2ND EDITION

STRATEGIC MANAGEMENT IN THE MEDIA

THEORY TO PRACTICE

LUCY KÜNG

Strategic Management in the Media

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To Gebi and Hira Maya, once more, of course.

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Lucy Küng, Küsnacht, February 2016

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Preface to the second edition

‘Turn to face the strange.’ David Bowie, *Changes*.

In the eight years since the first edition of *Strategic Management in the Media* was published, the media industry has become if not strange, then very different indeed. When the first edition was researched, BuzzFeed was still a tiny lab in Chinatown New York investigating why some emails went viral, Spotify didn’t exist, and no one had heard of an iPad. Now, the social-mobile era is in full swing, digital disrupters like Google and Facebook have morphed into news providers, Netflix, Spotify and streamed service providers have added a new layer to national media systems, and public service broadcasters worldwide are on the defensive, forced to justify universal licence fees and the scope of their activities.

Revising this book was fascinating. Analysing important new developments and deleting text on themes that are no longer current provided a unique overview into how the media industry has changed over the past decade. So what have been the key changes?

The big story is the ascendency of technology in the media (and Chapter 4, ‘Strategic Responses to Technological Change’ is now the longest in the book). Convergence theories always predicted that the media and technology sectors would move closer together. Today it seems more as if the media sector is being swallowed up by tech. In the time since the first edition was written, technology has lost the epithets ‘new’ and ‘high’. Technology is now just technology (or increasingly just ‘tech’) and it’s everywhere – determining outcomes in strategy and in leadership, central to industry core competencies, and helping shape the structure of organisations. Inside the firm, technology is no longer just the ‘plumbing’, an enabling factor that allows creative content to be produced and distributed, but the key to scale and competitive advantage, and intrinsic to content, the creative processes that underpin it, and its consumption.

Technology is now a critical element inside media organisations, and technology organisations are now critical actors in the media industry. The impact of the media conglomerates – the so-called ‘media monoliths’ – was a prime concern for scholars a decade ago. Now it has faded from research agendas, eclipsed by a new breed of digital media monoliths, tech giants such as Apple, Google, Amazon and Facebook, which are now some of the best resourced organisations on the planet, and which also control increasing portions of media content distribution and consumption.

Strategy in the media has also changed since the first edition was written. The pace, scale and scope of change in the sector has undermined strategic processes in many media organisations. In the face of rapid and far-reaching change, many have abandoned classic strategic planning in favour of a series of opportunistic, tactical moves, often focused around innovation projects: in many firms the energy, attention and resources that once went into ‘strategy work’ are now invested into inventing and reinventing products, services and business models. But ironically, while the media industry appears to have put classic strategy work into abeyance, their new digital competitors are following resolutely old-school, long-term strategies focused on achieving mass economies of scale, scope and experience through ‘hyperscale’, and using synthesized learning from big data to customize products and investments in full service technology ‘stacks’ to create barriers to entry for new players.

‘Convergence’ is another theme that has moved on in the past ten years. Comfortingly for the scholars and researchers who predicted them, many of the anticipated changes arising from convergence have come to pass, although perhaps the degree to which the media would be swallowed up by the tech sector, rather than simply merging with it, was underestimated.

And finally, leadership in the media has changed too. The role has become more complex, with new dimensions concerning the ability to understand the emerging technology trajectories and redesign business models in response, being added to the traditional ones of furthering creativity, safeguarding vulnerable journalistic values, and simply leading organisations staffed with smart, intrinsically motivated individuals. Revising the book has also shown how fast media leaders and their scandals and strategic mis-steps are forgotten. Who remembers Robert Maxwell now or the fiasco that was the merger between AOL and Time Warner? Even the relatively recent phone-hacking scandal at Rupert Murdoch’s News International is fading from the public consciousness.

As a result of these shifts, the theoretical concepts and analysis of the industry context have been thoroughly revised for this second edition. In addition to substantial editorial changes, the presentation and design has altered too. This book has more cases, and these include the interesting new actors in the industry, such as BuzzFeed, Netflix and Vice, as well as traditional players, such as *The Guardian*, The BBC, CNN and the *New York Times*. Since many readers may work in strategic roles in the media, or hope to in the future, I have included some new strategic tools and models that are more MBA/practitioner-orientated, as well as more analytical diagrams that may help with case analysis in the or for student assignments.

Writing this second edition was much more work than anticipated, but also much more rewarding than anticipated. It provoked profound reflection on the changing state of the media industry, and underlined how critical good strategy will be to its survival, to its ability to captivate audiences, and to ensure it can continue to protect valuable and vulnerable public values.

1 Introduction

> Between the economic determinations of the marketplace and the cultural discourses within media representations … lies a terrain that has yet to be fully explored and adequately theorised. (Cottle, in Cottle, 2003: 13)

The media industry is changing fundamentally and fast. This represents a very real challenge to managers tasked with planning a strategy and implementing it successfully, to researchers studying the field, and to those designing and delivering academic courses focused on the sector. This book seeks to provide assistance in several ways. First, it maps the contours of the media industry, detailing histories, business models, value drivers and current strategic issues in the various sectors that together constitute the industry. Second, it identifies the common themes surfacing in the strategic environment and the challenges these pose, as well as particular aspects of media organisations that influence the activities of strategic choice and implementation. Third, it explores the strategic models, concepts and approaches that are particularly relevant to this strategic context and these types of organisation, seeking to demonstrate their relevance through application to media industry cases and examples. Finally, it reviews the discipline of media management and the body of theory within it that addresses strategic management, and identifies a number of future research approaches and themes.

The goals therefore are clear. But the complexity of the media industry – a mammoth and diverse set of sectors that is moving ever closer to the technology sector – and the sprawling and fragmented nature of strategic theory complicate the task. In order to cut through this complexity, the book has been written with three guiding principles in mind:

1. In terms of the media industry, it seeks to move beyond simply describing developments to interpreting them, and to providing insights that will aid strategy-making in the media industry.
2. In terms of strategic theory, it limits the selection covered to those that have a direct relevance for the field, and then attempts to move beyond simply outlining concepts to demonstrating their relevance through application (what consultants call showing the 'so what'). It also deliberately seeks to work with a broader set of strategic and management theories drawn from a wider range of disciplines than is often the case in media management research.
3. In terms of language, the goal has been to strip out jargon as far as possible. This is partly to ensure relevance for practitioners as well as scientists, and partly because researchers and students in the field of media management, as

this chapter discusses, have entered the field from many different areas of scholarship – liberal arts, social science, economics, political economics, mass communications and journalism studies to name just a few – and have therefore not been exposed to mainstream management theory and are likely to find some if its usages confusing.

