertising revenues. KEK presents a list of 24 radio broadcast companies fully or partly owned by Axel Springer AG. Only one group is deemed to be under Springer control in the sense of the Interstate Broadcasting Treaty (Rundfunkstaatsvertrag; see below). The audience share of this group is 1 per cent of all radio listening.³

Regional Newspapers

The German market for subscribed regional newspapers is divided among a number of owner groups. The Springer group has a share of 7% of total circulation of such newspapers, but the market position is very strong in certain regions especially in the north, such as Hamburg, Berlin, Dresden and Leipzig.

National and Inter-regional Newspapers

Figure 1. Combined Share of Circulation, All Inter-regional and National Newspapers, Single Copy Sale or Subscribed, including Sunday papers (%)



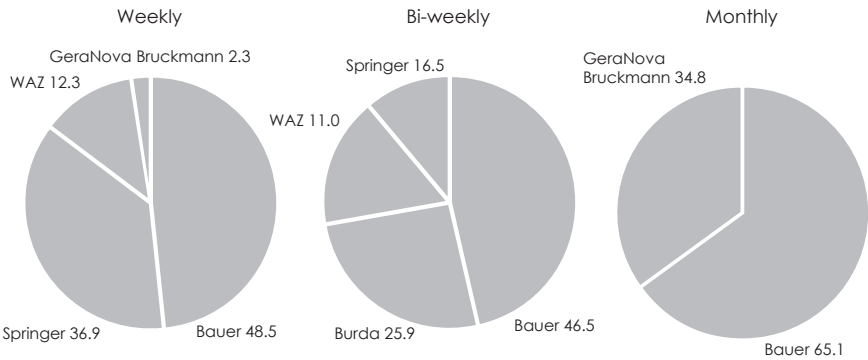
Free Dailies

Of the market for free weekly newspapers, Springer's share of total circulation was 7.8 per cent.

TV Magazines

TV magazines is a differentiated market with weekly, bi-weekly and monthly publications. Market shares based on circulation (2004) were:

Figure 2. The Ownership and Circulation of TV Magazines in Germany, Weeklies, Bi-weeklies and Monthlies



Magazines

The magazine market is big and fragmented in many genres and will not be listed here. KEK considered them all, with special attention to the Springer titles. In 2005, the Springer market share (share of combined circulation of all titles on the market) was 7 per cent, estimated for the 35 titles the group fully owned.

On-line

The on-line web market was in 2005 still in its infancy and very heterogeneous, KEK notes. The basis for computing the market shares is data on the number of downloaded pages by the German population during the second quarter 2005. Included are all web sites of commercial interest to advertisers. Springer and ProSiebenSat.1 sites accounted for 11.3 per cent of all these downloads (based on telephone interviews) (KEK 2006: 58).

The Regulatory Institutions

Bundeskartellamt – The German Competition Authority

The protection of competition is the key regulatory policy objective in a market economy. In Germany, the task of protecting competition is undertaken by the federal Competition Authority and the corresponding authorities in the states.

The Competition Authority is an independent higher authority attached to the Federal Ministry of Economics and Technology. As of 1 October 1999, it is located in Bonn, after having operated for forty years out of Berlin. It has a staff of about 300, half of whom are legal or economic experts. Its activities are based on the Act against Restraints of Competition, ARC (*Gesetz gegen Wettbewerbsbeschränkungen, GWB*), also referred to as “the cartel law”, which came into force on 1 January 1958 and has since been amended seven times, most recently in 2005.

The Competition Authority examines merger projects in which the combined aggregate turnover of all the participating companies worldwide is more than €500 million, and the domestic turnover of at least one participating company is more than €25 million (Section 35, ARC). The calculation of the relevant turnover is based on the turnover achieved by the entire group in the last business year preceding the merger. Mergers that are subject to control have to be notified to the Authority prior to their completion (Section 39, ARC). Mergers involving companies with a combined annual turnover of less than €500 million need no approval. Where the turnover achieved by the participating companies exceeds the threshold laid down in the European Merger Regulation, the planned merger is also examined by the European Commission.

The Competition Authority prohibits a merger if it is expected to create or strengthen a dominant position (Section 36 (1), ARC). The substantive evalua-

tion is usually based on the market share held by the company concerned in the relevant geographic and product markets. Under the ARC, a company is assumed to be dominant if it has a market share of one-third or more. Other evaluation criteria are the financial power of the company, its access to supply or sales markets, its links to other companies, barriers to market entry, the actual and potential competition, and the ability of the opposite party in any given transaction to turn to other companies (Section 19, ARC). These criteria are explained extensively in the principles of interpretation of market dominance.

In principle, all practices that significantly and “without objective justification” impair the scope of economic activities of other companies (competitors, customers or suppliers) constitute an abuse of economic power. An abusive hindrance or so-called “*exclusionary abuse*” exists, for example, where a dominant company uses its superior position to deny competitors access to its networks or other facilities essential for competitive activities. To undercut prices with the deliberate aim of forcing competitors out of the market may also constitute an exclusionary abuse. Since the 6th Amendment to the ARC (in force since 1999), the sale of goods or services below cost price is explicitly prohibited under certain conditions. A dominant company’s demand of unreasonable prices or terms and conditions from its customers or suppliers may be considered so-called “*exploitative abuse*”. The Competition Authority may prohibit any conduct that violates a provision of the ARC (Section 32, ARC).

Companies that are party to a proceeding may file an appeal against decisions of the Competition Authority with the Düsseldorf Higher Regional Court. Appeals on points of law against decisions of the Higher Regional Court may be lodged with the Federal Supreme Court in Karlsruhe.

Regulation in the Field of Broadcasting

The sixteen states in the Federal Republic are sovereign as far as legislation and the ultimate responsibility for broadcasting is concerned. This was determined at the founding of the Republic after World War II and has been upheld in repeated decisions by the Federal Constitutional Court since then. State parliaments are responsible for broadcasting within each state, while broadcasting matters at national level are regulated via an Interstate Broadcasting Treaty (Rundfunkstaatsvertrag). The first such agreement came into force on 1 December 1987, as a result of the changes in the broadcasting field caused by the introduction of a private sector.

Public Television

The public television broadcasting system comprises two national groups, ARD and ZDF. ARD is a network of cooperating state systems, operating the

oldest national channel plus one channel in each state. ARD1 is the national network, in which content from each state is broadcast according to an elaborate formula. ARD3 is the second television channel, limited to each state. Today, ARD3 channels are rebroadcast nationally via satellite and cable and are thus available to viewers all over the country. The second national public channel is ZDF, which operates one national channel. It is managed and financed on the basis of an agreement between all the states. Together, ARD members and ZDF also operate four niche channels. The public broadcasting system has an obligation to provide German viewers with comprehensive television service.

Public Radio Services are Separate for Each State.

The principal source of financing of all public broadcasting is revenue from a universal license fee levied on households having a TV set, plus supplementary revenues from advertising. Television advertising on the public channels has always been strictly regulated, and today it accounts for only a small share of the total budget. Revenues have declined as private channels have grown. In 2005, advertising on ARD and ZDF accounted for 8 per cent of total television advertising (Table 1).

The Commercial Sector

Commercial television was definitely and permanently launched in Germany in 1984-1985. Separate legislation was established for commercial broadcasting in each state. As commercial services spilled into other states, the need grew to coordinate issues and decisions between states. Commercial actors also challenged public broadcasting, its scope and commercial revenues. Private broadcasters wanted room to expand and lobbied for limitations on the scope of public broadcasting and reduced content obligations for their own services. The strategy of the commercial sector was to rely on the public sector to guarantee the provision of pluralism to viewers, while confining its own services to what is commercially profitable.

In a landmark decision in 1984, the Federal Constitutional Court ruled that both public and commercial sectors have a responsibility to guarantee full and diverse services to viewers. The commercial sector would be regulated and obliged on its own, to serve in such a way that the "diversity of existing opinion can be articulated as broadly and thoroughly as possible and that comprehensive information is available to the public" (KEK 2000: 1).

One important tool for supervision in the commercial sector is to require a licence for all private broadcasting. For this purpose separate authorities to approve permits for commercial broadcasting were created in each state. There are altogether fourteen of these State Media Authorities (Landesmedienanstalten), LMA.⁴ Licensing of services on the national level is performed by the LMAs jointly through a coordinating body, the Arbeitsgemeinschaft der Landesmedienanstalten, ALM.

In 1987, the states agreed on principles and guidelines for commercial broadcasting services that transcend state borders. The resulting Interstate Broadcasting Treaty, now in its tenth version⁵, is reviewed and revised periodically.

A second institution, charged to prevent concentration and to safeguard pluralism in the private broadcasting sector, was created by the states in January 1997. The Commission on Concentration in the Media Sector (Kommission zur Ermittlung der Konzentration in Medienbereich, KEK) is an independent regulatory body at national level which examines licences issued to private broadcasters and ownership changes within the private sector against the conditions laid down by the Constitutional Court and the Interstate Treaty.

The German system of regulation is complex and leaves room for conflicts and controversies. Decisions made by the KEK can be challenged by a qualified (three- quarters) majority of the directors of the LMAs assembled in the Konferenz der Direktoren des LMA, KDLM. KEK decisions may also be appealed by affected broadcasters in the administrative courts.

The Role and Duties of the Commission on Concentration in the Media Sector, KEK

The KEK is a small organisation, with a board of eight independent experts appointed by the heads of the state governments for a period of five years. An additional eight members are appointed by the fourteen LMAs. The KEK has a small administrative staff in Berlin. The Interstate Broadcasting Treaty provides the KEK with principles and guidelines for determining the cases brought before it. Cases concern the structure of broadcast markets, ownership changes, and the consequences for pluralism. All cases are referred to the KEK by the LMAs.

The KEK publishes reports on the general trends in German private broadcasting on channels and services, on broadcasting companies and their market shares, and it reports on important changes in each of the markets and on the relationships between related media markets⁶. Having no investigative power of its own, the organisation has to rely on other sources for information.

Two elements are in focus for the KEK from the perspective of mergers and concentration in the commercial sector. One is the principle of *precautionary measures*; that is, concentration is to be prevented if there is a perceived risk of reduced pluralism of opinions. Once a merger is allowed, it is difficult, if not impossible, to undo excess concentration. Measures against “predominant power over opinion-formation” (*vorherrschende Meinungsmacht*) must have a preventive effect (KEK 2000: 2).

The other perspective guiding the KEK is to consider effects of concentration on *related media markets*. That is, not only is each separate market – such as unencrypted broadcast services – relevant, but the impacts on related markets, such as the markets for programmes, news material, TV magazines and television advertising revenues, are considered, as well. Given the profound technological changes in today’s television, control of transmission platforms

and provision of packages of services have also become important related markets. Broadcasters are no longer alone in determining the content and availability of a television service to viewers. Platform operators and providers of various technical services to broadcasters also have influence on what is reaching the audiences.

At the heart of the KEK analysis of pluralism is the concept of *Meinungsmacht* and the obligation of private television broadcasters to offer German viewers “a diversity of views” (*Meinungsvielfalt*) in its services.

The Interstate Broadcasting Treaty, Section 3, subsection 2 (§§25-34) is devoted to “Ensuring Plurality of Opinion” in commercial television. The KEK goes so far as to call the presence of a diversity of views “the measuring rod for the manifestation of freedom in broadcasting” (KEK 2006: 69).

In the dual system, the private sector must be able, with a good likelihood, to provide “balanced pluralism” (*gleichgewichtiger Vielfalt*) in its services. The total output of programmes should offer at least a modicum of expressed opinions from all social groups and spiritual orientations so as to create a ‘marketplace’ of opinions. How this is done cannot be prescribed in a normative way. Legislators need to decide on guidelines which can be used by the relevant authority to supervise the practice. The Constitutional Court has, however, drawn up a basic standard of balanced pluralism. It comprises the essential preconditions for pluralism of opinion, namely, on the one hand, the opportunity for all facets of opinion, including the views of minorities, to be expressed in the private broadcasting sector and, on the other hand, to avoid a one-sided concentration of influence to individual broadcasters or programmes (KEK 2006: 70).

The concept of “predominant power over opinion-formation” means, according to the Constitutional Court (on which the KEK relies in these matters), that the broadcasting system is dominated by one or some social groups which to a high degree, one-sidedly determine public opinion, while other groups are shut out of the process of opinion formation. To prevent such a situation is primarily the obligation of the state legislatures. They should take responsibility, sometimes acting jointly, for the provision of pluralism of opinion in the totality of domestic programme output so that the largest possible variety and breadth of opinions are reflected and expressed in broadcast services. This is a duty of some significance, as mistakes made in this area are difficult to correct.

In this process, it is important to consider both variety and balance. Total output might be balanced, but not diverse, and vice versa; both criteria must be fulfilled. The balanced and varied output of the public broadcasting sector is not sufficient in itself to correct a potential deficit in the private sector. Therefore, the private sector is to be judged on its own in this respect.

“Meinungsmacht” – The Concept and Its Operationalisation

The operationalisation of “predominant power over opinion-formation” is based on a single criterion: the share of total television viewing on an annual

and national basis. According to the Interstate Treaty, it is presumed that such predominance *may* arise when a broadcaster reaches the level of 25 per cent of annual viewing time. The KEK points out that this level does not *define* the concept. The level, however, indicates a situation where predominance might be presumed, and thus constitutes an obligation for the KEK to review the evidence in the case.

The Constitutional Court recognizes that this “predominant power” in broadcasting may also be affected by positions in related services, such as the relations between broadcasters and net operators, rights owners or TV magazines. The final outcome depends on the balance of all factors. Above the level of 30 per cent, the potential risk of undue power over opinion-formation is considered too high to be permitted. The burden of proof as to whether an acceptable diversity of opinion is provided lies with the broadcaster(s).

From the total *Meinungsmacht* tally should be deducted a) a compensatory “bonus” for pluralism in the form of regional windows in national channels and b) the portion of network output that is outsourced from the network to editorially independent broadcasters (*Drittfensterprogramme*)⁷.

Finally, “predominant power” can, according to the Constitutional Court, be exerted by a combination of influence in broadcasting and the press. The German constitution does not prevent newspapers from ownership in broadcasting, but the level of cross-media influence needs to be considered.

Given a viewing share that is above 25 per cent, the KEK has also to review the case with a view to the influence exerted in “relevant related media markets” (*Medienrelevante verwandte Märkte*). Market shares in advertising, radio, the printed media, programme rights, programme production, and the market for media relevant on-line services are to be included in the review. The reason, according to the Constitutional Court, is that it can be presumed that the combination of control and influence in different media markets increases the potential to exert “predominant power over opinion-formation” (KEK 2006: 80).

Additional Criteria

In contrast to the blunt triggering criterion (“share of viewing...”), the Constitutional Court is eminently discriminating in its treatment of how media influence opinion-formation. Additional criteria to be considered are the characteristics of each medium, particularly their suggestive power, their penetration, and their topicality (KEK 2006: 81).

The suggestive power (Suggestivkraft) of a mass medium is the combined effect of text, image (still/moving) and sound. Television combines all three and should thus be assumed to have the strongest suggestive power.

Penetration (Breitenwirkung) is the level of access to a medium in the total population. Such data are regularly collected for all media on an annual basis. The KEK refers to a longitudinal study of the German media market published by the ARD/ZDF (ARD/ZDF 2002) as one such source. With regard

to penetration, one also has to consider the accessibility of a medium over time and how readily it can be accessed. If a medium is universally available to the user 'round the clock, the power of influence is presumed to be greater than that of a medium that appears only at certain intervals, the content of which has to be accessed via specific technical devices. Here, print media have an advantage over electronic media.

Topicality (Aktualität) is normally considered on a cross-sectional, day-to-day basis.

The KEK concludes that only television fulfills the three criteria optimally. That is why the share of television viewing is taken as the criterion measure, and market shares of other media (as conventionally measured in each) are to be transposed to 'TV viewing equivalents'⁸, using guidelines and criteria formulated by the Constitutional Court.

The Assessment and Judgement of the Competition Authority

"Bundeskartellamt has [today] prohibited the proposed merger between Axel Springer AG (Springer) and the ProSiebenSat.1 Media AG (ProSiebenSat.1)." So reads the first line of the press release of 24 January 2006 from the powerful German cartel authority. This ended a long investigation of a proposed merger that was found to lead to an unacceptable degree of market power (*nicht genehmigungsfähiger Marktmacht*) in the commercial television market, in the market for single-copy newspaper (boulevard press) sales, and in the national market for newspaper advertising.