Structure of the book

At base, the field of strategy is concerned with how organisations align their internal organisations to master the demands of their external environment. There are a number of strategic and organisational levers they can employ to achieve this. These range from highly analytic planning approaches, based on exhaustive research and data analysis, to prescriptive and pragmatic tools, which seek to transform the inner workings of organisations through gaining a deeper understanding of intangible phenomena such as cultural beliefs and levels of motivation.

This book explains and applies concepts from each of the three core areas of strategic theory: rational approaches, adaptive approaches, and interpretative ones. Central aspects of managers' strategy 'work' in media organisations are explored sequentially – starting with understanding the strategic environment and then moving through analysing a company's competitive positioning, strategic resources and competencies, responding to technological change, options for how the organisation is structured, increasing levels of creativity and innovation, managing culture and mindset, and finally looking at the role of the leader, particularly in terms of shaping the 'social architecture' of the organisation through interpretative elements such as culture and mindset. Key concepts that are relevant for the media industries are explained, and then 'embedded' in case studies that explain how these theoretical constructs 'play out' in real-life organisations. Some cases feature in a number of different chapters, with each 'appearance' illustrating different dimensions of strategy in the media. This underlines the complex and multi-faceted nature of strategic management, the interlinked nature of strategic phenomena in firms, and, taken together, these cases will hopefully provide a richer and more nuanced understanding of the examples presented.

What is media management?

The topic of strategy in the media industry is a subset of the field of media management. Since this is an embryonic field it is worth establishing at the outset of this book what this currently constitutes, which areas of scholarship it emerged from, and by extension its boundaries and internal dimensions.

The core task of media management is to build a bridge between the general theoretical disciplines of management and the specificities of the media industry. This goal seems relatively clear. However, the field of media management in its present form is neither clearly defined nor cohesive. A review of the syllabi from the many media management courses that have sprung up over the last decade all over the world exhibit an enormously diverse range of theories, topics and core readings.

This is partly a function of relative newness. In contrast to media economics, which since its emergence in the 1970s has acquired an established set of theoretical approaches and an extensive body of literature, media management is still in its infancy; *The International Journal of Media Management* was established at St Gallen in 1998, the *Journal of Media Business Studies* in Jönköping 2004, the European Media Management Association (EMMA) in 2003 and the International Media Management Academic Forum (IMMAA) in 2004. Media management therefore is both a new field and a rapidly growing one.

But, as mentioned in the quote at the start of this chapter, it is also an under-explored and under-theorised field (Cottle, 2003). To date, mainstream management scholars have largely neglected the media industry. This could be because managerial practices and organisational patterns in the cultural industries are often at odds with established views of management (Lampel et al., 2000). It could also relate to the fact that 'mainstream' management researchers seldom limit their research to a particular sector, preferring to choose sectors and cases according to the phenomena they are investigating.

This means that the bulk of research into management and strategy in media organisations has been carried out by researchers with scholarly roots outside the study of management and organisations. Chief among these are media economics, media studies, political economics, and mass communications and journalism studies, giving rise to a body of theory which, Albarran has observed, 'crosses interdisciplinary lines, theoretical domains, and political systems' (Albarran et al., 2006: 3). The range of scientific backgrounds shared by researchers active in media management has given rise to a rich and varied literature applying an equally diverse range of theories from various disciplines including economics, econometrics, sociology, anthropology, technology management, political science, information science and political science.

To map out the current dimensions of the field's literature and the scope for the future development of the field, it is helpful to clarify the perspective and approach of the non-management academic disciplines that address, not always directly, the issue of management and strategy within media firms.

Media economics

Media management has grown up in the shadow of media economics. The latter applies economic principles and concepts to the media industries and has dominated scholarly analysis of the media sector (Picard, 2002a). Media economics tends to work at industry sector or market level. It looks at conditions and structures in the media industries and markets, and focuses on the deployment of resources, particularly financial ones, to meet the needs of audiences, advertisers and society (Picard, 2002a). Of particular concern are revenue and cost structures, pricing policy, the economics of the key processes of production, distribution and consumption and its effects on the behaviour of media firms, structural analysis of the sector, national market analysis, media ownership and concentration, competitive strategies of media firms, market structure and share, regulation, public policy and subsidy issues, consumer and advertiser demand, the impact of new technologies and consumer behaviours on the media and content industries, and the way these changes are impacting and influencing the development of media business models.

Audience economics is an extension of the media economics literature and addresses the implications of the media industry's dual product marketplace. It focuses on the economic dimensions and implications of audience behaviour and audience measurement, viewing media audiences as a product market with unique characteristics and significant points of interaction with media industries (Napoli, 2003).

In terms of strategy in the media field, media economists have looked at strategy formulation and implementation by large media organisations, in particular at the antecedents and/or consequences of change, with a focus on the environment, structure and performance, often applying rationalist models from the Industrial Organisation (IO) School. This has provided insights into media firms' diversification strategies (Chan-Olmsted and Chang, 2003; Dimmick and McDonald, 2003), structure, performance and strategic alignment (Albarran and Moellinger, 2002), transnational (Gershon, in Albarran et al., 2006) and competitive (Sjurts, 2005) strategies. A more pragmatic set of economically-influenced insights into the defining characteristics of the media industry come from analysts and consultants who have worked in the industries. These texts include Wolf's *Entertainment Economy* (1999), Vogel's *Entertainment Industry Economics* (1999), Knee et al.'s *The Curse of the Mogul* (2009) and Parry's *The Ascent of Media* (2011). The media economics literature thus addresses the behaviour of media firms in aggregate, and provides valuable insights into the economic forces affecting the sector, the influence these have on strategic options, and the types of strategic choices media firms are making within these contexts and why. It therefore provides a valuable starting point for examining processes and phenomena inside media organisations, and for understanding the non-rational processes that also influence strategic behaviour.

Political economy approaches

When media management does not fall under the umbrella of media economics, it is often a subset of political economy scholarship. This field combines perspectives from economics, politics and sociology to analyse the structure of the media industries and regulatory and policy issues, looking particularly at the economic determinants, ownership structures and political allegiances (Cottle, 2003).

Political economy approaches involve the 'study of social relations, particularly power relations, that mutually constitute the production, distribution, and consumption of resources' (Mosco, 1996: 25). In practice, the application of such theories to the media field tends to involve (often but not exclusively neo-Marxian) critical studies of cultural production, looking also at the public policies that shape media systems and the political debates about media and communication policies (McChesney, in Cottle, 2003). Typical examples would be Burns' seminal study of the BBC (1977), Tracey's study of how political, technological and economic forces have undermined public service broadcasting (1998), or Tunstall and Palmer's study of media moguls (1998).

Media studies

This cross-disciplinary field applies concepts from sociology, cultural studies, anthropology, psychology, art theory, information theory and economics to analyse the output of media organisations as a means of understanding society and its cultural discourses, and the effects of mass media upon individuals and society, as well as analysing actual media content and representations (Cottle, 2003). A typical study might analyse a film's aesthetic or narrative quality, but within the perspective of the filmmaking process and the movie industry's economic, technological and industrial context. There are separate strands looking at journalism, film, gaming, audience studies, television studies and radio studies, how corporate ownership of media production and distribution affects society, and the effects and techniques of advertising. Contemporary media studies include the analysis of new media, with an emphasis on the internet, social media, gaming and other forms of mass media which developed from the 1990s onwards.

Mass communications and journalism studies

The nature of media content and how it is processed and delivered to audiences forms the core focus of this discipline. It encompasses how the mass media have come to be organised in the way they are, how the mass media actually function – how content is produced and delivered – and the effect such content – particularly journalistic content – has on audiences, individually and collectively.

Media management – the state of play

These, then, are the major ‘host’ disciplines that have made the main incursions to date into the field of media management. The current state of the discipline reflects this development path. Viewed from a management perspective, media organisations have been largely addressed as businesses rather than organisations, at a macro rather than micro level, and much attention has been focused on the exogenous changes (technology, policy, regulation and consumption, for example) and their impact on media firms’ output.

Viewed from an historical perspective, research into management in the media can be seen as reflecting changes in its strategic environment. The 1980s and 1990s were characterised by liberalisation, deregulation and globalisation, and scholars responded by focusing particularly on issues of industry structure, the growth of the conglomerates and its implications, increases in alliances and joint ventures, and transnational management. Towards the end of the 1990s a first and second tier of global media conglomerates became established. These were multiproduct divisional entities that presented a more complex management task, and media management scholars began to focus on the specific challenges they presented, particularly in terms of structures and processes. A focus on strategic resources emerged during this period, applying approaches such as the resource-based view (RBV). The turn of the millennium saw dramatic developments in the media industry’s underlying technologies. This gave rise to research looking at the emerging distribution architecture and its ramifications for the established media industry, as well as at the concept of convergence and its ramifications. The current fast pace of technological change, the development of new boundary-spanning categories of media products, and increasing competition for audience attention have led contemporary researchers to focus on business models, and approaches to organisational adaptation, particularly the issue of innovation.

Defining the media industry

Having defined the theoretical boundaries of the field, it is time to establish the boundaries of the empirical context, the media industry. Defining the media industry was always surprisingly tricky, and it is even more so since convergence has gained hold.

Even before convergence muddied the waters, there was no commonly accepted definition of the 'traditional' media industries or agreement as to their constituent sectors. In view of the transformations taking place and range of motivations for those doing the defining, this is unlikely ever to emerge.

Europeans had, until the onset of convergence and the associated unifying impact of digital distribution, tended to view the media industries more narrowly than their US peers. They limited the sector to broadcasting (radio and television), print (newspapers, magazines, journals and books), motion picture and recording industries. US analysts often include gaming, sports and theme parks (see, for example, Vogel, 1999; Wolf, 1999). When these are included, the name often shifts from the 'media' to the 'entertainment' industries. If the 'performing arts' are included, the sector can sometimes become the 'cultural industries'. An additional variation is to include advertising, marketing and public relations, which can lead to the name altering to the 'creative industries'.

During the early 2000s, as the digital technology sector grew and encroached on the mass media industry (as well as many others) definitions of the media sector changed as a result. This is, of course, a symptom of the convergence process that is discussed in subsequent chapters, driven by the increasing centrality of software and digital technologies.

Characteristics of the mass media

The term 'media' was long been synonymous with 'mass media'. Mass media products and firms were understood by scholars as sharing a number of common and defining characteristics, many of which influence strategic activities on the part of the media firm.

First, media products are experiential goods. Their value derives from their immaterial attributes, from their originality, from the intellectual property, messages or stories they contain, from their use of symbols to engage and manipulate perception, experience and emotion (Garnham and Locksley, in Blumler and Nossiter, 1991; Lampel et al., 2000).

Traditional mass media products are based on technologies that allow the massive duplication of material – whether physical duplication via printing and record presses or electronic duplication via broadcast systems. The production process typically involves a single cycle of product development followed by mass production. Fixed costs are high. First copy costs are also high since the content investment is front-loaded in the initial development of the product. Thereafter production costs are low and economies of scale effects mean these reduce rapidly with volume.

Because many traditional mass media products can be re-versioned into different formats, media firms can sell and resell the same media product indefinitely with minimal additional production costs. This encourages them to maximise returns from sunk investments in content through expansion into as many product lines, outlets and geographic markets as possible. These factors influenced decisions concerning levels of content investment, marketing, distribution and pricing (Shapiro and Varian, 1999; Napoli, 2003) as well as the extent of vertical integration and scale of diversification (Chan-Olmsted, 2006).

However, media products are also heterogeneous. Each one is unique – no two newspapers, magazines, news broadcasts, books are identical, although there are standard formats (often dictated by production technologies). A substantial proportion of media products are also perishable – newspapers, for example.

This, coupled with the fickle nature of public taste, means that there has always been a high degree of product risk. (Which products will strike a chord with the market? Which content investments will pay off?) Constant product innovation is a fundamental requirement. Further, the value of media products derives from the knowledge and creative inspiration of those creating the content: the higher the level of novelty and creativity, the greater the potential for competitive advantage – thus the primacy of creativity as an organisational resource (these issues are discussed in Chapter 5).

Mass media products are also defined by the fact that they deliver an identical message to a potentially unlimited audience. Communication is one-way – the receiver of the message cannot communicate with the sender of the message using the same media, and the presentation or packaging of products is linear and fixed.