ProSiebenSat.1 and the RTL group (Bertelsmann) have for years shared the national television advertising market, with some 40 per cent each (see Table 1). The Competition Authority characterizes the market as a "non-competitive duopoly" (*wettbewerbsloses Duopol*). The Authority's study had found no evidence of an attempt to threaten the competitor's position – that is, no evidence of internal competition on this market.

The proposed merger would strengthen the existing duopoly in the sense that this duopoly would extend into the newspaper and magazine markets. The only viable commercial alternative to television advertising in the national market – the tabloid newspaper, *Bild Zeitung* – would end up inside the duopoly, thereby putting an end to all external competition.

Springer's *Bild Zeitung* already has some 80 per cent of the market for single-copy sale evening papers. Through the proposed merger, *Bild* would be able to strengthen its position by means of crossmedia promotion, i.e., through editorial and commercial cooperation between the paper and the television channels. The presumption is that *Bild* could cooperate both editorially and in the advertising market with ProSiebenSat.1 group, to the extent that there would be some sort of "*Bild* television", which would further strengthen the paper.

Finally, the Springer group already has a 40-per cent market share of national newspaper advertising. Here, the merger would open possibilities for crossmedia

advertising campaigns that would be detrimental to third parties. This would further strengthen the dominant market power of the Springer group.

The Competition Authority's decision to prohibit the merger was preceded by extensive negotiations, in the course of which several changes in the design of the deal were proposed in order to make the merger acceptable from a competition policy point of view. Springer made several of these proposals, such as a promise never to use the Bild logo or brand in ProSiebenSat.1 programmes. Another promise was to sell television advertising and newspaper advertising in separate organizations. Springer also suggested that the respective State Media Authorities (LMA) might oversee that these promises were kept.

Negotiations

The Competition Authority did not find such arrangements suitable, since the LMAs do not have resources for continuous supervision. Furthermore, Springer offered to sell off the photogravure printing operations that were co-owned with Bertelsmann, owner of RTL, and some radio stations and newspaper distribution operations – but all in vain. Nor did offers to sell off free sheets and on-line operations satisfy the Authority. All these proposed changes would still leave the market in the hands of a strengthened duopoly, the Authority concluded.

Finally, Springer offered to sell one of the main television channels, ProSieben, which would cut the size of the merger in half and reduce the negative impact on the television market. The Competition Authority let it be known that it would be willing to consider such a deal. It could, however, not accept that the sale of the ProSieben channel would take place after the merger as such had been implemented. The Authority was not willing to accept the original deal, not even for a very limited period of time – “a legal second” (*eine juristische Sekunde*).

Just four days after this sale proposal was tabled by Springer, the company withdrew it, allegedly after an internal re-evaluation, whereupon the Competition Authority handed down its decision: the merger violates the cartel legislation and is therefore prohibited.

Almost immediately after the decision, speculation that the responsible cabinet member might overrule the judgment and allow the merger (*Ministererlaubnis*) started circulating in the press. In order to override the decision of the Competition Authority, however, the Minister of Industry and Trade, Michael Glos (CSU), would have to demonstrate that the merger was of “overriding importance to the public interest” (*überragendes Interesse der Allgemeinheit*) or that it was to “overall economic advantage” (*gesamtwirtschaftliche Vorteile*). The burden of proof would lie on the Minister's shoulders. He would have to convince his coalition partner in the national government, the Social Democratic Party, that a merger making Springer even more powerful in German media markets was not only acceptable, but desirable. A hard pill to swallow (*Die Welt* 25 Jan 2006).

The Assessment and Judgement of the KEK

The basis for the computation of power over opinion-formation is, as noted above, the share of viewing of national television, plus equivalents in related media markets, minus bonus points for television programmes originating from other broadcasters that are independent of the proposed merged group. The national television channels under its control and their shares of viewing are as follows:

Table 2. ProSiebenSat.1 Media AG Channels: Audience Shares August 2004-July 2005

SAT.1	10.60
ProSieben	6.85
Kabel 1	3.88
N24	0.53
9Live	0.20
Total	22.06

Note: The share is the annual average, 7 days/week, 'round the clock, for viewers from age 3 and up, in all television households in Germany. Data cited by the KEK (2006: 84). The original source is GfK-Fernsehpanel (national TV ratings).

The market share is a little lower than the share of the biggest commercial competitor, the RTL-Gruppe, with 25.43 per cent, and half of the combined share of public television, 44.06 per cent. However, considering the significant position in the television advertising market of ProSiebenSat.1 and the position of Springer AG in related media markets, the KEK extended its review to include other related media which would come under the editorial control of the new merged company: the newspaper market (national); TV magazines (national); other popular press; online services. As for precedent, the KEK refers to consecutive decisions by the Constitutional Court, which over the years has given guidelines and conditions for this procedure.

The total newspaper market, subscribed and sold, weekdays and Sundays, are to be included. The KEK then looks at the different sources of data on the penetration of German newspapers in the population. There exist different measures from various sources, but circulation is the base for KEK calculations. Furthermore, the three criteria of suggestive power, penetration and topicality are considered. The KEK finds it "appropriate" (*angemessen*) to assign newspapers two-thirds of the power of influence of television (KEK 2006: 90).

In the national newspaper market the share of Springer AG is 76 per cent (circulation); for regional and tabloid papers it is 26 per cent. Especially the position of *Bild-Zeitung* gives Springer AG a unique position in Germany (its 11.8 million copies weekdays and 10.5 million Sundays reach almost 20 per cent of the population). It therefore has a great potential of influencing opinions in the country. The total German newspaper market share controlled by Springer AG is estimated by the KEK to be 26 per cent. Transposed into

television viewing equivalents, this corresponds to a 17-per cent market share with respect to the power to influence opinion-formation.

The next print market looked at, TV magazines, is a medium of significance in Germany. It has high circulation and these magazines are highly relevant to broadcasting for several reasons, not least because they cross-promote television channels and their programmes. The KEK estimated that their equivalence in terms of TV viewing shares using the three criteria for determining opinion formation is one-seventh of television. Springer AG controls 29 per cent of the total circulation on this market, and the opinion power equivalent was put at around 4 per cent of national television viewing.

The position of Springer AG in the market for other magazines is weak. Assigned an opinion power value of one-tenth of television viewing, a market share of 8.16 per cent of the magazine market translates into a TV viewing equivalent of less than 1 per cent. The free sheets market and radio broadcasting do not add any power over opinion to the company.

The market for on-line services, finally, was still relatively small, but growing, in Germany in 2004. It is also a very differentiated and diverse market. All of Springer AG/ProSiebenSat.1 on-line activities accounted for less than 6 per cent of web pages downloaded by the German population. Assigned a value of 0.5 of television viewing, the group's online involvement yielded an additional 3 per cent.

Thus, in toto the merged entity would have a combined power over opinion-formation corresponding to a 47-per cent share of annual television viewing. From this amount should be deducted some regional window programmes and network slots (*Drittfensterprogramme*) outsourced to other broadcasters, which the KEK assigned the maximum value of 5 per cent. The net total, 42 per cent, is well above the 30 per cent given as the level above which a company's influence over opinion-formation is to be presumed to be potentially dangerous.

KEK's Summary of the Evidence at Hand

Were the merger to be allowed, the new media group would gain a degree of power over opinion-formation in Germany that would correspond to a 42 per cent share of national TV viewing. The other dominant private broadcasting group, RTL (25.4% of annual viewing) is on a par with ProSiebenSat.1 but does not match the Springer AG position in related media markets.

The KEK looked at what might be done to reduce the combined opinion power of the merged group and facilitate approval of the merger. One of the two bigger national channels in the group might be divested, for example. Springer AG had, however, informed the authorities that this was not an option for them. Another alternative considered by the KEK in accordance with the Constitutional Court guidelines was a guarantee of editorial independence from Springer AG for programmes on one of the national channels (*“binnenplurale*

Ausgestaltung eines grossen Senders”). Neither was such an arrangement an option for Springer AG. A third alternative, in accordance with a stipulation of the Interstate Broadcasting Treaty, might be to introduce autonomous programming advisory boards (*Programbeirat*) as a means to increase the potential for more pluralism. The KEK notes, however, that the number of percentage points allowed by the Treaty for such arrangements (should they be accepted as genuinely autonomous from Springer AG final control) would be too small to make any difference in this merger case.

An alternative that Springer AG had proposed to the Competition Authority was to sell off controlling positions in the markets for TV magazines, other magazines and radio. The Authority, however, found the alternative insufficient in its own evaluation of the case.

In its determination the KEK found that all the facts of this merger case that had been put on the table indicated that the level of presumed “predominant power over opinion-formation” of a combined Springer AG/ProSiebenSat.1 would be above the level prescribed by the Constitutional Court. The KEK iterated the precautionary principle: Once allowed to increase, it is difficult to reduce the level of *Meinungsmacht* in an efficient manner through public intervention. Such ex post changes would also be very problematic to formulate.

Springer's Appeal

Springer appealed the decision to the Bavarian administrative court, Bayerische Verwaltungsgerecht, on the grounds that KEK had assigned too much importance to Springer's influence on related media markets.

Springer likened the calculation of *Meinungsmacht* in different media markets to ‘comparing apples and pears’. There is no logic to the so-called equivalents, Springer contended, and theoretically, a number higher than 100 per cent could be achieved. The Bavarian court said that lawmakers have agreed that television is the most important medium for influencing public opinion and have chosen the share of television viewing as the parameter to use. Use of other media, expressed as TV viewing equivalents, is to be perceived as a guideline, an indicator of potential *Meinungsmacht*, not as scientific equivalents (Bayerisches Verwaltungsgericht 2007).

Springer also complained that its influence on related media markets was given such a high score, when the proposed new company did not even reach the lower limit (20%) for scrutiny by KEK, but only 17.1 per cent after deduction of so called bonus points (ProSiebenSat.1 opens its channels for other broadcasters in certain regional and other programmes). The complaint was rebutted. The court said that the law called for KEK to review the situation in specified related media markets if a broadcaster reaches a share of more than 20 per cent of all television viewing. The procedure to be followed by KEK and the evaluation of the result is decided in the law and is not to be questioned by the court (Bayerisches Verwaltungsgericht... 2007).

The appeal was dismissed. The court found that KEK had neither exceeded nor neglected what it is obliged to do, and had correctly used the stipulations and guidelines in the Interstate Broadcasting Treaty.

Discussion

Although the merger case presented in this chapter involved two private companies with most of their activities inside Germany only, it is of interest even outside Germany, for several reasons.

In the context of the theme of this book, the case is interesting because Germany has a detailed regulation providing for public supervision and intervention into the private broadcasting industry to protect pluralism. Secondly, the very fact that the proposed acquisition was denied by two separate authorities makes the case interesting. In the case of the KEK, which was established in agreement by all states in Germany on January 1, 1997, the decision was, furthermore, their first refusal ever of a change in shareholder structure. The principles invoked and the empirical evidence used are therefore of interest as precedents.

The proposed deal itself is of interest outside Germany. ProSiebenSat.1 is also very active in Austria and Switzerland. For people in the Nordic region and the Netherlands the case concerned an actor which in 2007, after the merger deal was stopped in Germany, acquired the SBS Broadcasting Group, with television (FTA and pay-TV) and radio activities in all the Nordic countries (as well as in other European countries).

Fifth, the normal procedure for reviews of mergers and acquisitions is to look at the consequences for each individual market separately. In the Springer-ProSiebenSat.1 case, potential effects *across* media markets weighed significantly in the outcome.

Finally, if allowed, the proposed new media enterprise might have implications in other EU member states, as the new company would be in a position to challenge the positions of all other media giants in Europe.

Criticism

The decision of the Competition Authority met with considerable criticism. The former chairman of the German government's Monopoly Commission, Wernhard Möschel, questioned the competence of a relatively newly recruited staff at the Authority. Möschel termed the decision a "mechanistic application of the law" (*mechanistische Rechtsanwendung*) without any consideration for "competitive realities" (*wettbewerbliche Realität*). International groups active in the German market would gain advantages, Möschel added (*Der Tagesspiegel* 25 Jan 2006).

Another issue was the market situation of newspapers: their circulation is decreasing, and so is their share of advertising investments. But the authori-

ties apparently understand nothing of that, observed Florian Leinauer, a media analyst. Their perception of crossmedia advantages within the Springer conglomerate was exaggerated, Leinauer added. Others pointed to the political dimension of the decision. This transaction is the kind of thing politicians don't like, media power is something they do not enjoy, said Oliver Spiller, a press expert (*W&V* 24 Nov 2005).

Other criticism stressed the handicap a German firm suffers in competition with foreign rivals, since it must be evaluated by the authorities. 'National champions' in other countries are not stopped by bureaucrats, instead they are promoted. A new industrial policy/competition concept should be brought into the Federal government, said Bavarian CSU leader Edmund Stoiber (*Frankfurter Allgemeine Zeitung* 5 Feb 2006).

The Competition Authority's standing answer to these accusations of creating unnecessary obstacles to keep German companies from merging at will was: What about the damage to the consumer? Manfred Neumann, Professor of International Business at the University of Bonn and member of the scientific advisory board to the Federal Ministry of Business and Technology, lamented that the need for order in markets and for an effective competition policy has fewer and fewer supporters. Populists dominate the debate, where instead expertise is needed, Neumann told *Frankfurter Allgemeine Zeitung* (5 February 2006).

The parameter, annual share of television viewing, condensed to one precise percentage, has been much debated in Germany. It should be noted, however, that it is not a question of one magic threshold level, but rather a procedure to follow when the level lies in an interval between two points. In their review of the viewing parameter, Schulz and Held (2006), for example, suggest that the measure could be further refined by, for example, differentiating between viewing of different content and channels, by different age groups, in different seasons, etc. Another suggestion that has been raised is that more than free-to-air channels be tallied. Viewing of pay-TV is becoming more and more common and is considered as normal as watching free television (Hasebrink 2001).

In its decision in the Springer case the KEK itself briefly discusses the use of the "share of national TV viewing" measure. It is a blunt instrument, the chief advantage of which is that it is concrete and simple to deduce. But the measure does not reflect variations between different audience groups or variations in the use of different genres of programmes. It makes no distinction between transmission platforms, forms of access (free TV vs pay-TV) or seasons. Nor does it take into consideration editorial conditions or editorial autonomy; full influence over content is considered the norm by an owner with more than 50-per cent ownership.

Different parameters can be, and are, used to define too much concentration in media markets and in the television market in particular. In the USA, in broadcast television no single owner is allowed to *reach* more than 40 per cent of the national audience. There are also certain limits to cross-ownership between newspapers and television stations. In Italy, the defining measure of influence

is the share of total *advertising revenues* in the media markets. In France, there is a limit to the number of national *television channels* that can be controlled by one owner. And in Germany, the operational measure is share of television viewing of national broadcasts under the control of one broadcaster.

In sum, the German model of regulating pluralism and protection against unwanted concentration of influence over public opinion provides some interesting lessons for other countries trying to achieve the same goal.

Among the problematic aspects are the risk of tunnel vision and the problem of keeping pace with technological innovation. Over the years, guidelines on how to measure the degree of influence over opinion formation (by way of market shares based on television viewing) have become more detailed and elaborate. Still more along this line could come. It has been discussed whether more refined data on television viewing should be used, and whether it is time to include encrypted broadcast viewing.

Broadcasting is a historical model for disseminating television and video content which, as far as we can judge, will be replaced by other forms of distribution and use. Internet will grow as a platform where content is accessed, and new modes of interaction will evolve. It is unclear how this will be incorporated into today's model based on viewing of one-way television.

Another aspect of the model is the dichotomous "all-or-nothing" way it ascribes editorial influence and control through direct ownership. KEK attributed full control of Springer AG in media enterprises where they own more than 50 per cent of the voting power, no control under that level. This is not the place to discuss a very big and complicated issue. Another perspective, however, is the way the UK regulatory body, the Competition Commission, judged BSkyB's move to extend its share in ITV, BSkyB's main commercial television competitor in Great Britain, to 17.9 per cent. The Commission recommended (Competition Commission 2007) that this not be allowed, on the grounds that under certain circumstances BSkyB might block decisions by the ITV, which might have editorial repercussions and thus weaken the competition between the two. In January 2008 the Secretary of State for Business, Enterprise & Regulatory Reform, acting on the advice of the Competition Commission, the Office of Fair Trading and Ofcom among others, found the acquisition adverse to the public interest and required BSkyB to divest its holdings in ITV down to a maximum level of 7.5 per cent of shares (BERR 2008).

Among the strengths of the German model must be reckoned the way different actors are involved. The Constitutional Court defines pluralism as an important feature worth defending and outlines the process to be used to measure it. The states decide the boundaries within which special caution should be observed and when intervention is politically justified. The principle of precaution is important. It is normal procedure to pass judgement only after the evidence is in. To prevent something from happening, to stop a threat to a value deemed important to society is different and requires resolution and civic strength. To prevent a media merger by regulation is possible, to prescribe how media firms should behave in the future is not.

Obviously, it is difficult to draw conclusions for other markets from the case reported here. Among the Nordic countries only Norway has anything similar to the German institutional setup (see Chapter 6). The other Nordic countries seem to have relied on consultation and negotiation in individual cases – with varying success in terms of limiting the ongoing process of concentration of ownership in the media sector.

Notes

1. As it turned out, when Springer AG gave up the deal, the owners of ProSiebenSat.1 sold it to a consortium controlled by American venture capitalists; the closest contender was a Turkish media group.
2. The documents of the Competition Authority may be accessed via <http://www.bmwi.de/>; the law that defines the scope of its competence is available in English at http://www.bundeskartellamt.de/wEnglisch/download/pdf/06_GWB_7_Novelle_e.pdf. The KEK's web address is <http://www.kek-online.de>; the KEK decision in the Springer case (in German) may be accessed via <http://www.agof.de>.
3. Interested readers will find detailed information on radio, ownership structure and listening in Basisdaten, MediaPerspektiven, annual reports.
4. Berlin and Brandenburg and Hamburg and Schleswig-Holstein share authorities.
5. For an unofficial English translation of the Treaty (Version 9, March 2007) see the Association of State Media Authorities, ALM, website: www.alm.de/fileadmin/Englisch/9_RAESTV_Englisch.pdf. (Version 9 is the most recent version that has been translated in extenso.)
6. Up to 2008, three summaries are available in English: Securing diversity of opinion against media concentration (2000); Ensuring plurality of opinion in times of major change (2003); Cross-media relations: a challenge for media concentration (2007). All are at <http://www.kek-online.de>.
7. How this procedure is to be carried out is set out in the Broadcasting Treaty, §26, para 2 (Version 9). Such programmes are assigned a significant importance in the treaty as they add to the “diversity of views” when they are controlled by separate licensees. Up to two percentage points (of TV viewing share) can be deducted for regional windows broadcast totally under separate control, and up to three percentage points can be deducted for outsourced programmes.
8. Fixed ‘translation rates’ for media shares between newspapers, magazines and other media have been established using the television audience as the benchmark: newspaper readership counts as 0.67 of the television figures (share of viewing time), magazines as 0.10, radio as 0.50, TV magazines as 0.14, on-line activity as 0.50, etc. In other words, a set of TV-viewing equivalents of media market shares.

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Chapter 10

A Pragmatic Approach to Government Intervention *The Case of Swedish TV4*

Sune Tjernström

While many governments in Europe have tried to bar or limit concentration of media ownership through legislation, successive Swedish governments have tried to influence media ownership by a more pragmatic approach, namely, through negotiations with media companies and groups of investors in the media business. The issue raised in this article is: Do such negotiations work? Looking at the experience of negotiations around ownership of the first commercial television channel in the Swedish media market, TV4, the answer is negative. This case study of attempts at government intervention supports this observation.

To begin with, let us define our terms.

Media concentration implies that the supply of media is dominated by few, rather than many different owners (Doyle 2002). Media concentration is measured in terms of the degree of influence that a limited number of owners/business groups exert over the media; often, the “weight” of four (CR4) or eight publishers (CR8) is estimated (Stuhlfaut 2005). Measurements can involve one sector at a time or refer to the total influence over many media sectors. Since the study’s focus is on rules concerning *ownership* of a television company; this study does not consider diversity of output (Aslama et al 2004). This is done in full awareness of the possible impact that more concentrated media ownership may have on socio-political and cultural pluralism.

Media policy is often defined as what the government does in the media sector (Østbye 1997, Nord 2008). Others define media policy in terms of the many actors that influence goals, means and time schedules for government projects (Hutchison 1999). Media policy may also be seen as an effort to protect national culture versus economic logic (Siune 1998). In this paper, media policy is seen as the interaction between the pursuit of national interests by states and the operation of commercial enterprises (van Cuilenberg and McQuail 2003, 182). Media policy, then, is what comes out as the result of initiatives by both these main actors, the government *and* business interests.

Sticking to the traditional definition of media policy, the intentions of political parties or of the government, is like looking at a hockey game and defining the

game in terms of the tactics and actions of only one of the competing teams. Media policy is made by everybody in the rink, by both teams; it is influenced by the referee and, to some extent, the spectators. This single team-focus – to see media policy in terms of party or government documents – is apparently the default mode of political scientists, who fail to understand that the fundamental media policy decision in many countries has been to let developments in the marketplace determine the outcome in the media sector. Nord (2008) is an example of this way of defining media policy in terms of party documents, not in terms of the outcome of interaction between different actors. His book is also an exponent of the notion that media policy should be “coherent”, and that media policy should be based on pre-determined “central economic, social and political goals” and involve “penetrating analysis and coherent strategy” rather than “temporary and precipitous decision-making” (Nord 2008:275f) – rhetoric that echoes the strategic planning era of the 1980s. In an environment where media policy is played simultaneously by governments and corporate players, a more flexible approach is likely to be needed.

Theory

From a government perspective, combatting media concentration is a long-standing issue in media policy. These policies try to prevent any single owner from controlling too large a slice of the media pie, because it is widely assumed that the diversity of media ownership is closely related to political pluralism, which affects the exercise of both political and economic power. Another reason to avoid concentration of ownership is the desire for cultural and political pluralism, needed to reflect the diversity within society in the media (Doyle 2002). The main perceived danger is that media ownership in too few hands may lead to an over-emphasis on some political viewpoints or values or certain forms of cultural output, and the suppression of others. Special media ownership rules, which exist in all major media markets, are therefore needed to provide the safeguards necessary to maintain diversity and plurality (Hutchison 1999, 41). The relationship between media concentration and pluralism is, however, complex and may be affected by a number of issues (Doyle 2002).

Van Cuilenberg and McQuail (2003) specifically address the issue of concentration of media ownership. Governments came to feel compelled to sacrifice monopoly to create space for new competitors in the media marketplace. Countries with market-Liberal leanings took the lead by introducing competition into broadcast television via privately owned cable systems. On the European level, competition rules became the instrument by which the market should be regulated, governments and the Commission should cooperate in breaking up private or public monopolies.

Commercial media companies have historically opposed all such regulations, arguing that such policies are harmful to a public that is best served by for-profit businesses operating in line with audience desires. In the USA, a deregulatory

approach, based on the market assumption that 'supply and demand' is the only appropriate way to evaluate the public interest has been under way for a long time; policies limiting ownership of radio and television stations were relaxed in the 1980s, and more was to come in the 1990s. The spectacular mergers, such as Disney's purchase of ABC from Capital Cities, raised serious concerns about media consolidation and the relationship between media and society (Croteau and Hoynes 2001). Media ownership rules, where they still exist, ensure a reasonable diversity of commercial players and try to promote a diverse system of media provision.

In Europe, for a long time there was one national television channel in each country. Television was believed to have great power and was closely guarded and highly regulated. Public service responsibilities were linked to nationwide television (Siune and Hultén 1998). Television was seen as an instrument of a unified national cultural project bringing the same high-quality programs to everybody in the country (Hultén 1995). Today, everything is different: there are several channels in each country, some public and some private, and viewers can choose from an abundance of channels via satellite and cable. The definition of public service has undergone changes, and a variety of hybrid channels¹ has emerged. But because these compete with other commercial channels for advertising funds, their logic is essentially commercial.

Government policy-makers are confronted with new problems: globalization imposes constraints on the economic power of governments, and advances in technology challenge their regulatory authority. Governments can regulate domestic media, and they may to some extent regulate organizations that operate outside their immediate jurisdiction (Hutchison 1999: 65).

The Swedish dissolution of the Swedish public service monopoly was hardly based on a new belief in the virtues of the marketplace. It was forced on the government by technological and economic developments. The new commercial channel, the only commercial channel to occupy a frequency on the analog terrestrial network, was to be highly regulated, and it was hoped that this tight regulation would create a new third public service channel, financed by advertising, but behaving much like the old monopoly. The idea was that the commercial broadcaster would contribute a much more socially inclusive public sphere than was possible under the public service monopoly, a public sphere where ideas are contested, and the activities of holders of power are subjected to scrutiny from a number of perspectives. The presence in the market of the commercial broadcaster affected the existing public service broadcaster in many, very concrete ways, among them competition for viewers and higher salaries/prices for creative staff and purchased programs (Tjernström 1999).

The Case of TV4

Ownership Issues in the New 'Dual' Television Market

In the summer of 1991, political negotiations had finally arrived at a system whereby the Swedish public service broadcaster, Sveriges Television (SVT), would remain financed without advertising, and a new private corporation would have a monopoly on advertising in nationwide television, with about 98-per cent household coverage. A parliamentary committee (TV-beredningen) negotiated directly with the applicants. After a preliminary round, two candidates remained: TV4 (founded only the year before and dominated by the Wallenberg group – Sweden's most influential industrial group) and M3 (owned by the Stenbeck group, which already owned TV3, established in 1988 and distributed by satellite and cable from London to circumvent Swedish regulations).

In the comparison of the two alternatives, three issues were crucial: the issue of financial strength, the location of the head office, and the distribution of ownership. M3 seemed financially stronger and had more strength in the area of programming (TV4 had accumulated losses of some SEK 859 million²). M3 declared that they were willing to establish production facilities outside the capital, in Göteborg and Malmö, whereas the group behind TV4 made no commitments in this regard. Finally, the M3 alternative involved a minimum of 80 per cent Swedish ownership, whereas the TV4 alternative was based on some 40 per cent foreign ownership (two Swiss companies would be co-financing the project) (Nord 2008: 217).

During the negotiations, a parliamentary election resulted in a non-socialist coalition government. The previous Social Democratic government favored M3, the Stenbeck alternative. The new government were not agreed on the fate of the new channel. Some preferred the TV4 alternative, some wanted further negotiations (Nord 2008: 218f).

In the end, the two competitors for the new television channel seem to have decided that they would both be better off if they cooperated around the project. A similar solution gained popularity among the Ministry officials at the negotiating table, and the politicians involved in contacts with the commercial parties (Nord 2008: 221ff).

Stenbeck finalized a deal whereby his group acquired 30 per cent of TV4 and became the biggest shareholder. At the same time, the group was sole owner of Airtime, the company that would sell advertising time to TV4 and TV3, the London-based Stenbeck channel. The Stenbeck group then withdrew its application, leaving TV4 the sole applicant. Thus, TV4 was given the right to broadcast over the terrestrial net, with a virtual monopoly on television advertising. The head office was already established in Stockholm and grew quickly to take on the new responsibilities.

Ownership of the new channel was spread nicely among several groups – the Wallenberg group and the Stenbeck group together owned some 55 per cent. Other groups held 45 per cent.

Public Flotation by TV4

Details of the first public flotation by a Swedish television company were announced in March 1994, when TV4 published the prospectus for a SEK 400 million issue of a 20-per cent share of the company. The 4 million shares were priced at SEK 100 each, and TV4 hoped to attract 35,000 new investors. The company was listed in Stockholm.

At the time of the flotation, TV4's biggest shareholder (about 30%) was the Swedish company, Kinnevik (the Stenbeck group), which also controlled TV3. Investor, the main investment vehicle of the Wallenberg family, held 25 per cent.

After an initial period on the Observation list the share was introduced on the regular 'A-list', among Sweden's biggest industrial firms. Shortly thereafter, Fidelity Investments, an American fund, joined the roster of owners.

In 1997, Investor sold its share in TV4 to two Finnish companies – Aamulehti, a press-based media group, and MTV, Finland's largest commercial television channel, for € 79 million.

The sale marked a strategic shift for Investor, which up to that point had had media as one of its favored growth sectors and had increased its stake in TV4 as recently as the year before. Now, Investor CEO Claes Dahlbäck suggested the group lacked the "deep knowledge and commitment" necessary to succeed in the sector.

Meanwhile, Swedish Minister of Culture Marita Ulvskog expressed fears that the sale of TV4 would increase concentration of media ownership in Sweden inasmuch as Aamulehti was to 28-per cent owned by Marieberg, which in turn was almost wholly owned by Bonnier, originally a family-owned publisher, now the country's principal media group – still family-owned. After the sale Marieberg controlled about 40 per cent of TV4. Ms. Ulvskog warned that the deal might possibly affect the renewal of the TV4 concession (FT 22 Oct 97). It seems, however, that her alternatives were limited.

By 2001, following some reshuffling of holding company structure, the principal owners of TV4 were the Bonnier group and the Finnish Alma Media group, owner of a large number of newspapers in Finland and owner of MTV3, the Finnish commercial television channel. Since the Bonnier group had large interests in Alma Media, the Bonnier group in fact controlled TV4 and made this clear by ousting the board members nominated by the Kinnevik-held MTG group, despite the fact that MTG, with 20 per cent of shares, was the third-largest holder. The reason Bonnier gave was rumors that Kinnevik was negotiating with SBS about a purchase of another commercial television channel, Kanal 5. Overnight MTG's holdings were turned into a so-called financial investment, which generally means that shares are for sale if the price is right (Afv 3 Apr 01). Jan Scherman, the TV4 CEO, encouraged MTG to sell their shares in TV4 (DN 3 Oct 03).

In May 2002, the MTG group sold 5 per cent of its shares to the Bonnier group, thereby signalling that it was ready to withdraw from TV4. It was a

complex financial deal that involved the Metro division of MTG and left MTG with a handsome capital gain (Afv 10 May 02). The inclusion of TV4 on MTG's cable network, Viasat, may have been part of the deal (SvD 10 Feb 05). MTG announced that it would sell all its shares in due time at the right price (Afv 13 May 02).

The Bonnier chairman, Bengt Braun, declared that the group was ready to consolidate TV4, i.e., make it a subsidiary. The move was not unprecedented. Alma Media had full control of MTV3 in Finland (Afv 22 May 02).

An Episode: TV3 Makes a Bid for the Concession

When the concession came up for renewal in 2004, TV3 and the MTG group made another bid for the contract, promising a regional news operation and accepting the high fee for terrestrial broadcasts (DN 14 Dec 04). TV3's bid was taken seriously and evaluated by the government, which lent TV3 an unprecedented degree of legitimacy. At the same time, their generosity at the negotiating table cost their competitor, TV4, a great deal of money, which, some suggest, may have been the whole idea. As expected by most observers, in December 2004, TV4 was finally granted a renewal of the concession (DN 22 Dec 04). The conditions were harsher than expected: the company was required to increase its regional broadcasts and cultural and children's programming (Afv 22 Dec 04). About SEK 400 million³ a year would be paid in fees for the right to broadcast via the terrestrial net in the last two years of its existence (all broadcasts would be digital in 2008) (Afv 29 Dec 04).

A Battle between Two Nordic Media Giants

In mid-June 2004 the Bonnier group learned that the Norwegian group Schibsted was buying shares in Alma Media, the Finnish bridgehead of the Bonnier media empire. Schibsted, Norway's biggest media group, raised its stake in TV4 to 20.1 per cent from 5 per cent in December and launched an unsolicited bid of € 705 million the same week for Finnish Alma Media, which in turn controlled 23.4 per cent of TV4 (DN 21 Dec 04). Alma shares rose by 30 per cent. Schibsted's intentions were soon made public: by gaining control of the major Finnish evening paper, the Norwegian group would create a Nordic group of evening papers, since they already owned one Norwegian and one Swedish evening paper (DN 21 Dec 04). Alma-owned *Aamulehti*, a major Finnish morning paper, would be sold to "Finnish investors".

Schibsted's bid, offering a 30 per cent premium on Alma Media stock and sound long-term value, had to be accepted by more than one-third of Alma Media shareholders, among them Bonnier, which controlled 33 per cent of Alma Media (FT 23 Dec 04).

Schibsted was the Number One media group in Norway, owning major newspapers and 33 per cent of the Norwegian commercial channel, TV2. The group was already present in the Swedish media market, with *Svenska Dag-*

bladet, a Conservative-leaning morning paper in the capital, and Left-leaning *Aftonbladet*, the country's largest evening paper. (*Aftonbladet* had been acquired from the Swedish Federation of Labor and a continued Left-leaning editorial policy was part of the deal.)