Broadcast mass media products, as historically conceived, are non-excludable and non-depletable public goods, that is, the cost of production is independent from the number of people who consume it – consumption by one individual does not limit the quantity available to other people. The cost of producing a television series or radio broadcast is independent of the number who will watch it. Other media products, such as books and films, have the characteristics of both private and public goods (Picard, 2002c). Their content can be classified as a public good in that the costs of its generation remain the same irrespective of how many consume it. But the form in which they are delivered to the consumer can be identified as a private good: if consumed by one person that product is not available to others (thus a shop may sell out of copies of a particular book, and a cinema may sell all of its seats for a particular showing).

Mass media business models

The business model for traditional media businesses (with the exception of public service broadcasters) is that they receive revenues from advertisers in return for ‘delivering’ audiences to them, those audiences having been attracted by the content media products offer. Characteristics of this model are that it has a significant component of indirect payment (a large proportion of costs being born by advertisers), is collective (payment models are based on aggregating the largest possible number of consumers) and based on standardised products.

Therefore, many media organisations producing advertising-supported media – newspapers, magazines, television and radio – operate in a dual-product marketplace: in addition to producing content, they also ‘produce’ audiences – that is, they provide content to attract audiences, and these audiences are ‘sold’ to advertisers (Picard, 2002a; Napoli, 2003). This influences the content strategy. In general the goal will be to provide content which appeals to the largest number of consumers. However, within this broad market those demographic groups that are most attractive to advertisers will receive a disproportionate amount of attention.

Even before the onset of convergence, this model was undergoing a process of restructuring, spurred by the introduction of cable and satellite transmission technologies which allowed direct payment for specific programming through subscription-based and pay-per-view systems. The indirect, collective business model which underpinned the mass media was beginning to be undermined. The new media, however, have undermined this model even further.

Digital media

Since the advent of the internet the term 'mass media' has been synonymous with 'traditional media' and increasingly 'legacy media', which are seen as very different from the new forms of media that have emerged with digital technologies. While there is substantial consensus concerning what the mass media constitute, the digital media field is challenging to define, largely because it is developing so fast. Usage displays tremendous definitional variety, but common to these is an understanding that digital or new media are based on computing technologies, use digital information, and deploy the internet as a delivery network.

These characteristics mean the new media sector is profoundly different from the mass media one and the differences between the two look set to grow. A decade ago this domain was confidently termed 'The New Economy'. The collapse of the dotcom sector put paid to such hyperbole, but there is still undisputedly a new dimension to the media industry, now entirely equivalent to, if not larger than, the 'old' one, and with a number of characteristics that make it very different from the 'old' one – notable among these are the close links between content, communication and community, the active role of users, and very close ties to the technology sector.

Social responsibility requirements and regulation

One issue that distinguishes the media sector, and deeply influences the task of leadership in the media, is the expectation that media organisations, irrespective of their commercial goals, act in a socially responsible way and promote specific social values. It reflects an assumption that the media is a cultural force: it shapes society and its messages are fundamental to democracy. So the media must not only seek to maximise profits and returns to shareholders, but must also act in the public interest and promote social values such as social interaction, engagement, democratic participation, collective knowledge and cultural identities (Cottle, in Cottle, 2003; Picard, 2004). This requirement is enforced by law and as a result media firms contend with a slew of regulations affecting many aspects of strategic activity, for example, the scope for growth, the types of product that can be made and the prices that can be charged.

There is no uniform understanding as to what constitutes social responsibility although a number of core societal functions have been identified:

- providing a forum for the exchange of opinions between different groups in a democratic society
- acting as an integrative influence – especially important in countries with high levels of immigration or linguistic differences
- protecting core values – the interests of children or a diversity of cultural expression, for example
- furthering innovation in technological systems – for example, to encourage citizens' uptake of new technologies. (Bertelsmann Foundation, 1995)

These core functions give rise to strictures designed to limit the potentially negative effects of media products and promote potentially positive ones. Negatively-framed strictures limit and prevent socially undesirable elements such as the violation of human dignity, sexually explicit or violent content, content that could pose a threat to children, the violation of privacy, discrimination against minorities, the co-option of broadcasting into the service of powerful interests. Positive ones seek to ensure independence from political or commercial influences, plurality of opinion, promote the robust functioning of democracy through acting as a check on government, facilitate political discourse and ensure a diversity of opinions have a platform for expression, as well as ensure a plurality of opinions are expressed and that minority views have a platform. These requirements tend to affect generalist broadcasters more than thematic or niche ones, and the journalistic function, in particular.

The presence of regulation, and its influence on the operations of media organisations, is well known to scholars of political economics, mass communications and journalism theory, but can be a foreign notion to those approaching the media industry from purely business perspectives. What it means in practice for the media manager is that the regulatory framework exerts a strong influence on strategic options and by extension corporate strategies. These in turn guide programming and editorial decisions.

Overview of subsequent chapters

This book has nine chapters and they address the following issues.

This first chapter, the Introduction to the book, describes its goals, structure and scope.

Chapter 2, 'The Strategic Context', analyses the strategic context that influences strategy in the media and identifies a number of themes that are shaping the strategic agenda in the field.

Chapter 3, 'Strategic Concepts for the Media Industries' provides an overview of the rich and variegated nature of strategic theory. Strategic theory is an enormous, diverse and fragmented field. To reduce this complexity and variety, this chapter applies a categorisation that 'organises' strategic theory into three core schools that are situated on a continuum moving from rationalist to symbolic approaches. It explores the relevance of each school or approach for the media field, situates existing work on strategy in the media industries within this categorisation and uses it to provide an overarching framework for the subsequent chapters in the book.

Chapter 4, 'Strategic Responses to Technological Change', explores the often intricate relationship between technology, technological change, strategy and the media industries. It discusses the increasing strategic significance of technology for the sector, distinguishes between different types of change and identifies the requirements these place on firms and the factors that help or hinder effective responses.

Chapter 5, 'Creativity and Innovation', explores the role of creativity in the media, its strategic importance, and why this is increasing. It reviews theoretical understanding of the topic and explores the distinctions between creativity and innovation. Through discussion of one particular body of theory, theories of organisational creativity, it reviews how media organisations can raise levels of product creativity over the long term. It also examines how creativity and innovation can be applied to media organisations' wider strategy, structures, processes and business models.

Chapter 6, 'Culture, Mindset and Strategy', addresses core elements of the interpretative school of strategy, and their relevance for strategy in media firms. In particular it looks at the roles of organisational culture and mindset (that is, cognitive structures in strategy processes and firm performance).