The Bonnier group had for a long time owned 33 per cent in Alma Media, just below the percentage of shares beyond which Bonnier would be forced to tender a bid to all shareholders. The Bonnier group was the biggest shareholder in Alma Media, which was strategically vital to them. More than half of Bonnier's TV4-shares were held by Alma, and Alma also owned 100 per cent of TV4's Finnish counterpart, MTV3. Thus, Alma Media was the key to power over two of the most important television channels in Scandinavia. Remaining ownership in Alma was distributed among a number of institutions, but 30 per cent of these shares were in the hands of six insurance companies, whose executives would fit into the same sauna.

In September 2004, Schibsted bought a substantial number of shares in TV4 and became a new owner in the Swedish hybrid channel, leaving for the time being the Bonnier group in a controlling position (Afv 15 Sep 04). The seller was Fidelity Investments (DN 16 Dec 04). The move was seen by the Bonnier family as a provocation (SvD 26 Jan 05). As Schibsted controlled the Norwegian counterpart, TV2, its pan-Scandinavian ambitions were quite apparent.

In January of 2005, Schibsted bought an option for an additional 5.9 per cent in TV4, stepping up its campaign to wrest control of Sweden's largest commercial channel from Bonnier. Schibsted bought the option from LRF, the Swedish agricultural union, which had been a member of the original consortium behind TV4. If exercised, the option would take Schibsted's stake to 26 per cent (FT 4 Jan 05). The Stockholm Stock Exchange placed the share on its Observation list, since the four largest owners now owned more than 75 per cent, which disqualifies a company from the regular list (DN 17 Dec 04). Interest in the Schibsted shares soared (SvD 7 Feb 05).

Both Bonnier and Schibsted had aggressively moved to expand their media businesses in the Nordic region. We were obviously witnessing a war between two media giants, each of which was intent on controlling commercial television in Scandinavia. The four target companies were:

- TV4 of Sweden
- TV2 of Norway
- TV2 of Denmark
- MTV3 of Finland.

The four commercial/public service channels were very much alike, culturally and economically, and played leading roles in the respective television markets. Together their audiences amounted to about one-third of the population of the four countries; their turnover was slightly more than € 800 million. Profitability varied, the average profit margin was some 5% in 2003, an extremely weak year

in terms of advertising volumes. Synergies were expected from joint ownership of all four (Afv 5 Oct 04 and 6 Oct 04). Not all observers were ready to put figures on these synergies.

Simultaneously, TV4 entered an alliance with the Danish media group, Berlingske, to make a bid for the Danish TV 2 that was about to be privatized. (The Danish government had put 50 per cent of the shares up for sale.) One of the bidders for Danish TV 2 was the Bonnier group, which now withdrew to make room for TV4 and Berlingske (DN 21 Feb 05). The bidder with the lowest odds at this stage seemed to be a Danish consortium of newspaper and magazine publishers (Politiken, Jyllands-Posten and Egmont). Egmont owned one-third of Norwegian TV2, alongside Schibsted, making it an interesting Nordic player.

Clearly, a pan-Scandinavian vision was alive among the major media actors (Afv 041110). Schibsted, which had extensive newspaper interests in Norway and Sweden, hoped to build a pan-Nordic television platform, providing the opportunity to co-operate across all four wealthy, but comparatively small European markets. Despite the increasing penetration of satellite and cable channels and broadband networks, the terrestrial broadcasters are attractive objects by virtue of their strong established brands and market shares (FT 25 Jan 05).

These moves by Schibsted were challenged by Bonnier, the largest shareholder in both Alma Media and TV4. Bonnier controlled 33 per cent of Alma Media (with 23.4 % of TV4). In addition to that stake Bonnier held 27.7 per cent directly.

The powerful Bonnier group is not easily challenged on its home turf. The group had some surprises up its sleeves. There seemed now to be two keys to control over TV4. One was the 15-per cent share still held by MTG/Kinnevik, which could be seen as the immediate key to control over TV4, the other was control of Alma Media.

A new actor appeared on the scene when Proventus, a Swedish investment group that specializes in restructuring companies with strong brands, appeared to have stymied the Schibsted campaign (FT 25 Jan 05). Proventus announced that it had purchased the Kinnevik shares, at a considerable premium, making it one of the major shareholders (Afv 7 Jan 05). The CEO of Proventus announced that it was a long-term investment and that an immediate sale (to Schibsted or Bonnier) was out of the question. He said he believed TV4 was a leading player in the restructuring and other changes that the television would undergo in the near future (Afv 7 Jan 05). Proventus also acquired some 8 per cent of shares and 15 per cent of votes in Alma Media from the Finnish insurance companies, Suomi, Pohjola, and Ilmarinen (Afv 10 Jan 05, SvD 10 Jan 05).

The restructuring of the television market was immediate. Only weeks later, Bonnier and its partner Proventus agreed to pay € 460 million for the broadcasting assets of Finland's Alma Media, thereby thwarting once and for all Schibsted's plans to build a pan-Nordic commercial television group (FT 25 Jan 05). The object in question included the previously mentioned MTV3, a majority in the Finnish radio station, Radio Nova, and 23.4 per cent of Swedish

TV4 shares. The battle over TV4 was finished – this time around. The Bonnier group seemed to have gained control over Swedish commercial television. Bonnier's and Proventus' combined ownership in TV4 would amount to 66 per cent (Afv 24 Jan 05).

There were, however, still a couple of hurdles between Bonnier and victory. Almost immediately, Sweden's Minister of Culture, Leif Pagrotsky expressed his "disappointment" about the increased concentration of media ownership that Bonnier's move entailed. The Ministry would have to determine whether it perhaps breached TV4's concession agreement (FT 25 Jan 05). Another hurdle was the Stock Exchange. If there indeed was a "pact" between Bonnier and Proventus, they would be forced to offer all other shareholders the same price as they paid to gain control over the company. It was widely known that the owner of Proventus was a long-time friend of the Bonnier family, but the parties denied any such collusion (SvD 13 Jan 05).

Be that as it may, after a series of subsequent transactions, the Bonnier group now own and control 100 per cent of TV4.

Analysis

From the government's perspective, in terms of media concentration the composition of the consortium initially backing TV4 seemed nearly ideal. Five major owners with links to different financial, industrial and union sectors of society had invested in the new company.

The outcome of negotiations with the government in 1991 was in itself an increase in ownership concentration in the broadcasting market, since the Kinnevik group was in practice at the time the only industrial group that had previous interests in the television market (in TV3 and in satellite distribution). The major media group in the country, the Bonnier group, was absent from the negotiations, nor were other major Scandinavian players, such as Schibsted or the Sanoma group, present at the table.

The Kinnevik group entered into a near-monopoly situation, quite a successful result of a corporate strategy aimed at challenging state monopolies in various telecom markets. It was hardly surprising that Sweden's Price and Competition Office criticized the new ownership structure of TV4 for giving Mr. Stenbeck too strong a position in the burgeoning Swedish television advertising market (FT, 1 Nov 91).

The Kinnevik group was not a particularly legitimate owner of the private television channel; the company showed little willingness to maintain the serious programming profile outlined by the original TV4 entrepreneurs and pledged by the original consortium.

The Swedish government's room for maneuver when it came to influencing ownership concentration was limited, given their wish to achieve several goals at the same time: widespread ownership, previous experience in television, and financial strength.

The listing of TV4 on the Stock Exchange was neutral in terms of media concentration. It could mean either a further spread in ownership or increased concentration. It opened the way, however, for corporate initiatives from other players. One of these initiatives was the early exit of the Wallenberg group, another was the increased holdings of the Bonnier group, directly and indirectly. The government could hardly force an industrial group like Wallenberg to maintain ownership in a venture that was no longer in their strategic focus.

From a media concentration perspective, Bonnier's control over TV4 demonstrated that despite the government's ambitions, "might made right". Throwing out MTG's board members seems to have been a commercially justified move, but it made it clear to a larger audience that Bonnier was calling the shots.

The Bonnier group was not the ideal owner of TV4, as the government saw it. The famously single-minded Bonnier chairman, Mr. Braun, did not give much hope for the future in terms of limits on media concentration. But there was little the government could do.

Awarding TV3 the concession at the renewal juncture would have reduced the number of actors in the Swedish television market. Bonnier, which controlled TV4, would have seen their position marginalized, and the MTG group would have enjoyed an undisputed leading role in commercial television.

Had Schibsted won the Nordic battle, control of TV4 would have passed from one media giant to another, from Bonnier to Schibsted, which would not have made much difference in terms of concentration in a broader perspective. But, given Schibsted's limited presence in Sweden, the government may have seen the ownership change as a slight advantage.

In terms of media concentration, Bonnier's victory meant rather little. TV4 was already more or less in the hands of the Bonnier group. Bonnier and Proventus increased their control over Finnish commercial television, but retreated from the Finnish regional press. In the Swedish media market, there were now two major domestic owners in control of TV4. Whether this was in line with the 'limited ownership concentration' clause of the concession agreement remained an open question and had to be settled by the Minister of Culture. There were pros and cons: on the one hand, in terms of control over TV4, nothing had changed; the Bonnier group continued to dominate. On the other hand, two owners – obviously in some sort of partnership – went from modest (albeit controlling) ownership, with another Swedish media giant and a Finnish media group on board as a sort of counterbalancing ballast, to a situation where the two owned 66 per cent of the company. Such a development could not help but be provocative in laymen's eyes.

Discussion

Media concentration policy has been a concern for governments for decades, and extending attempts to limit ownership consolidation to the new commercial television market may have seemed natural from a political perspective (and

feasible) as the first consortium was applying for the license. We have seen that these attempts were in the end not very successful, as the biggest media group in the country finally secured controlling interests, together with what appeared to be a partner. The idea that media policy should not be understood exclusively in terms of government measures finds support; media policy and resulting states of affairs seem to be better understood in terms of the interaction of government ambitions and corporate strategies, where the latter often seem to dominate the outcomes.

The case also deals yet another blow to government/business negotiations as an alternative way to enforce a media concentration policy. As long as the government had something valuable to offer, it could influence developments in the commercial television sector – in the beginning of this story the government controlled the terrestrial distribution system, hard currency in negotiations with business. As technical developments made terrestrial distribution less attractive, the government's sphere of influence was severely limited. In the end, the government had no muscle whatsoever in the media ownership concentration game. Business interests prevailed, or the logic of the market, if you will.

Might the Norwegian (and German) models for government intervention have been more successful in curbing media ownership concentration? It is difficult to say, since commercial actors may have chosen different strategies, had a Swedish media law on ownership concentration been in force. Here there were few limits on the commercial actors, and the government was in the end left without room for maneuver. The largest Swedish media group was able to add yet another media sector to its empire. In Norway, the biggest commercial actor was initially denied a merger with three regional newspapers it already cooperated with and partly owned; after that decision was overthrown, the corporate interests seemed to have their way again. However, even in this new situation, a government body was present to negotiate and to influence decisions.

The Swedish pragmatic approach to curbing media ownership concentration seems to have failed. In these days of chaos, following deregulation of financial markets, it is natural to look to government as a balancing force in relation to media groups rather than as a “curling Mom” for big business.

C. Edwin Baker's approach, setting a conceptual backdrop against which an examination of pro-industry policies unfolds, is attractive, particularly his normative principle that “democratic concerns should be central in formulating legal policy relating to the press” (Baker 2007: 5). These dynamics are frequently obscured by corporate media's apologists⁴ – economists inspired by the Chicago School, who confuse profits and commoditized media with efficiency, while overlooking how making worthwhile media content is far different from selling toasters or bicycles.

Notes

1. "Hybrid" here refers to privately owned and commercially financed channels that assume responsibility for some public service duties and services.
2. The figure predates the Euro, but a fictive value would be on the order of €100 million.
3. From 2001 forward the crown's value in relation to the Euro has fluctuated between SEK 9.28 and 9.13. The two years in focus, 2004 and 2005, happen to mark the extremes: SEK 9.13 in 2004 and 9.28 in 2005 (annual averages).
4. See James E Tracy's review of Baker's book, *Media Concentration and Democracy*, in *European Journal of Communication* 23:2: 249-253.

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2005: 10 Feb, 21 Feb 05

Svenska Dagbladet (SvD; Stockholm)

2004: 20 Sep, 23 Dec, 28 Dec

2005: 8 Jan, 10 Jan, 11 Jan, 13 Jan, 14 Jan, 26 Jan, 31 Jan, 7 Feb, 10 Feb, 11 Feb, 12 Feb

Affärsvärlden, web edition (Afv)

2004: 3 Apr, 15 Sep, 5/6 Oct, 10 Nov, 14 Dec, 22 Dec, 23 Dec, 29 Dec

2005: 3 Jan, 7 Jan, 10/12 Jan, 11 Jan, 24 Jan, 1/7 Feb, 10 Feb, 13 Feb

Financial Times (FT, London)

1991: 1 Nov, 8 Nov

1994: 4 Mar

1997: 22 Oct

2004: 24 Dec

2005: 4 Jan, 10 Jan, 25 Jan 05

Chapter 11

The Balance of Power in Nordic Media

A Model in Decay?

Jens Cavallin

Sometimes discussions on media ownership sound like a debate about whether the earth is flat or round. Surprisingly many seem to hold that a media structure where only one, or very few control the market is not a problem in a democracy.

The immense *expansion* of electronic media distribution channels is overwhelming, although it remains to be seen whether the expansion of media supply and a proliferation of small media operators have affected the media *markets* controlled by wealthy corporations. The spokesmen of the shrinking circle of owners or controllers of media outlets in the press, publishing, broadcasting and “new media” often argue that the mere expansion of media supply safeguards the interests of all users, and, most important, that the advent of Internet opens up avenues for even the smallest of opinion groups.

This article takes the opposite view, in line with the analysis put forward by C. Edwin Baker (Baker 2007), arguing that this position is an illusion. At best it is an illusion rooted in the technical and quantitative progress in media distribution. In the more likely case it represents a deliberate *delusion*, serving to cover up concentration of power over media and its consequences for public discourse and political diversity in the media landscape.

The first part of this article offers a concise description of the structure and ownership of the media industry in the Nordic region. It updates a report on media mergers and concentration that was submitted to the Nordic Council of Ministers in 1992.¹ The second part is an assessment and discussion of the changes and trends observed since then. The chapter ends with a number of proposals for research and for political action.

Continuity and Change in the Nordic Media Landscape

In 1989, the Steering Group on Culture and Media of the Nordic Council of Ministers decided to study acquisitions of media companies and concentration of media ownership in Denmark, Finland, Iceland, Norway and Sweden. A report prepared by academics and ministry officers from the five countries

was submitted in 1992.² The media landscape in the Nordic region has since undergone major changes of ownership and other forms of control over cultural production. Numerous government committees have studied the subject. Every day, new mergers, subsidy modifications and new media operators come into play – data in this brief overview will thus quickly be outdated.

Geo-political changes in the Nordic and Baltic region after 1989, through the dissolution of the Soviet Union, the establishment of liberal democracies in Eastern and Central European countries, and these countries' adherence to the European Union and to NATO have dramatically changed the conditions of cultural production, including the media. Media developments in themselves contributed greatly to the political changes, breaking down barriers to information erected by authoritarian governments. Obviously, the changes also brought about an entirely new situation in the region, instituting freedom of expression inside the countries themselves, but also opening up markets for private investments and foreign ownership, which Nordic media owners have been quick to take advantage of.

The changes in the Nordic media landscape since the early 1990s might be roughly summarized under two headings, viz., *continuation of previous tendencies* and *new technology and structures*, respectively. It should be kept in mind that the media industries have gradually become more integrated into a larger sphere of cultural production and a global dynamics during this period.

Continuity

- Mergers and concentration of ownership within the press have continued, at the same or at an accelerated pace.
- The strong position of the subscribed daily press for political opinion formation prevails, despite slowly reduced circulation and a distinct generation gap: younger people do not subscribe to newspapers, and they read printed newspapers less.
- New owners have entered the broadcasting arena, which has rapidly been restructured through mergers and ownership transfers, nationally and internationally.
- Nordic media companies have formed alliances and/or expanded their activities abroad, within the Nordic region, in the Baltic states, and in Russia, Poland, and Germany.
- In all the countries except Norway, political bodies have reduced their roles in cultural production. "Neo-Liberal" approaches or "deregulation" have resulted in a reduction of public subsidies and the dissolution of public monopolies.
- Attempts at common European regulation against concentration of media ownership – a hot issue during most of the 1990s – have failed and are not likely to be revived.³

- Interventions to promote pluralism and competition in the media markets are left to national governments, although they are under growing pressure from EU restrictions on state support.

New Technology and Structures

- Since the mid-1990s, the *digital revolution* has developed Internet into a radically new means of distribution, a new mass media outlet, and a new instrument for interpersonal and interactive group communication, entertainment, information retrieval and storage, etc., etc. Great optimism is expressed for political pluralism, due to the diversity and lack of strong mechanisms of control on the Web and to new public fora such as YouTube, MySpace, and the “blogosphere”. Yet sceptical voices are also heard – from McChesney (1999)⁴ and Baker, i.a. – arguing that the power relations and market structures dominated by a shrinking number of economically and politically strong groups have not been altered by the advent of Internet.
- A new “*gift economy for news*” has drastically changed the role of the daily press for news distribution due to Internet and web versions of nearly all newspapers, albeit hard-copy print still dominates news distribution on the *local* level. In terms of credibility, however, the Internet still lags behind traditional newspapers, although blogs occasionally can be quite influential in connection with scandals and public affairs discussions. Bloggers also challenge established publishing rules and ethical norms in the printed press.
- The *free sheet daily* is another new constituent of the gift economy for news. This totally advertising-financed print medium has grown substantially in urban agglomerations, in the Nordic region in particular. These newspapers contain much journalistic material, but relatively little investigative journalism and comment. Free sheet daily newspapers are rarely profitable, and several have closed after incurring heavy losses.
- “Mediatization” is a label applied in politics, cultural production (including science, education, entertainment, art, religion) and perhaps society as a whole, to describe how media actors – both producers of “content” and “controllers”⁵, have gained growing influence over political processes and structures – at least according to a common view, represented by, for example, Pierre Bourdieu (1998)⁶.
- *Venture capital investors* have entered the Nordic markets, both in the press (Mecom), in broadcasting (ProSiebenSat.1), and in cable distribution of television (Carlyle Group, Providence Equity).
- The notion of “*experience economy*” has been introduced by Pine and Gilmore (1999) to characterize a transformation of post-industrial service economies in affluent societies. The term has gained considerable popular-

ity within research on cultural production, including the media. The basis of the experience economy is both media consumption, leisure activities, promotion of tourism and events. Digitisation has facilitated customisation of cultural production, thus slightly paradoxically changing the late phase of industrial development from standardisation towards individual variation.⁷

Pluralism and Concentration of Power in the Nordic Media Industries 1992-2008

Statistical data and overviews of the development of ownership and control of the major media in the Nordic region are regularly published by Nordicom. These data do not, however, normally cover media *content*: e.g., shares of various content categories, expressions of political affiliation, trends and loyalties. Understanding the consequences of concentration of media ownership and control is, however, linked to the roles media, and cultural production as a whole, play in public discourse, and in the “space of opinion”. The relationship between content and structural control is the principal issue at stake, whenever and wherever the role of media and cultural production in a democratic structure is debated.

To prove any precise systematic *connections* between structural changes and the space of opinion is, as far as representation of diversity of political opinion is concerned, a multi-faceted task. It involves evaluations of social and discursive spaces of expression, evaluations of the representation of diversities of ideological, philosophical or political attitudes, as well as evaluations of the actual exercise of control of cultural production by private, public or “civil society” actors. The EU project on criteria for measuring media pluralism, reported in June 2009 (Independent Study... 2009), is a courageous attempt to establish the basis for a common understanding of some of the factors to be monitored.

Monopoly of media production has quite different implications, depending on whether it is under public, democratic and transparent control, or is managed by a commercial actor or an organisation, such as a political party.

This complexity notwithstanding, the observations and comments on the data from the Nordic region summarized below have to be read against the backdrop of pluralism of ownership/control of media, taken in this study to be a cornerstone of democratic rule. There are other notions of diversity, perhaps adequate in their own context, but they are not considered here (see further Cavallin 1998).

Denmark

Press

Even before the 1970s, the daily press in Denmark was heavily monopolised, there being practically no external pluralism in the relevant markets in the sense

of competing media companies affiliated to diverse political points of view. Except in the capital and Denmark's second city, Aarhus, there is no commercial competition between different titles. This is a drastic change from an earlier era, when even rather small Danish towns might have four daily newspapers of diverse political hues. The decimation of titles has been continuous over the past forty years: of about 200 titles before World War II, thirty remain in the Danish press today.

There are few nationally distributed dailies, but the most remarkable change in the period is the metamorphosis of *Morgenavisen Jyllands-Posten*. Once a regional Aarhus daily, *J-P* now rivals *Politiken* as the national market leader. In 2003 the two companies merged, a transaction that also incorporated *Ekstrabladet*, an evening tabloid. The merger was notable in that *J-P* is right-wing, that is, close to the principal governing party, the Liberal Party (Venstre)⁸, whereas *Politiken* leans toward the Social-Liberal Party (Radikale Venstre), a traditional ally of the Social Democrats, and today often seconds standpoints close to the Social Democratic opposition.

As to partisan sympathies, centre or right-wing views predominate in the daily press. The only remaining Social Democratic daily, *Aktuelt*, closed in 2001, as the Federation of Danish Trade Unions (LO) withdrew its support. Two small independent Copenhagen dailies, *Information* (Centre-Left) and *Kristeligt Dagblad* (Christian, predominantly right-wing) both suffer recurrent economic difficulties. The second major Copenhagen daily, *Berlingske Tidende* (Conservative), and the evening tabloid *BT*, both nationally distributed, were purchased by the Norwegian media group *Orkla*, which in turn sold its media interests to the British venture capital corporation, *Mecom*. With the sale, the traditional advertising cooperation between *Berlingske* and *Politiken* was broken.

The Danish free (non-paid) press has traditionally been strong, especially Sunday editions. The Swedish (Stenbeck) free daily, *Metro Express*, launched in Copenhagen, was followed by three other free copy dailies, published by the Berlingske group, *J-P/Politiken*, and an Icelandic-Danish group, respectively. *Metro* recently merged with another of the Copenhagen free-sheets, and the third title, *Nyhedsavisen*, recently declared bankruptcy.

Radio

Danish private radio has developed, but like most commercial radio in the region, does not contribute much to the discussion of politics and public affairs. The only nationally distributed commercial radio, Sky Radio Danmark, went bankrupt in 2006. The state-owned commercial TV 2 corporation launched TV 2/Radio in 2007.

Television

Just as in the other Nordic countries, television output has been growing. The Danish model of deregulation of public service monopoly television was a

state-owned commercial corporation (TV 2) separate from licence fee-funded Danmarks Radio, DR. Today TV2 broadcasts five channels, one of which has a public service character. Only recently did DR open a second television channel. Eight independent regional television stations transmit about 2-3 hours daily, under public service obligations. Altogether, the State keeps a firmer grip on the television market than in most other countries in Europe.

Satellite television channels distributed by cable have been available for rather long and have a fairly large audience share, especially in the capital. Both the international SBS Broadcasting Group (now owned by ProSieben/Sat.1) and the Swedish Stenbeck group operate such channels.

Regulation

Danish media policy has not included press production subsidies, although substantial indirect subsidies, for distribution (300 million DKK) and zero-rate VAT (estimated value 1 billion DKK) apply. Denmark never subsidised “second dailies” as Sweden and Norway do, but some media are included under cultural policy support programmes, e.g., books, cultural periodicals, and film production. Although Danish public radio and television seem slightly closer to the political sphere than some of their Nordic counterparts, private initiatives and ownership consolidation in the broadcasting sector have not been obstructed.

Assessment

The Danish media ownership situation in the period since 1992 has involved mergers and structural change in the press, above all the aforementioned merger of *Politiken* with *Morgenavisen Jyllands-Posten*, and the changes of ownership of *Berlingske Tidende*. The press concentration process had already advanced long before 1992, bringing most commercial media production into the hands of Liberal or Conservative owners, as in most market economies elsewhere. The gradual opening of *Politiken* for Social Democratic positions has, however, according to some, partly counterbalanced the consequences of this situation. The left-of-centre is generally in a weak position, but this is to some extent compensated by its access to state-owned media (public service), due to its traditionally relatively strong position in intellectual and artistic circles. Commercial operators in Danish television, as in most other countries, focus on entertainment and thus rarely represent political alternatives.

Finland

Press

The daily press in Finland has traditionally been heavily dominated by one major group – the Sanoma corporation, publisher of the largest subscribed daily of the Nordic region, *Helsingin Sanomat*. With its merger with the principal

Finnish book publisher, Werner Söderström OY, in 1999, Sanoma became the largest media actor in the Nordic region, and, after its purchase of the Dutch periodical publisher, VNU, a major European operator. Sanoma's major press competitor in Finland, the Alma Media group, until 2005 controlled by the Swedish Bonnier group, grew to be the largest group in terms of the number of titles held, but not in circulation. Together, these two groups account for 56 per cent of the aggregate circulation of dailies. Finland's press is increasingly organised in chains – only ten of Finland's 53 dailies remain outside chain ownership.

From a political point of view, nearly all of the daily press shares a centre-right colouring. The party press has practically disappeared from the media scene – the major Conservative daily closed fully sixteen years ago, but one Social Democratic daily, *Demari*, survives, albeit with a modest circulation. The small Swedish-language press still resists economic hardship. Finland has a substantial number of newspapers that are published once or twice a week, but most of these, too, are controlled by a few owners, and do not really present any political alternatives to the dominant press.

The Swedish Bonnier group made incursions into the Finnish media market, acquiring a controlling share of press group *Alma Media*, which allowed Bonnier to take control of the Finnish national commercial channel, MTV3 (as well as Swedish TV4, see below). In 2005, the group successfully repulsed a hostile attempt by the Schibsted group (Norway) to take over Alma Media. Schibsted controls two large Swedish dailies (see below). The Bonnier tactic was to split the company into two divisions: broadcasting and press. Bonnier was supported by the Swedish venture capital firm, Proventus, in that move, raising questions as to a possible breach of stock exchange regulations.

Radio

Radio is dominated by the public service YLE channels, commercial radio is operating mostly on local markets, mainly as music stations owned by ProSiebenSat.1. There is, however, one nationwide private radio channel owned by the Bonnier group.

Television

Alongside the state-owned services (YLE), major private actors dominate: MTV3, controlled by Alma Media, acquired its independence in 1993. A fourth national terrestrial commercial channel, *Nelonen*, launched in 1997, is controlled by Sanoma/WSOY. Cable channels are also controlled mainly by these two private operators. Digitisation has not substantially changed this structure, although some new operators entered the market.

Internet and New Media

The Finns were quick to adopt and use Internet, but today lag behind the other Nordic countries. Being the host country of Nokia, Finland has taken the lead in the use of mobile phones.

Regulation

Finland has reduced State intervention in the media sphere: press subsidies, built traditionally on a party press base, have been reduced to a rather insignificant level with no practical impact on the press structure. The state, however, still keeps a rather firm grip on the broadcasting sector.

Assessment

Mergers and concentration have not essentially changed the basic structure of ownership, although concentration continues. The dominance of the *Sanoma/WSOY* group was reinforced through the merger of these two previously independent actors. On the broadcasting side, the Swedish Bonnier group is still a competitor. Politically speaking, the weakening of left-of-centre affiliated media outlets has continued, to the advantage of Liberal or Conservative trends, and owner groups favouring such positions.

Iceland

Press

The salient feature in Iceland from the point of view of pluralism is the upsurge of the free sheet press, the circulation of which is now larger than the paid-for press, thus breaking the longstanding dominance of the Morgunbladid group. This has been greeted, more than elsewhere, as a token of increasing pluralism of the press, since the free copy press is felt to be more open to diverse political standpoints than the Morgunbladid group (Conservative).

Radio and Television

Iceland's largest media company, Norðurljòs, is controlled by a group of Icelandic investors through a Luxemburg investment fund. The company owns four television stations and six radio stations and distributes about twenty English-speaking overseas channels by subscription. It has nearly as large a share of the market as the state-owned, partly advertising-financed RUV, which operates both radio and television channels. There is also a third television channel, Skjár 1, which is controlled by domestic interests.

Regulation

No particular intervention has been undertaken on the regulatory level. Iceland upholds a strong ambition to offer broadcast programming in Icelandic.

Assessment

Due to the appearance of the free papers, pluralism in Icelandic media ownership may be said to have increased. The modest size of the population does not allow a very large array of owners or operators. In broadcasting, however, the increase of ownership diversity has not had any significant impact on political pluralism, since most of the programme time is devoted to entertainment.

Norway

Press

The most important event in Norwegian media ownership and concentration processes was the step-down of the industrial *Orkla* group in 2006, when it sold its newspapers in Norway, Denmark, and Sweden to the British venture capital group, *Mecom*, which had media holdings in several countries. In 2008 a merger that would give Schibsted control of the main regional newspapers in Norway was approved. The Media Authority first stopped the transaction, but its decision was overturned by the Media Ownership Complaints Committee, which accepted a deal, modified by Schibsted, which would control less than 33.3 per cent of national total daily newspaper circulation. (See further Chapter 6.)

In contrast to what has happened in nearly all other countries, the labour movement retains a strong position in the Norwegian press through its *A-pressen* group, the second-largest in the country after Schibsted. A-pressen is also investing in other media, but it is by and large dependent on the press subsidy system, which supports second newspapers in local markets.

Radio

Norway allows national commercial radio networks. Two such channels have been launched, one controlled by the Swedish company MTG (Stenbeck), and the other originally held by domestic newspapers, but today owned by the German ProSiebenSat.1. There are also local commercial stations that are partly controlled by Norwegian newspapers, partly by foreign operators (ProSiebenSat.1 and the French NRJ).

Television

Norway's three nationwide commercial channels are controlled by major media companies: A-pressen in cooperation with LO (trade unions), Telenor (the dominant, partly state-owned telecom operator), Egmont (Denmark), the

Stenbeck group (Sweden) and ProSiebenSat.1. The public broadcaster, NRK, continues to dominate television, however.

Regulation

Norway has the strongest policy of ownership regulation in the Nordic region, if not all of Europe. The Media Ownership Act (1997) limits ownership in the press, and the regulator wields powers of precautionary intervention against further concentration. In 2005 the Media Ownership Authority (*Eierskapstilsynet*) was merged with the Media Authority (*Medietilsynet*), also uniquely strong in the Nordic region.

In connection with this merger the centre-right Government, implementing this merger, also announced a will to reduce the range of ownership regulations and it was in this respect perhaps influenced by media corporations and some economists, evoking restrictions to concentration as hindrances to their economic development. The same government also raised the level of acceptable press ownership concentration from 33 to 40 per cent of the national circulation, but this decision was revoked by the succeeding Labour government.

Another important Norwegian regulatory action has been to codify the “*Rights and Duties of the Editor*”, a formerly informal charter that guarantees the professional integrity of editors vis-à-vis media owners, in law.

Assessment

Norway offers an example of how far interventionist press policy, if aspiring to halt or at least hold back concentration of press ownership, is likely to have to go to be effective.

One much-debated consequence of the Norwegian press policy, combining ownership restrictions and subsidies to weaker newspapers, has been that the major Norwegian media group Schibsted has expanded abroad (in Sweden, the Baltic region, Western Europe), using its investment capacity from profitable domestic media businesses. This aspect of media policy has been criticised by the media industry in Norway and some economists⁹ for weakening the domestic media companies that face competition from abroad. The concern is also shared by politicians (including Socialists!), about the competitiveness of “their” national companies, since investing abroad might mean diversification and higher profits, but also higher risks. Politicians’ reticence on this point is probably one of the factors behind the inability of the European Union to arrive at policies to reduce concentration of media ownership – alongside powerful lobbying on the part of global media corporations like Rupert Murdoch’s News Co.

The “forced” Norwegian investment in media outside Norway also meant, however, that competition in Sweden was preserved, as in the case of the Stockholm daily, *Svenska Dagbladet*, which was taken over by Schibsted rather than

by the owner of its local competitor, the Bonnier group. On the other hand, Schibsted's Finnish adventure, mentioned above, was not successful. Nonetheless, Schibsted remains an important actor on the Nordic scene. Schibsted's principal owner, Tinius Nagell-Erichsen, took care, before his death, to secure the influence of his family by way of a trust fund that controls its media interests. The regulation also leaves room for foreign media investment in Norway, by, for example, Bonnier and the Ander press group (also Swedish).