Chapter 7, 'Organisation Structure and Strategy', reviews how the structures of organisations in the media are adapting in response to a changed strategic environment, and the implications of these developments for strategy and company performance. It reviews the generic drivers of changes in structure in general and then looks more closely, from a chronological perspective, at the changes taking place in the media, particularly mergers, alliances, start-ups, networks and project-based organisations.

Chapter 8, ‘Leadership’, explores leadership in the media industries and its influence on strategy. It reviews theoretical understanding of leadership and the strands of this research that are most frequently applied to the sector. A number of cases are highlighted, including Michael Eisner, Rupert Murdoch, Greg Dyke and Jonah Peretti, to both contextualise the theory and provide insights into the specific requirements and challenges surrounding strategic leadership in the media.

Chapter 9, ‘Conclusions – The End of the Digital Beginning’ has as its main task pattern recognition. Drawing on the analysis and discussion contained in this volume, this chapter draws conclusions about the current shape and future contours of the media industries, the implications of these for the strategic management task and for further research in the field, particularly concerning research themes and methodologies.

2 The Strategic Context

> The effective organization of industrial resources, even when considered in its rational aspects alone, does not approximate to one ideal type of management system … but alters in important respects in conformity with changes in extrinsic factors. These intrinsic factors are all, in our view, identifiable as different rates of technological or market change. … By change we mean the appearance of novelties: i.e. new scientific discoveries or technical inventions, and requirements for products of a kind not previously available or demanded. (Burns and Stalker, 1961/1994: 96)

This citation comes from a classic book written in the 1960s on the management of innovation – one of the few that draws on the media industry for its examples. It is included here because it neatly underlines the key drivers of environmental change for the media today – changes in technology and changes in consumer behaviour – and also the enduring nature of these themes. These two elements have always influenced the practice and content of strategy in the media, although for many decades the pace of these developments has typically been relatively measured. More recently, the pace of change has accelerated and it has also become more far-reaching.

The field of strategy is concerned with how an organisation orchestrates a successful response to its environment. Strategy is challenging because that environment is never static. Rather, like all complex systems, it is in a constant state of flux. The nature of this change can vary. At some times it can represent relatively benign and easy to accommodate alterations to the status quo, at others it can be rife with many different developments, the dimensions of which are far from clear, and the implications of which are hard to predict.

Porter, one of the most influential theorists in the field, views aligning an organisation with its strategic environment as the essence of competitive strategy (Porter, 1980). As anyone who has studied the strategic situation of any particular organisation will know, any strategy is always situational and context-dependent, and the appropriateness of any given approach will depend on the industry context. This chapter explores the strategic environment, the macro environment, surrounding the media industry, and explores some of the central changes taking place in it and their implications for strategic management.

Permanent drumbeat of technological change

Viewed longitudinally technological change has been a consistent and long-standing challenge for the media industry. The long-term erosion of traditional media products by new media ones is inevitable (Picard, 2003), although, as Riepl (1913) and Fidler (1997) stress, new forms of communications media do not extinguish previous ones, but rather force them to evolve and adapt. This constantly shifting ‘technological carpet’ gives rise to one of the core strategic challenges for strategic management – adapting strategy and organisation in response to these developments. And it is skilled at responding to this challenge – when faced with major shifts, the constituent sectors of the industry have shown a remarkable ability to adjust their products and processes and carry on, albeit with different business models and lower revenues.

From a strategic perspective, the changes in the strategic environment until the mid-1990s represented, in the main, incremental alterations to the status quo. The strategic context of the media sector remained ‘mature’ (Porter, 1980), with slow growth, strong competition between a known group of players, high barriers to entry, in the main, and knowledgeable customers. The 1990s, which brought the full-blooded advent of the internet and digitalisation, heralded a new era, one that emerged with unprecedented speed and has continued to evolve equally fast, moving content first on to desktops and then on to mobile screens, with social media platforms taking an ever larger role in content distribution.

Scanning the strategic environment – PEST analysis

PEST is an acronym. It stands for political, economic, social and technological – and these are the broad categories by which an organisation (or business unit) can scan its strategic context to identify key macro environmental factors that need to be fed into the strategic analysis process. The PEST model is practitioner rather than researcher orientated, and is probably the simplest concept in this book. But if applied well it can highlight the critical factors in the strategic context that strategies need to address. The trick is to scan widely but then be highly selective in terms of factors included in the analysis, to pinpoint a smaller number of critical issues, rather than generate an exhaustive list of external changes in the outside world. PEST analysis is a valuable first stage in any strategic process or case study analysis (and is normally introduced early on in MBA and similar management courses).

PEST analysis involves screening the external environment for factors, developments or changes that affect an organisation's strategic situation, and then grouping these into four categories:

- Political/legal factors: such as regulation, tax policy, labour law, political stability, etc.
- Economic factors: including economic growth, interest rates, exchange rates, inflation, average earnings, cost of labour, labour shortages, levels of household debt, etc.
- Social factors: for example, demographic changes, population growth rate, skills, etc.
- Technological factors: such as the pace and nature of technological change, changes to technology or utility infrastructures, automation, levels of R&D activity, etc.

PEST Analysis of Public Service Broadcasters

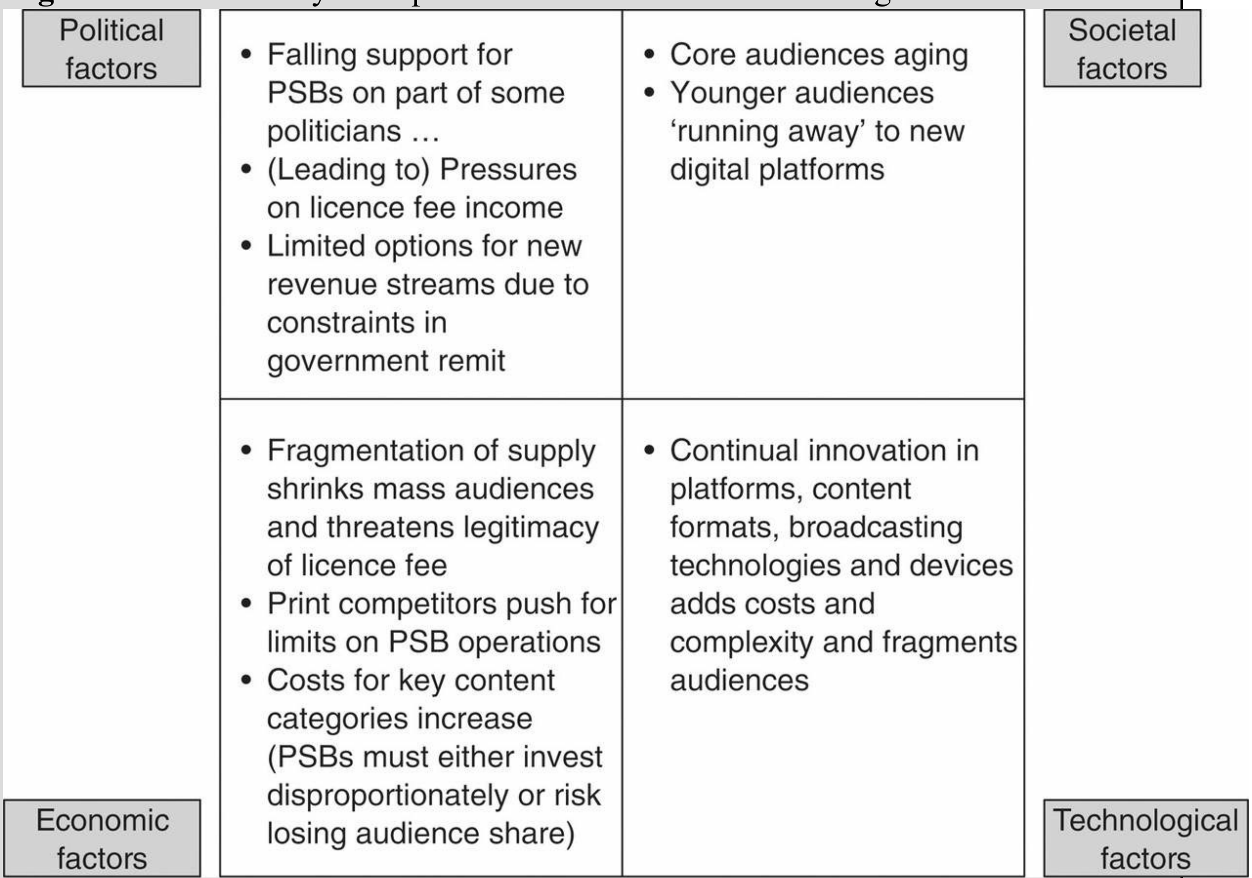
The strategic environment surrounding public service broadcasters (PSBs) has become progressively more challenging in recent years. PEST analysis indicates a number of factors which are contributing to this shift:

Technological factors

Technological advances (such as cable, satellite, digital and online distribution) mean that the limits to the amount of broadcasting spectrum available have been relieved, and there has been a massive expansion and fragmentation of supply. The scope of public service broadcasters' operations has expanded in response, and they have progressively added new services and platforms, including online, catch-up services, digital TV, HD TV, and so on. This has added costs and complexity to their operations.

The relief of spectrum scarcity and the increase in supply of broadcasting services has in turn undermined the rationale for public service broadcasting. Limited spectrum was a central argument for the establishment of public service broadcasters: they provided a 'portmanteau' programme that offered something for everyone, necessary because they were then the only broadcasting service provider. In return they received assured income in the shape of a universal licence fee. Nowadays, when consumers have a very broad range of options for audio-visual content, a universal charge for a universal service makes less sense. Public service broadcasters find themselves in a position where they need to clarify and demonstrate the value they create for national audiences and audio-visual economies.

Figure 2.1 PEST Analysis of public service broadcasters' strategic context



Economic factors

Consumer outgoings for media-related products and services (telephony costs, pay TV and streamed media services, smartphones, tablets, and so on) are increasing. As the supply of competing audio-visual content increases, public service media content consumption is falling, reducing in turn willingness to pay licence fees. This increases pressure on PSBs to offer exclusive and distinctive content that attracts large audiences and therefore justifies the licence fee.

However, new entrants into the broadcasting industry value chain (telecoms providers, streamed and over-the-top (OTT) services) need exclusive 'killer content' to drive adoption of their services. This is driving up content bills (as investment in fictional content increases and as competition for the rights to key sporting events intensifies). PSBs must either spend disproportionate amounts of already stretched budgets on these categories, or decide not to invest in these content categories and risk losing market share as a result.

Further, as newspapers come under increasing financial pressure as a result of declining print revenues, their sensitivity towards PSBs and their guaranteed funding grows, and they are exerting pressure on politicians and regulators to rein the scope of PSBs' operations. In some countries this has led to limitations in their permitted spheres of activity (for example to the amount of advertising they can carry or the extent of their online activities).

Social factors

Younger demographic groups (variously titled the Millennials, Gen X, Gen Y, and so on) are deserting classic mass media products (broadcast television and radio, newspapers, etc.) for new digital media services and products (such as BuzzFeed, Vice, Facebook, Snapchat and YouTube). While public service broadcasters have traditionally catered for older audiences, this nonetheless raises questions concerning the long-term viability of the PSB model. If these younger demographic groups, as they age, continue to favour alternative audio-visual products, then a universal fee will become ever harder to justify.

Political factors

As the public consume less PSB output, and as competitors become more vocal in their demands to limit PSBs' remit, politicians' support for the concept of PSB is lessening, especially where those organisations have robust news and current affairs divisions given to challenging politicians and political processes. In recent years, this shift in attitudes has led to public service broadcasters in the UK, Australia, Canada, France and Spain all seeing cuts to their budgets, either directly through reductions in the licence fee, or indirectly via the cessation of subsidies, reductions in advertising quotas or a requirement to carry broadcasting-related costs hitherto carried by governments (for example, the BBC has been required to carry all costs for the World Service, which was previously part-funded by the UK's Foreign Office).

Thus PEST analysis shows that public service broadcasters no longer occupy the privileged strategic position they once did and highlights a number of strategic challenges. They are growing progressively poorer as their resources are stretched more thinly as they expand their services on an ever-growing range of platforms and as costs increase for certain key content categories that are critical to maintaining a mass market audience. They must maintain their market share if they are to maintain legitimacy for the licence fee payment model, and they must find a way to attract younger demographic groups if they are to secure long-term relevance. At the same time, they have limited options for developing new revenue streams, as their sphere of operations is prescribed by government remit. Criticism from politicians and from competitors is growing, and they will need to devote increasing energies to defending their activities in political and commercial circles.