Norwegian regulations and the still rather extensive press subsidy system have contributed to a rather unique degree of political power-sharing in the Norwegian press, which has made it possible for the Social Democratic press to survive. These newspapers are, however, gradually becoming more tightly integrated within the *A-pressen* group and thus follow the general trend of mergers and ownership concentration.

Sweden

Press

In Sweden, concentration of press ownership has accelerated, even dramatically, since the previous Nordic report in 1992, which was written at the time when the Labour press group, *A-pressen* went bankrupt. Few towns in Sweden have competing newspapers today.

Salient events in this process are

- The Labour press retreat continued, its only remaining major morning daily, *Arbetet* (both Malmö and Göteborg editions), declaring bankruptcy in 2000.
- Norwegian Schibsted bought the largest Swedish daily, *Aftonbladet*, a tabloid. The labour movement still exerts influence over the political line of the paper. With few exceptions, other Labour-controlled dailies have been taken over by Liberal press groups, which continue to publish them as separate titles.
- Schibsted also took over the financially weakened "independent Conservative" Stockholm daily, *Svenska Dagbladet* from its previous owners – mostly industrial interests – thereby blocking a take-over by the Bonnier group. The pending take-over had been criticised by the Minister of Culture in the then-Social Democratic government.
- The Center Party sold its largely profitable newspapers, most of which enjoyed local monopoly, to other operators, mostly Liberal groups (cf. Chapter 3).
- Regional and cross-regional press groups – some family-owned, some controlled by foundations – have grown in importance. All these groups are Liberal or Conservative.¹⁰

- The launch of the free daily, *Metro*, in Stockholm in 1995 was a remarkable innovation in the Swedish press market. Editions of *Metro* are published throughout Sweden, and the concept has been spread to 21 other countries. The paper's global readership is claimed to be 15 million, surpassed only by Japanese dailies.

From time to time, the *Metro* papers have the largest circulation of all the daily press. Other newspapers hit by *Metro*'s incursion into the advertising market launched a bitter battle against *Metro*. For example, when *Metro* planned to launch week-end home delivery, the Swedish Newspaper Publishers' Association persuaded the government to restrict distribution subsidies to subscribed newspapers only. Schibsted's purchase of 30 per cent of Metro Sweden may mark a new alliance between Schibsted and the Stenbeck group.

The exit (with some rare exceptions) of the Social Democrats and the Center Party from the daily press did not mean the end of political affiliations among Swedish newspapers. Although newspapers most often label themselves "independent" of the various parties (but retain a more general ideological stamp), their political leanings, both in editorials, commentary and frequently also news reporting, are clear. Most new owners of previously party-owned newspapers have also agreed to continue the Labour-Center profile of editorials and political commentary.

Radio

The announced intentions of the Center-Conservative Government Bill that launched privately owned commercial radio in Sweden in 1993 were to ensure diversity of ownership and to provide a platform for locally produced material. Neither of these goals has been achieved. Today, two chains control most stations, and hardly any station carries local material.

Community radio, launched in the 1970s, still exists. About 170 stations, operated by associations, offer services of a, for the most part, non-professional character; they have very small audiences.

Television

The major event in the ownership of Swedish television is the take-over of the largest private channel, *TV 4*, by the Bonnier group, by way of its control of the Finnish media group, Alma Media (see Chapter 2). Despite licensing conditions designed to forestall such a major change of ownership, the take-over was possible due to the lack of a corresponding clause in the Radio and Television Act.

Digitisation of terrestrial television transmissions permitted the launching of rather many free-to-air channels, but most involved encryption and payment to the operators, just as had been the case with earlier channels distributed by cable or satellite. Output is also growing rapidly through the establishment of

new cable channels operated mostly by existing major media actors. Therefore, digitisation so far has not substantially affected the structure of ownership. Some of these new channels reflect nuances of political affiliation, mostly toward business interests or neo-Liberal ideas.

Regulation

Press subsidies and strong public broadcasting were hallmarks of Swedish media policy, but Swedish politicians have also looked into regulatory solutions to problems of ownership concentration.

- Starting in the 1970s, a series of commissions, most of which appointed by Social Democratic governments, have studied ownership concentration. In 1999, a parliamentary commission, deeply split, drafted a law against ownership concentration. In its essentials the draft resembled the Norwegian regulation. No Bill was presented to Parliament, however, as the Center Party withdrew its previous support of the Social Democrats on press policy issues, choosing instead to join the Liberals and Conservatives in opposing the proposal.
- A system of subsidies to support newspapers struggling against a stronger competitor on their home market was introduced in the 1970s. The system primarily benefited Social Democratic and Center Party newspapers and has been opposed by the Liberal and Conservative parties from the outset. In September 2007, the (Liberal-leaning) Bonnier group secretly filed a complaint about the subsidies with the European Commission, which led to a “dialogue” between the Swedish government and the Commission. In January 2008, the government announced plans to cut a special subsidy (SEK 60 million, € 5 million) earmarked for “metropolitan dailies in second market positions”. If enacted, the cut might have given Bonnier’s dailies a monopoly in Stockholm and Malmö (Sweden’s third city). After strong public criticism and discussion within and outside the media sector, in August 2008 the government backed away from the cut, pending a definitive opinion on the part of the Commission.

Assessment

Traditional mass media in Sweden have verged toward a considerable concentration of power in the hands of fewer operators. The recent acceleration of concentration in the press may be seen as a “ketchup effect” – subsidies have not led to a permanent diversity of independent ownership having a base in either business or civil society and therefore did not fundamentally alter market mechanisms.

Summary Assessment of the Development after 1992

In political terms, in all the Nordic countries, significant influence of the state on the media markets through the public service broadcasting companies has contributed to a level of ideological pluralism in the media sector. In the private media sector, concentration of ownership has led to a weakening of the media positions of the left-of-centre, since practically all private media are controlled by business interests, with traditionally Liberal or Conservative leanings. This is slightly mitigated by industry-wide charters and corporate pledges to preserve the editorial integrity and, in some cases, the political leanings of merged papers. Examples of such arrangements are the so-called charter on the “Rights and Duties of the Editor”, now being transformed into law in Norway; new owners’ agreements to retain some Swedish papers’ Labour and Center affiliation in Sweden; and the Danish daily *Politiken*’s giving more space to Social-Democratic positions. Thus, ownership is less synonymous with political uniformity.

Press

Circulation of the daily press is slowly decreasing, and ownership concentration continues. The most significant change of structure seems to have taken place in Sweden, where a few regional press groups have acquired the papers of smaller owners. Regulatory and political obstacles to further concentration in Norway have promoted a new Nordic media market structure, as well as major Nordic actors investing outside the region. The entry of venture capital into press ownership (e.g., Mecom), though not negligible, has not substantially altered previous relationships in the private sector.

Radio

Commercial radio has been established in all the Nordic countries, under diverse regulatory conditions. Nationwide commercial radio has not been permitted in Sweden, and commercial radio ownership has essentially become concentrated to only a few chains.

By and large, the opening of radio frequencies to private broadcasters, both non-profit community and commercial radio, has not contributed to political pluralism. Although many new radio stations have a political affiliation, public debates have rarely been influenced by these stations, as music and entertainment or – in community radio – local communication dominate air time. At local and regional levels, public local stations, most of which were established before the period under observation, actually do play a role in politics and discussions of public affairs. This situation is remarkable, since political diversity was a priority motive for deregulating broadcasting among Liberals and/or Conservatives in all the Nordic countries. In the breakthrough period of private radio, employer-related think tanks

and business associations and other Liberal-Conservative forces did actually engage in this sphere.

Television

Television has undergone both extension of ownership and processes of concentration. A few major media groups (Schibsted, Bonnier, Sanoma, Stenbeck, etc.) dominate commercial TV in all the Nordic countries. Although the launch and growth of commercial television have meant that some channels with clear-cut political leanings, and a “business-friendly orientation” might be said to meet greater understanding in the new channels, the Nordic situation is far from the political extremes of, for example, television in the USA after the arrival of the Fox network.

Internet

Since 1992, the arrival of Internet has meant nothing less than a revolution. The Nordic countries were rapidly equipped with hardware and network facilities and today are reckoned among the most “connected” societies in the world. Broadband connection to Internet is the normal means of access in private homes, although recent studies from the World Internet Institute indicate that about 2 million Swedes, or 22 per cent, still live without Internet.

Younger people tend to use Internet services for a number of tasks formerly fulfilled by broadcasting and the press. Although the press has traditionally played a relatively weak role among the young, recruitment of new generations of readers to printed newspapers is uncertain.

Internet is a “medium” in the more original sense of the term, that is, it is a space or a tool for many kinds of content and use, like the radio spectrum or the telephone network. Both the development of the technology and the requisite infrastructure involved a substantial public commitment of financial and administrative resources. Like telephone networks, Internet relies for the most part on public or semi-public infrastructures.

So far, web-based activities are rather difficult to single out as a factor of power or influence in any of the Nordic countries. Established media are active on the Web, some more so, others rather cautiously. Few of these ventures are profitable. Nevertheless, Internet has changed market conditions, opening up niches at rather low marginal costs. In the long run, it will probably challenge the existing order of media interests. Internet has injected a new unpredictability into the media sector.

Blogging is an omnipresent phenomenon in the Nordic media landscape, notably since Internet is becoming less tied to only one technical device, the computer. Mobile phones, today more numerous than stationary telephones in the Nordic countries, extend the scope of the “convergence” of media. It is difficult to evaluate these phenomena from the point of view of pluralism, yet the analysis presented by Baker (2007) might be relevant for many new

forms of distribution of media content. Whether the actual retrieval of news and politically relevant information and communication has changed – and in particular, whether dominant positions in traditional media markets have been impacted, may be put into serious doubt.

“Cultural Media”

The 1992 Nordic report did not cover “cultural media” sectors, but since then, a process of convergence and integration of mass media with other fields of cultural production has changed the media landscape. Major actors in the press, broadcasting and web-based media also operate book publishing, periodicals, cinema films, phonograms, etc. The uproar in Sweden surrounding new legislation to restrict the downloading of protected material shows that it is no longer possible to treat media policy in isolation from cultural policy in a broader sense.

There are numerous examples of change in this direction in the Nordic countries. For example, the Bonnier group has acquired a de facto national monopoly on cinema theatres in Sweden. In book publishing a good number of small publishers have emerged, yet traditionally dominant houses like Sanoma WSOY in Finland and Bonnier in Sweden retain their market positions. International operators are still rather small in book production (Kluwer-Springer now controls Liber, a major book publisher in Sweden) – in contrast to television and music, where US domination is very strong. Magazine publishing is gradually becoming more integrated into television discourse, with a number of best-selling popular press periodicals tightly following television series.

One relatively little-noted development in publishing might be highlighted in this connection, namely, scholarly publications. The sector is undergoing a rapid process of restructuring, and many of the larger companies are being taken over by venture capital firms, some of which are also active in the mass media sector.

The Illusion of Compensation and the Soviet Criterion

Not seldom, the view is advanced that new computer-based information systems, notably Internet, have *compensated* for structural changes in traditional media, notably the press, through the appearance of the millions of websites, communities, weblogs and other new facilities for communication on the World Wide Web. This thesis of compensation is omnipresent, both in the general media discourse of wealthy democracies and among aspiring citizens of less affluent societies. It is, furthermore, welcomed by the dominant controllers of the media market as a counterpoint to the criticism of monopolistic media developments during the last decades. The thesis also seems to be endorsed in many political circles, as well as in some academic institutions.

Although this view enjoys the attraction of “modernity” and an openness to current trends, as stated at the outset of this chapter, I tend to regard it as an illusion, sharing the position of C Edwin Baker (2007) in his analysis of the situation in the USA. The fundamental objection to the thesis of compensation is that it ignores the realities of the *market*. It may be rooted in an innocent surrender to heady technological optimism – or perhaps a desire to blur the interests of dominant actors in the media.

To refute this thesis of compensation might be a risky position – perhaps as risky as the statement of an unlucky Swedish Minister of Communications and Transport, who one year before its breakthrough in Sweden dismissed Internet as “just a passing fashion”. On the other hand, earlier rosy optimism concerning the potential of faxes, cable TV, video recorders, etc., to effect fundamental change in power structures has faded. So far, market forces have prevailed.

Against the background of more than fifteen years of transformation of the media in the five Nordic countries, the main tenets of this sceptical position may be summarised in the following points:

1. The *notions* of diversity and pluralism are used for a number of purposes, which together conceal the central concern of traditional Liberal democratic discourse – and Liberal democracy-in-reality. This use is part of an ongoing discursive battle within a broader political-ideological conflict.
2. *The “Soviet criterion”*: One criterion for distinguishing these various uses of diversity or pluralism based on the multiplicity of output and platforms from a relevant sense of diversity, or preferably pluralism, might be to test them against the kind of media diversity that existed in the Soviet Union. No political diversity was expressed in the Soviet Union media, since they were all controlled by one power, but many other forms of diversity – ethnic, cultural, religious, geographical, taste, etc. – were undoubtedly there. Applying this “Soviet criterion” to any society, regardless of its political, economic or social structure, shows that the relevant sense of media diversity is the *political* sense. If ‘pluralism’ or ‘diversity’ is used in a way that fits this Soviet structure, then the use is misleading. Of course, even this test must take into consideration that pluralism in the political sense, too, may be a matter of degree.
3. Monopolisation can be the outcome of diverse structural developments and processes, either by purpose, by systematic negligence, or by sheer naïveté or sloth. The consequences of such processes can be radically different for political pluralism in the media. The overall *quantity* of supply in the market – the “more-of-the-same” phenomenon – or the *reason* for the lack of pluralism, whether due to economic, political, military or other forces – is therefore beside the point. The mere existence of many small minority expressions in the margins of a market of dominant power players should not be assumed to play a role *equal* to that of major power-holding players. This is the “error of neglecting the market”.

Suggestions for Action

The way to keep some degree of pluralism in the daily press and media in general, including new digital media, in democratic systems seems to be *strong public intervention*. That may be a hard pill to swallow for “market fundamentalists” – though perhaps less so these days, when governments all over the world are being asked to contribute thousands of billions of public funds to keep financial market infrastructures afloat. A sustained and resolute will to counterbalance the effects of dominance in the advertising markets that distort the consumer markets may thus have to be coupled with public financial measures. These are not likely to be very compatible with the dogmatic faith in market mechanisms that may be read into the EU Treaty and are promoted by EU institutions under their present political leadership.

This pro-intervention attitude might be labelled “neo-Keynesian”, in view of its emphasis on political responsibilities for safeguarding economic equilibrium in markets and public obligations to maintain basic infrastructures. It might also be regarded as an authentic Liberal position – following Adam Smith’s well-known warning against letting merchants alone, or their representatives, decide on economic regulations.¹⁰ Smith’s caveat is generally accepted as the fundamental principle in modern legislation on competition.

Joseph Stiglitz (2006) focusses on the necessity of public intervention for a viable market economy – and anti-trust regulation or other interventions to prevent monopoly in cultural production as a whole. Certainly, media industries belong specifically to the category of cultural production. The current EU Treaty enshrines the Amsterdam Protocol clause on public service broadcasting, a parallel to the more general “cultural exception” for the media found in global trade negotiations processes (WTO). Likewise, the European Convention on Human Rights specifically mentions that the freedoms of expression and information do not prevent states from establishing public broadcasting services.

A number of suggestions for political or social action are presented below. They are intended to serve as a framework for theoretical discussion of, as well as a practical guide for monitoring of media developments. Actually, a host of such suggestions – or already adopted measures – are already included in various national regulations. Some of them are topics on the agendas of discussions on international regulation. Quite a few of them are listed in the Recommendation R99/1 of the Council of Europe on “Measures to promote pluralism in the media”.

Most of the proposals require detailed legal and political analysis of their practical implementation as well as considerations of their economic consequences. It seems to me, however, that the worst alternative would be to do nothing. Given the present lethargy regarding media concentration in much of the political discourse on European democracies, I tend to share Giorgio Agamben’s (2007) very pessimistic outlook, namely, the observation that a “state of exception” is on the verge of becoming permanent, but is camouflaged by formal democratic structures, liberties and affluence¹².

The Five Paths

1. Money

Direct production subsidies. These measures have been practised for decades in the Nordic area and some other countries, but they are currently being challenged as illicit state support. One way of overcoming this problem might be to include a general clause in EU legislation, as in the Amsterdam Protocol, recognising that the aspect of value for democratic governance, just as for cultural life, overrules economic market dogmatism. The Amsterdam public service broadcasting clause might naturally be extended to other media that are judged to be of importance for public political debate, whether printed, broadcast or on Internet. Subsidies might be approved for various social purposes, such as correcting market failures – due, for example, to advertising domination.