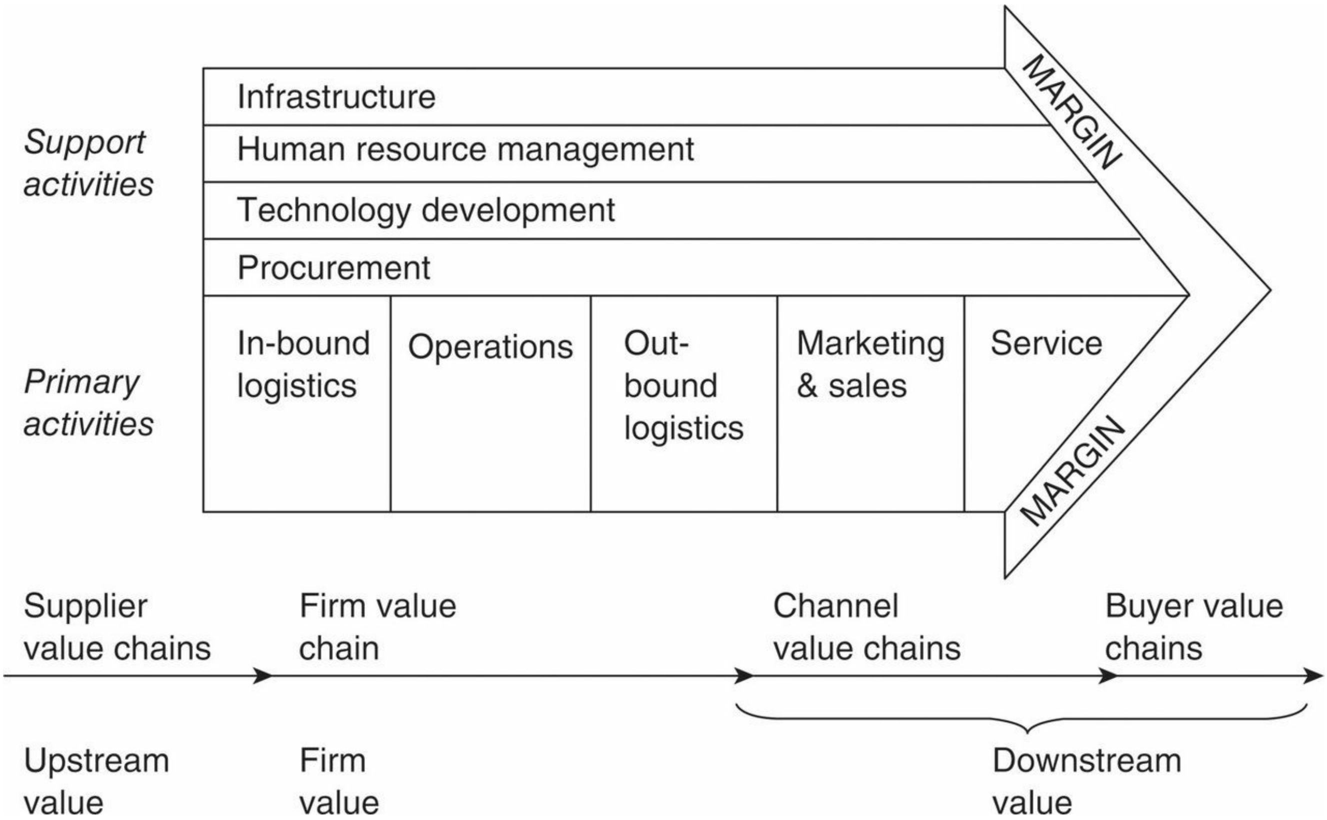
Value chain analysis as a tool for highlighting environmental change

> A company can outperform its rivals only if it can establish a difference that it can preserve. It must deliver greater value to customers or create comparable value at lower cost, or do both. The arithmetic of superior profitability then follows: delivering greater value allows a company to charge higher average unit prices; greater efficiency results in lower average unit costs. Ultimately, all differences between companies in cost or price derive from the hundreds of activities required to create, produce, sell, and deliver their products or services. … Cost is generated by performing activities and cost advantage arises from performing particular activities more efficiently than competitors … activities, then, are the basic units of competitive advantage. Overall advantage or disadvantage results from all a company's activities, not only a few. (Porter, 1996: 62)

The 'value chain' (Porter, 1985) is an analytical construct with roots in industrial organisation theory and microeconomics (which means this section of the book could equally well have been included in the review of rational approaches to strategy in Chapter 3). The value chain uses the concept of 'value' from an economic perspective, and assumes that organisations employ a variety of resources to create products and services that are made available in the market. Successful companies manage to combine those resources in a way that creates products and services with more value than the combined value of the resources used. This surplus value represents profits or earnings.

The value chain disaggregates the activities of a firm into sequential stages stretching from the supply side to the demand side, from inputs to outputs, as shown in Figure 2.2. These stages represent the 'meta' tasks involved in the creation and distribution of a firm's goods and services. Value chain analysis in the original sense involves analysing each activity from the perspective of the 'value' it adds to the final product or service (known as 'margin'). The more competitive the value chain of an organisation, the more the overall product's value exceeds the sum of its parts, the more overall margin that can be realised as profits. Thus the model implicitly assumes that competitive advantage is created through scale, through vertically integrating as much of the value chain as possible.

Figure 2.2 Value chain (Porter, 1985)



Value chain analysis can provide valuable insights when taking many types of strategic decision, for example whether a strategy of vertical integration would make sense (which confusingly means expanding the extent of horizontal control along the value chain), or whether to leverage resources across many segments to achieve economies of scale and scope, or to focus on one narrow field. Thus, for example, when Steve Case, then CEO of AOL, decided to acquire Time Warner, he was pursuing a strategy of vertical integration which should theoretically have led to greater economies of scale and scope. These would be achieved through an increase in the number of media platforms under the company's control and in the amount of content to put on those platforms (although, as discussed later in this book, this strategy did not play out as planned).

A firm's value chain is embedded in the value chains of the upstream and downstream businesses in the sector. Thus a newspaper company's value chain has historically been linked to those of, among others, the newswire companies and press photograph agencies (content supply), newsprint and ink suppliers (production), and organisations delivering newspapers to homes and retail outlets. Today that value chain would probably also be linked to the digital platforms such as Facebook, Google, Apple and Snapchat, as well as to the app stores. An industry's 'value system' links the individual value chains of different players within a sector into a system or 'chain' of activities stretching from originator to the consumer.