Indirect subsidies. Tax relief, distribution subsidies, technical support measures, etc., might all be included here. Some might be directed towards weak market actors, some more evenly distributed, taking into account that some subsidies, if “equitably distributed” to all media operators, might also have the reverse effect of enhancing monopolisation.

Progressive advertising taxation. This kind of intervention involves technical problems, but has nevertheless been practised in monopolistic situations where a television channel has a dominant position on the private advertising market (such as TV4 in Sweden). The French “taxation” of Canal+, forcing the channel to subsidise film production, played a similar role.¹³

Payments to journalists. This proposal has been circulated in Danish blog discussions – it would entail the distribution of state money directly to journalists. It would imply complicated definition and authorisation procedures, and might actually end up transforming the journalistic profession into a kind of cultural remuneration scheme, similar to systems practised in other cultural production fields, such as the salaries, grants and stipends made available to artists, performers, teachers and researchers. Obviously, it could create some rather interesting new structures, since media companies would use services from this profession, for a low cost or even for free.

Subsidies to consumers. In this case consumption of media would be subsidised by checks, valid only for certain goods and services, much like lunch coupons or food stamps.

2. Counterforces

National public media. This set of measures amounts to maintaining public broadcasting services, but perhaps being supplemented with similar forms of support in the newspaper sector and in other media. There is, in principle, no reason why financing of public newspaper houses, managed as public service broadcasting or Internet organisations, based on the “arm’s length principle”, should be unthinkable. Today, every state publishes many written periodical

publications. The Norwegian system of publicly subsidised cinemas might serve as a model. The present Swedish situation, where one operator controls practically the entire cinema market, cries out for public intervention. Cinemas might be considered to serve the public interest, just as much as opera houses, concert halls or broadcasting services.

European public media. The new category of public bodies established by the European Union might, just as national administrations, build up their own level of public service media, whether broadcasting, press or Internet services. The mechanisms (and problems) of arm's length regulations are well known in the field of cultural policy and could be handled in a democratic spirit.

Civil society media incentives. This category is surprisingly seldom discussed, despite the immense production of such media content in Europe and elsewhere. Civil society media seem a rather attractive alternative in media sectors where single companies are totally dominant. These media might be organised around public trusts, promoted by tax reductions and legal support measures protecting them from being swallowed up by commercial interests. In some cases, notably in situations where a monopolistic control of a market is approaching, existing media should be put under public pressure to abandon their purely commercial approach, and instead assume non-profit status.

3. Regulation

Regulatory interventions are often the only focus in international discussions – a consequence of the legalistic approach of many international fora, notably the European Union. However, the instrument of formal legal regulation should be viewed with due reservation – taking both national and international experience into consideration. Actually, regulations should be seen as *one* form of political action, not *the only* efficient tool for bringing about social change.

"Normal rules" for ownership. The classic example of the regulatory approach to media concentration and pluralism on an international level is the proposed EU directive in the famous Commission Green Paper of 1992, which prescribed ceilings on market shares in the cases of mergers and new acquisitions.

Most countries have some instruments for regulatory intervention, although few legal restrictions have proved effective. The Norwegian regulatory regime may be one such case. One simple reason may be the "sociological" circumstance referred to below: laws are dependent on a favourable social and political environment for both their production and their implementation.

Voluntary agreements. Non-public regulations have been attempted for the daily press in The Netherlands, with some limited effects. It is difficult to see, however, how voluntary agreements could be made compatible with current European regulations on cartels and competition. These latter would thus have to be revised for public interest purposes, including the media.

Anti-trust regulations and "socialisation" of monopolies. In some cases general anti-trust competition regulations might be applicable to the media industries, although clashes with freedom of expression legislation are likely,

as the constitutional discussions in Sweden, for example, demonstrate. EU law presents problems for applying public service approaches to other sectors than broadcasting. It seems rather illogical, however, that media monopolies (e.g., the Swedish cinema market) cannot be handled in national legislation. A public obligation to maintain a “cultural infrastructure” might be applied in the media sector – such as the public obligations of broadcasting that are codified in the German Constitution.

Cinemas constitute both a business sector and a sector of public cultural policies. In principle the branch is exempt from EU harmonisation and restriction of public interventions. A public responsibility for cinema theatres might be justifiable and, thus, so might the subjection of a private monopoly to intervention, or “socialisation”. This does not necessarily mean nationalisation, but rather an obligation on the part of private actors to take public interests into consideration, both in their programming and in their organisational structure.

Several models exist. One is the EU model of listing media transmissions of nationally important events that should be accessible to the general public. Other models are the Nordrhein-Westfalen “dual” model for commercial radio, which gives rights of programming to “social organisations”, the Swedish regime of film production subsidies, or municipally owned cinemas in Norway. Technically, many kinds of licensing structures, such as those associated with author’s right collective licensing systems are available. Trust funds, public-controlled foundations or cooperatives etc., are other varieties of this kind of “mixed economy” approach.

4. Information and Transparency

This category of measures is more compatible with EU regulations on competition, since it might combine public regulations – requiring, for example, transparency of ownership, including companies hidden away in Jersey, Luxembourg, the Virgin Islands, Liechtenstein, etc. – with voluntary agreements in sub-sectors of the media. Public information bodies and media authorities might be required to inform the general public regularly about media control and ownership, statistics, etc.

5. Research and Monitoring

This category of pluralism promotion measures is related to the preceding one, but it involves non-governmental actors. Various public, semi-public and civil society monitoring networks are already established at both national and international levels. Their work might be promoted in various ways. Some of the considerations pertinent to the establishment of such networks, and to research on media concentration in general, are listed in the following section.

A Framework for Monitoring

Data sources. Empirical data on the media landscape in the Nordic region, regularly updated, are available from Nordicom. Statistics from national public media authorities, media “observatories” and private organisations and data collecting networks are published. But there is a need for better comparability of these data.

Theoretical approach and methodological choices. The changes described in the first part of this article provide a framework for continued monitoring of media structures in the Nordic region, with a focus on aspects of freedom of expression and political pluralism. Opinions differ as to the urgency and relevance of expressed fears¹⁴ concerning waning media pluralism and ongoing concentration, as well as the globalisation of cultural production, but there is broad agreement on the need for long-term studies and continuous monitoring mechanisms.

The above-mentioned project initiated by the European Commission to develop a methodology for quantitative indicators of diversity/pluralism will have to be supplemented by more qualitative analyses of content, featuring, for example, political leanings and dominant perspectives in the media. The Internet has helped research in this field a great deal, and is perhaps a prerequisite for any future work of a continuous and systematic nature.

The work undertaken by the Dutch Commissariaat voor de Media, which has studied and reported on the dynamics of media pluralism for several years, presents a model for such studies.

Intersectoriality. Slightly counter to the aspiration of establishing Media Studies as an independent discipline, developments regarding media structures demonstrate that the dynamics of cultural production should be studied as one integrated field, incorporating media production, entertainment, art, research, and other spheres of the “experience economy”. Studies of media structures and their dynamics, focusing on control, ownership and power over production and distribution, must be interdisciplinary, and perhaps even “intersectional” taking account of the interplay of power relations (gender, ethnicity, poverty, cultural and social capital, etc.). Disciplines like Economics, Business Administration, Law, Political Science, including political theory (“theory of governance”), and Philosophy, as well as Geography, Cultural Studies and History, and methods like discourse analysis, etc., will contribute. It is imperative not to isolate studies of media production from the overall cultural production environment. The need for integration applies also to the study of media ownership and other forms of control or power relationships, such as financial flows, content or hardware supply streams, staff incentives and relations, networking on a variety of levels, visible and invisible, as well as the study of technological change.

Media production increasingly takes place within conglomerates that include other forms of cultural production and entirely different industry sectors – ranging from software and hardware in information technology to alcohol and arms. A growing number of manufacturing, trade and service industries are

controlled by investors (pension funds, private investors) or speculators; media and cultural production are no exceptions. Capital markets are integrated in a global system – hitherto mostly managed from the United States or Europe, but with China a recent entrant. If for no other reason, the growing attention paid to media and cultural economy means that communication and cultural studies need to embrace other kinds of research.

Scholars who are anxious to establish Media and Communication Studies as an independent discipline in the academy may not find this a positive prospect, but, given the “mediatisation” of society, it is no longer defensible to isolate Media and Communication Studies from other fields of research. The Cultural Studies tradition represents one aspect of this necessity, despite some methodological dilemmas of a “quasi-ideological” nature, but it has to be supplemented by other approaches, interfacing with Economics, Political Science and various branches of Engineering.

Controversies concerning methodology. The discussion on diversity and/or pluralism is permeated by analytical controversies – which in part reproduce political divergences. Vocabulary in public discussions, analytical approaches, methodological choices, organisation and funding of research projects, all these aspects reflect diverse interests in general political perspectives regarding such issues as the control of production (public/civil society/private, for example) and its relationship to content (independence vs. “base-superstructure” dependence, for example). Rhetorical analysis, structural or other forms of semiotics, discourse analysis, cultural studies approaches – mostly descendant from classical methods in literary analysis, exegesis, hermeneutics, Linguistics, Philology and History, etc. – i.e., “idiographic” or descriptive approaches – have to be matched against quantitative, “hard data” traditions.

Such integration was, in fact, practised by Pierre Bourdieu, whose methods and analyses are models for most contemporary studies of culture. The reference to – even reverence toward! – Bourdieu’s emphatically discipline-based approach in no way precludes that studies of power relations in, and control over cultural production must also cross disciplinary boundaries.

Objectivity vs. neutrality. Studies of this kind thus involve both scholarly and political controversy – despite the standard scholarly pretension to be “objective” in the sense of being neutral between ideologies and philosophical outlooks. The first line of argument in debates about media concentration is, as suggested at the outset of this text, often a flat denial of the problem: “The objective facts show that there are today x times as many media operators/channels/sites as before...and therefore, the debate on ownership concentration is unwarranted.”

No doubt this use of the term ‘objective’ is legitimate, since no one can deny that the situation described pertains – it is not just a figment or “subjective” perception.

On the other hand, it is equally legitimate, true, and relevant to point to the fact that the concentration of power in the *dominant* media sectors, economically speaking, has hardly diminished, from either consumers’ or producers’

point of view. Not only does it prevail, it has increased, as the brief survey of developments in the Nordic area indicates. Concentration is, therefore, equally an objective truth – albeit from another perspective.

Thus the notion of objectivity comes up in early stages of the debate – and even serves as a pretext for taking entirely different positions as to the existence of a problem.

One reasonable way of resolving this rather common problem in the social sciences, as well as in History, Cultural Studies, etc., is to adopt a rather modest notion of objectivity. This notion acknowledges the validity of diverse perspectives, but distinguishes descriptions of personal attitudes to “external” objects from descriptions that (at least) *intend* to be about other things than personal attitudes. Objective discourse aspires to talk about “things as they are”, not about “myself”.

The sense of objectivity proposed here does not exclude divergence of views or perspectives, theories, philosophical outlooks or political loyalties; on the contrary, it takes this divergence aboard, precisely in the interest of truth – which benefits from a maximum of different approaches. A pretension of “neutral” objectivity is not only historically misplaced¹⁵, it risks casting suspicion over scholarly endeavour, notably in the Humanities and social sciences.

In this particular context Baker (2007: 23) observes that empirical “facts” are in a sense “irrelevant” to the discussion about media and democracy, inasmuch as democracy is tied to *values* underlying or inherent in the content of cultural production. Values might of course also be objective, in the sense of being central to political discourse and struggles – just as the value of a currency or a stock is, though fluctuating, extremely objective – that is, not a subjective individual judgement.

Neither diversity of content and genres nor the “qualitative” assets of many other kinds of media outlets can replace the diversity of views on social and political affairs that is necessary for democratic governance. Methodological controversies and positions may mask ideological and political divergences and interests, as is reflected in the well-known saying of ‘lying with statistics’. Figures have to be interpreted in order to be relevant.

A *critical* scholarly approach focuses on being objective in the sense of taking *diverse* perspectives into account. That means, firstly, that ever so objective and neutral data series, compiled by political bodies, public authorities, private institutions, organisations, and scholarly fora, have to be scrutinised and cross-examined for political bias, understatements, hidden presuppositions and agendas. This is a prayer for controversy, and not pleasant to everybody. However, if declarations on knowledge as a motor of social development are to be taken seriously, research institutions must resist external pressure, regardless of its source. Scholars familiar with the mechanisms of research funding, cultural project financing and media strategies know all too well that this situation is an ideal not always realised.

Institutional build-up. A network of institutions and scholars monitoring cultural production from the point of view of political pluralism requires data

on ownership and control of media and other cultural production enterprises, nationally and internationally. Such monitoring has been started in “Media Watch”-movements, notably in the United States. Much remains to be done to standardise data and to facilitate flows and transparency before a proper “early warning system” can be established – preferably in real time and on-line. In the more general cultural policy sector a number of “observatories” are being established, partly under the auspices of Unesco.¹⁶ One such observatory, Swe-Cult, has been launched at Linköping University in Sweden; Cupore, a similar institution, was established by the University of Jyväskylä and the Finnish Cultural Foundation in 2002. “Media Watch” functions will certainly profit from this development, which supplements the media and communication research data bases and knowledge centres, such as Nordicom in the Nordic region.

The literature on mass media concentration is abundant. Bibliographic reference material for Scandinavia was compiled more than ten years ago by the Swedish “Council for Pluralism in the Media”, later supplemented in my own reports from Linköping University 1999-2002 (Cavallin 2002). A basic prerequisite for institutional build-up is naturally the continuous updating of bibliographic material – scholarly publications, government reports and international studies, governmental and non-governmental.¹⁷

On the European level the European Institute for the Media in Düsseldorf made a study in conjunction with the preparation of the EU Green Paper in 1992, and the Council of Europe prepared a series of reports on the issue of media pluralism in the 1990s. Of course, the material has grown immensely since then, although political attention has subsided.

The European Parliament has kept an eye on the situation, while the European Commission retreated after the demise of its project to draft a regulation in the 1990s. As noted, the recently finished study on indicators of media concentration, including massive bibliographic documentation, was undertaken in the expectation that a technical study might be a possible way of avoiding political controversy. However, in view of the controversy aroused by a proposal by the U. S. Federal Communications Commission to create a diversity index of American media (Cf. Baker 2007) the EU project may turn out to have been in vain.

Practical Political Action

One circumstance, which should inspire some reservation towards the idea of “neutrality” as a companion to objective research, is reflected in this article – since it contains some proposals for political action. This circumstance is not alien to academic work; on the contrary, it is inspired by the position of celebrated scholars in many fields, not least in Economics. Scholars have often challenged the tradition of scholarly neutrality, adopting the role of adviser to governments or political activist¹⁸ and have frequently played such roles in the post-Depression period.

Monitoring media ownership, or more generally, monitoring control over cultural production is in itself a political action, just as observation of social structures is seldom entirely uncontroversial. Transparency of media control or cultural production is likely to be contested by those who benefit from secrecy and lack of control, whether in the public, civil or private sectors of society. Still, new technology, apart from facilitating monitoring “from above”, also enables systems of “sub-veillance” (of *sous-veillance*, the term suggested by Michel Foucault. Cf Söderberg 2007b.) .

Research on, and monitoring of media ownership, as well as quality and pluralism in journalistic practices, are already an almost global movement, as networks and Internet sites on these themes show, even though this effort still has not substantially affected the structures or further concentration of power. Only in some rare cases have public opinion, research networks or “Media Watch” institutions influenced processes. Instead, rather unpredicted technical developments, such as Internet, have been much more instrumental in facilitating monitoring and offering alternatives. It is questionable, as Robert McChesney says, whether this brave new Internet world really has altered fundamental power structures, as consolidated in market mechanisms – but it has undoubtedly furnished brave new instruments toward this end.

A Utopian vision inspired by the ongoing amalgamation of networks might be a kind of “stock exchange” for pluralism – i.e., a system that ascribes a global value to different countries, regions, local areas, as well as to partial markets, strata or groupings. Imagine a news bulletin:

The level of pluralism in the U.S. fell sharply today after the announcement of Microsoft’s purchase of Yahoo. The pluralism index of US/Internet fell by 10 points.... Analysts foresee....

Or:

The pluralism index of Iceland rose by 10 points today after reports of high audited readership of the free sheet-press, which now challenges the traditional near-monopoly of *Morgunbladid*... .

Notes

1. This article represents a first step in a planned effort to monitor control and ownership of media and cultural production on a more continuous basis. It does not aspire to completeness. More detailed data on the ownership and structure of mass media in the Nordic region have recently been published in *The Nordic Media Market 2009*, www.nordicom.gu.se.
2. The group was composed of Torbjörn Broddasson from Iceland, Ismo Kosonen from Finland, Roy Kristiansen from Norway and Lars Banke, assisted by Frands Mortensen, from Denmark. I myself acted as the Swedish coordinator and editor of the joint report (*Medieföretagsköp och mediekoncentration*, Nordiske Seminar- og Arbejdsrapporter; 1992:514), which was followed up with an English summary: *Media concentration and media ownership in the Nordic*

- countries* (Nordiske Seminar- og Arbejdsrapporter; 1993:532).
3. According to the judgement of the European Commission, as presented at a seminar on press support in The Hague, in October 2007. Only recently, the Commission has taken an initiative, originating in the European Parliament, toward establishing quantitative indicators for gauging diversity in the media from a "risk perspective". A report from the consortium entrusted with elaborating the system, reported to the Commission in June 2009 (Independent Study... 2009), proposes 175 different indicators for gauging media pluralism in the 27 Member States. The report is available at http://ec.europa.eu/information_society/media_taskforce/pluralism/study/index_en.htm.
 4. McChesney (1999) compares the importance of the Internet to the freedom anyone has to make a political statement by dropping a sheet of paper containing a political message on Broadway.
 5. The term, "controllers" broadens the notion of ownership in the EU Green Paper of 1992.
 6. For example, George W Bush had a predominantly negative press as an incumbent candidate in November 2004, yet he won the election by a significant margin. In the Nordic region, for decades a majority of newspapers have opposed Social Democratic governments. Public regulation of licence fee-financed broadcasters has rarely been shown to have a direct political impact, although probably – at least at times – left-wing opinions have been accorded more space in the public service media than in the non-socialist press. Scholarly study of such rather general characteristics is not very well developed, however, although the political leanings of journalists are regularly polled – in Sweden, at least.
 7. This kind of economy is based on the growing leisure of consumers, actually discussed more than 100 years ago by Thorstein Veblen, but also on the fact that the competition for consumers is increasingly determined by aesthetic features, design and branding, in addition to, or overruling, the traditional consumer values of quality and price.
 8. Venstre generally takes neo-Liberal positions, currently governs together with the Conservative Party, and is supported in Parliament by the extreme right-wing populist party Dansk Folkeparti.
 9. One such economist is Rolf Høyer (cf. Chapter 6), whose views are, as seen in his contribution to this volume, rather different from mine!
 10. A handful of domestic newspaper groups control a good share of the provincial press in Sweden. The largest of them is the Stampen group in southern Sweden, owned by the owners of *Göteborgs-Posten*, the monopoly paper in Sweden's second city. See also Chapter 12.
 11. *"The proposal of any new law or regulation which comes from [merchants], ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It comes from an order of men, whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it."* Adam Smith, *The Wealth of Nations*, Book I, 1776 (the final sentences).
 12. Agamben's dystopia is based on the observation that many governments, notably in his own country, Italy, increasingly tend to govern by decree instead of by ordinary parliamentary mechanisms.
 13. Actually, this obligation might be regarded as a counterpoint to the recent measure by President Sarkozy to abolish advertising in the state-owned channels in France – a measure which, despite its apparent pro-public service virtues, would have the effect of reinforcing the oligopolistic dominance of large media actors on the French market, notably, the dominant privately owned, terrestrially distributed TF1, owned by a close friend of the President himself.
 14. The most debated of recent publications in the "alarmist" genre may be Giorgio Agamben's *The State of Exception*.
 15. Actually, the notion of "objective", as used until about the nineteenth century, might be said to have meant "subjective" in current terminology. Cf. Ritter.
 16. SweCult: www.isak.liu.se/swecult/; Cupore: www.cupore.fi/index_en.php

17. Among classical works, the most cited authors are American: Herbert Schiller, Ben Bagdikian, Noam Chomsky, Edward Herman, Robert McChesney. European scholars are less often cited, although the discussion has been lively for decades also in the Old World. Among recent US publications of interest to Nordic researchers, the work of C. Edwin Baker (who studied the Swedish press subsidy system) stands out. His two recent books *Media, Markets and Democracy* (2001/2004), and *Media Concentration and Democracy* (2007), provide a broad theoretical, political, economic and legal background to discussions in the field.
18. John Maynard Keynes and John Kenneth Galbraith administered Depression and war-time economic regulations; Milton Friedman and his “Chicago boys” advised the Chilean regime and the International Monetary Fund. Actually, most Nobel laureates in Economics after Friedman, men like Amartya Sen, Gunnar Myrdal, Joseph Stiglitz and Paul Krugman, have played “activist” roles. Among Scandinavian economists, viz. Bertil Ohlin, who also was a political party leader, and Assar Lindbeck, adviser to both Social Democratic and Centre-Right Swedish governments, could be cited, as well. Historically, similar roles were played by philosophers, theologians – and astrologists...

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Chapter 12

A Second Opinion on Concentration

Karl Erik Gustafsson

The essays collected here all support the conclusion that we may expect continued concentration in the media sector. As researchers, we should heighten our preparedness by improving our tools for measuring and assessing that concentration. We already have a number of quantitative measures at hand, but there is evidence that qualitative assessments are called for, too.

Economists have long explored the concept of ‘imperfect competition’ as an intermediate station between the poles of free competition and monopoly. Perhaps we ought to consider the possible advantages of the concept of ‘imperfect concentration’ – a condition between diversity and concentration. The proposal itself harbors a presumption that there may be good as well as bad forms of concentration.

My sources of inspiration for this article are three. Harvard economist Edward H Chamberlin developed his theory of imperfect competition over seventy-five years ago and presented it in the book, *The Theory of Monopolistic Competition* in 1933. Some twenty years later, John Kenneth Galbraith, also at Harvard, introduced the concept of ‘countervailing power’ to describe the phenomenon of how, in free societies, an accretion of power in one place gives rise to opposing force(s) in another. He presented the theory in *American Capitalism: The Concept of Countervailing Power* (1952). No one can discuss issues of power, the distribution of power and balance of power without encountering the ideas put forth by the eighteenth-century political philosopher, Charles-Louis Montesquieu. His work is so widely cited that one need hardly go to the source, *De l’Esprit des lois* (1748).

Good Concentration

The simplest way to assess the impact of concentration on competition in quantitative terms is to measure, and study changes in the joint market share of the two, four or eight largest owners or groups in the branch. Around 1950 a mathematical model, the Herfindahl-Hirschman index, was constructed for

this purpose. It is the tool of choice among regulatory authorities in the USA when assessing the anticipated impact of mergers on competition.

The criticisms raised against quantitative models of this sort concern how the industry and its geographical market are defined. Qualitative assessments are subject to these criticisms, too, but they are not as important.

As my basis for a discussion of 'good concentration' I have chosen the situation in the Swedish newspaper industry in 2006-2007. The table shows the four largest owner-groups' shares of total industry revenues.

Table 1. The Swedish newspaper industry's four largest players: revenue 2006-2007

Group	2006		2007	
	MSEK	%	MSEK	%
Bonnier	5 608	28.5	5 829	29.2
Stampen	3 233	16.4	5 057	25.4
Schibsted	3 469	17.7	3 220	16.2
NWT/HD	1 098	5.6	1 116	5.6
Subtotal	13 408	68.2	15 222	76.4
Others	6 255	31.8	4 688	23.6
Branch total	19 663		19 910	

Source: Gustafsson, K E & Potter, S (2007, 2008) *Dagspressens ekonomi 2006 and 2007* [The economic status of the Swedish press, 2006 and 2007]. Stockholm: Presstödsnämnden.

In quantitative terms a giant step toward concentration took place between 2006 and 2007. The combined market share of the two largest owners increased from 46.2 to 54.6 per cent, and the share of the four largest increased from 68.2 to 76.4 per cent. As the table also shows, the change was largely attributable to an increase in the Stampen group's share of revenues. (The event that made the difference is the subject of Chapter 3.)

By all conventional standards this merger resulted in entirely too strong concentration of the market – significantly higher than in other comparable countries. But, perhaps there is more to reality than statistics. To my way of thinking, factors like Stampen's strength relative to the market leader, Bonnier, and whether the top two have the same or different corporate cultures and philosophies as publishers, are important.

Other statistics indicate that the Swedish newspaper business is in good health. There is no doubt that Sweden is one of the leading newspaper nations in the world. Swedish newspaper circulation (4-7 issues/week) is twice or three times the average for the European Union; the number of titles (4-7 issues/week) is more than triple the average of the Union. Most of the titles on the Swedish market can – much thanks to Swedish neutrality in international conflicts – look back on an unbroken history of publication over the past 120 years. I know of no other industry that has so many well-established companies. These are the makings of strong trademarks.

Sweden's high rankings in international comparisons may be attributed to one single factor: a strong provincial press. The papers published in Stockholm

are not as dominant as the papers published in other capitals. After the first century of press history in Sweden, when the government-owned *Posttidningen* had a monopoly, the provincial press has kept pace (in some cases more than kept pace) with the Stockholm papers. First to enter onto the scene were publishers in Göteborg. Publishers outside the capital have held their own. Leading provincial publishers have urged their colleagues to keep pace, not to lag behind. In the first half of the nineteenth century there was an organized movement dedicated to this aim. Under the banner of 'provincial press emancipation' the movement resented and combatted the strong influence that *Aftonbladet* and other Stockholm papers, "the dictators from the capital", had at that time. The provincial press was close to all its readers and could therefore reflect public sentiment and opinion more accurately. Among the leaders of the movement were *Östgöta Correspondenten* in Linköping, *Barometern* in Kalmar and *Najaden* in Karlskrona.

When we view the capital's press and the provincial press as counterbalancing blocs, it casts the concepts of diversity and concentration in a new light. As 'adversaries' to the Stockholm press, provincial papers constitute the kind of 'countervailing power' that Galbraith had in mind.

When newspapers published in the same community merge, some of the former diversity disappears, but the strength of the local voice remains in the community, in the provincial press, and thus in the press as a whole. Thanks to mergers, the daily press can keep its grip on the local advertising market – provided, that is, that the paper retains its local identity and serves local readers and advertisers well.

If we consider the four market leaders in this perspective, we may come to a different conclusion than a purely quantitative measure of concentration might lead to. The Bonnier group includes some provincial papers, but the emphasis lies in two of Sweden's three metropolitan areas: two titles in Stockholm (a national morning daily, and a national tabloid sold in single copies); and two in Malmö (a morning daily, and a regional tabloid). The Schibsted group is active in the Stockholm press exclusively: a morning daily, a nationally distributed tabloid, and a share in the free sheet, *Metro*. By contrast, Stampen – based in Sweden's second-largest metropole, Göteborg – is made up of strong titles, all outside the capital. The family-owned NWT/HD (which stands for *Nya Wermlands-Tidningen* and *Helsingborgs Dagblad*) consists exclusively of provincial papers.

Stampen – and, for that matter, NWT/HD – with its base in 'the provinces' represents a distinct counterbalance to Bonnier and Schibsted. Second-largest of the 'big four', Stampen has almost as strong a position as Bonnier, and can challenge that group. As long as this relationship prevails, we may speak of a "good concentration", or, to use a seemingly paradoxical expression, "competitive concentration".

Differentiated Concentration

The analysis of 'imperfect concentration' may be applied to other media industries, as well. Here, I have chosen television, since it is an industry that would appear to have the potential to become even more concentrated than the daily press. As an industry, television is almost entirely national and international, whereas its local identity is rather weak.

Erik Barnouw, who has written extensively on the history of broadcasting, describes the introduction of commercially financed television services in Great Britain in 1955 as the start of international commercial television. The political discussion of possibly introducing a commercial alternative to the public service company, BBC, started up when Conservative politicians blamed the BBC for their party's unexpected loss of power in the election of 1945. They were convinced that Labour's victory was due to pro-Labour sympathies among the BBC staff, and they feared that Labour would now use radio and television to consolidate support for Labour programs and Governments. To prevent this from happening, a group of Tory politicians, together with allies in the business community, organized a campaign urging the introduction of a commercial television service.

The main argument used in the campaign was the need to break the BBC's monopoly. The argument was *not* to introduce advertising-financed television for the sake of advertising or the business community; instead, the goal was to create an alternative to the BBC, a so-called "independent television", with the help of advertising revenue. Witness the Tories' rallying cry: "*Commercial radio and television alongside a public service BBC as a method for eliminating the potential dangers of monopoly.*" 'Independent television' ('ITV') as a 'countervailing power'.

Hence, the now classic duopoly that became the paragon for television services in so many European countries. In Great Britain, what is more, advertising as a source of finance proved to be fully as reliable as license fees, sustaining the service irrespective of business-cycle ebbs, when advertisers are known to cut back on their advertising spending.

In the USA, where commercially financed television is the rule, alternatives have been introduced, but none generates anywhere near the volume of revenue that advertising brings in. 'PBS', the Public Broadcasting Service, relies on financing from member stations, sponsoring and private donations, much of which is recruited by an independent, but specifically dedicated foundation. PBS will never be in a position to challenge commercial networks. Pay-TV is another North American institution that may be seen as an alternative to commercial TV. Pay-TV is, furthermore, considered to be able to produce programs of significance with good production values more easily than companies that are dependent on mass-appeal advertisements. The program company, HBO (Home Box Office) is often cited as a prime example. Thus, PBS and pay-TV represent important complements on a market where networks' and channels' competition for advertisers' money tends to magnify the influence advertisers and advertising exert on program output.

In television worldwide the record speaks for a structure based on competition between two stable systems of financing: a public service model, financed by receiver license fees versus a commercial model, based on advertising revenues. In effect, a situation of 'competitive concentration', of countervailing powers.

Differentiation the Key

Systems of financing television service are currently a topic of debate in the European Union. The concept of 'public service' figures centrally in this discussion, but not necessarily as a 'countervailing power'. The discussion is the upshot of different histories and different traditions of public service broadcasting among the members of the Union. Painting in broad strokes, one may say that 'public service' breaks down into two schools: a northern European, and a southern.

In the south, many regard the public service broadcasters with suspicion; they are looked on as the extended arm of the government and, in several cases, have indeed been tools in the hands of dictators – as, for example, in Portugal, which long had 'state television' with a capital 'S'. Public service in the south has been dually financed by both receiver license fees and advertising. Especially the latter has been at issue in the European Union, as commercial broadcasters have complained of unfair competition, that the playing field is not level.

In the north, public service television services are financed by obligatory licence fees, whereas advertising has generally been the prerogative of the new commercial program companies. Most of the countries of northern Europe have followed the British model, with a publicly, license-financed public service broadcaster and a commercially financed 'ITV'. The Germans speak of a their dual system as being patterned along British lines, but there, some commercial financing of public service is allowed.

The sources of finance would appear to exert rather strong influence on television output, as they give rise to different corporate cultures and different philosophies of programming. In systems solely financed by license fee revenue, program producers wield considerable power over the companies' output. In purely commercial systems much of that power resides with the advertisers. Given a dual system, with two separate, parallel organizations having different sources of income, a balance between the two is obtained, whereby some power and influence fall to the viewing audience.

But in order for this balance to be achieved, the respective business ideas need to be distinct: on the one hand, publicly financed television totally devoid of advertising; on the other, commercial financing with no element of public support. Pay-TV may be seen as a complementary business idea, alongside the other two.

The television industry will always be concentrated. As a consequence, it is vital that the concentration in the branch be differentiated. There is no hope of

the kind of geographic differentiation that characterizes the press (metropolitan vs provincial); instead, a balance must be struck between clear-cut alternatives as to the source of financing. In short: 'good concentration' is 'differentiated concentration'.

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Media mergers and acquisitions (M&A) have been, and continue to be, a salient feature of Nordic media markets. What once was a very fragmented and diverse industry is today consolidated to such a degree that many fear for the effects on pluralism. Internet is today the turbo charger of this process.

Media operate on a commercial market and have to survive on its terms. On the other hand, as purveyors of information and ideas, they are different from manufactured goods and services. The book springs out of this duality.

The book presents research of Nordic scholars who gathered at Kalmar University in March, 2008 to discuss consolidation, mergers and acquisitions in the music, newspaper and television industries. Cases from Finland, Norway, Germany and Sweden cast light on the pros and cons of mergers and as well as regulatory perspectives to defend pluralism.

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