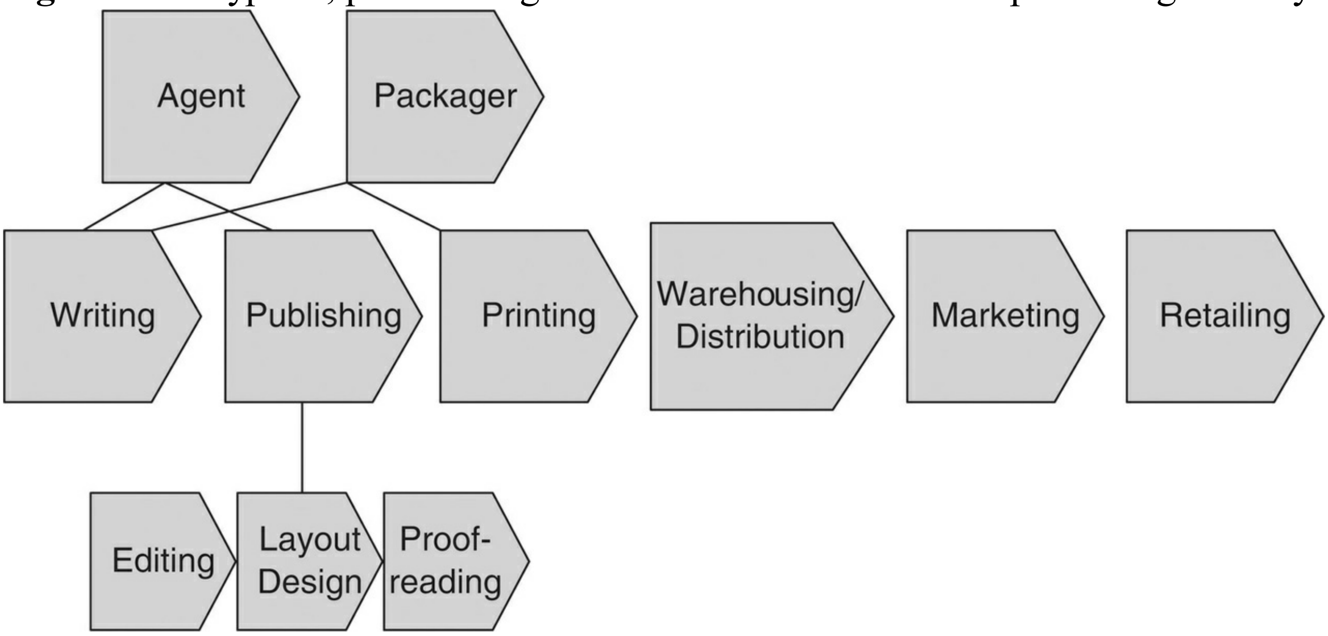
Porter (1996) viewed the failure of many firms' strategies as resulting from difficulties in translating a strategy that has been designed to align an organisation with its environment into specific action steps. He developed the value chain as a bridge between the activities of strategy formulation and implementation. Breaking down an organisation's value creating activities into strategically relevant stages allows each one to be analysed and the behaviour of costs and potential sources of differentiation to be uncovered. This process will show how core processes and activities might be altered to increase value for customers and advantage relative to competitors, or modified to create new types of business.

Value chains in the media

> Media companies worldwide are struggling to understand and adjust to wide-ranging external and internal changes that are altering modes of production, rapidly increasing competition, eroding their traditional audience and advertiser bases, altering established market dominance patterns, and changing the potential of firms. (Picard, 2004: 1)

The value chain has long been an almost default tool of preference for analysing industry sectors and this has been the case in the media too, where it has been favoured by practitioners, consultants and, during the first flush of the dotcom era, by academics too (see, for example, Tapscott, 1996; Yoffie, 1997; Downes and Mui, 1998). However, the concept is seldom applied in the 'pure' analytic way as Porter developed it – where individual firm activities are disaggregated and analysed to identify sources of competitive differentiation – but rather at industry level as a shorthand means of depicting graphically the various stages by which media products are created and delivered to the end consumer, and visualising the changes taking place.

Figure 2.3 A typical, pre-convergence value chain for the book publishing industry



Before the advent of the internet and digitalisation the mass media industries had relatively straightforward value chains and players had high levels of control over the entire sequence of stages. Normally these were some variant of the following sequence: developing content, packaging content, distributing content and organising for the reception of content.

Since then, a succession of technological advances has caused significant change to industry value chains. These include:

- The 'broadbanding of networks', which has created a high-speed transmission infrastructure that allows consumers to access digital media anywhere and anytime.
- Wireless ubiquity, which allows fast, two-way communications via mobile networks over wide geographic reach, extending 'anytime' and 'anywhere' consumption.
- An increasing number of consumer devices that are internet-enabled, multifunctional and mobile, such as smartphones, tablets, e-readers.
- Social media platforms such as Facebook, YouTube, Snapchat and Twitter that both host and accelerate the distribution of media content.
- Storage and processing capabilities that are both increasing and becoming cheaper, making on-demand content feasible on a mass-market basis, and allowing it to be delivered to a range of devices and geographic territories.

Industry value chains provide an insight into the effect of these developments. The industry now faces a situation where disruptive players can enter the media sector and provide the same or greater value to customers as that offered by legacy players, but can achieve this by bypassing many elements of the traditional value chain (and the costs associated with them). This then allows them to invest in new value-creating activities to levels that legacy players may not be able to match, thus creating a barrier to entry. There are numerous examples. Data analysis, for example, is a new stage in the value chain for many media companies. New players such as BuzzFeed, Netflix and Spotify have 'baked this in' to their value chains and linked it to the content creation stage (where insights from data analysis inform content creation decisions) and to the distribution and sales stages (which are designed to capture specific and detailed categories of data to feed back into content creation). Legacy players need to build this stage and retrofit the set of activities it involves into existing systems, which is expensive and can often lead to an inferior solution.

Figure 2.5 shows how this process can play out in the book publishing sector. It is now possible for an author to use the web and social media to build a digital presence and a fan base (author of *Fifty Shades of Grey*, E. L. James did exactly this, the book being acquired by a conventional publisher only after it had become a self-published bestseller). The author can use self-publishing services to edit and produce physical and virtual editions of the book he or she has written and negotiate with physical and online book retailers. Alternatively, agents can integrate forward into the publisher's role and liaise with publishing intermediaries and retailers. In this extreme example, traditional book publishers have been bypassed entirely.

Figure 2.4 Succession of technological advances trigger change in media industry value chains

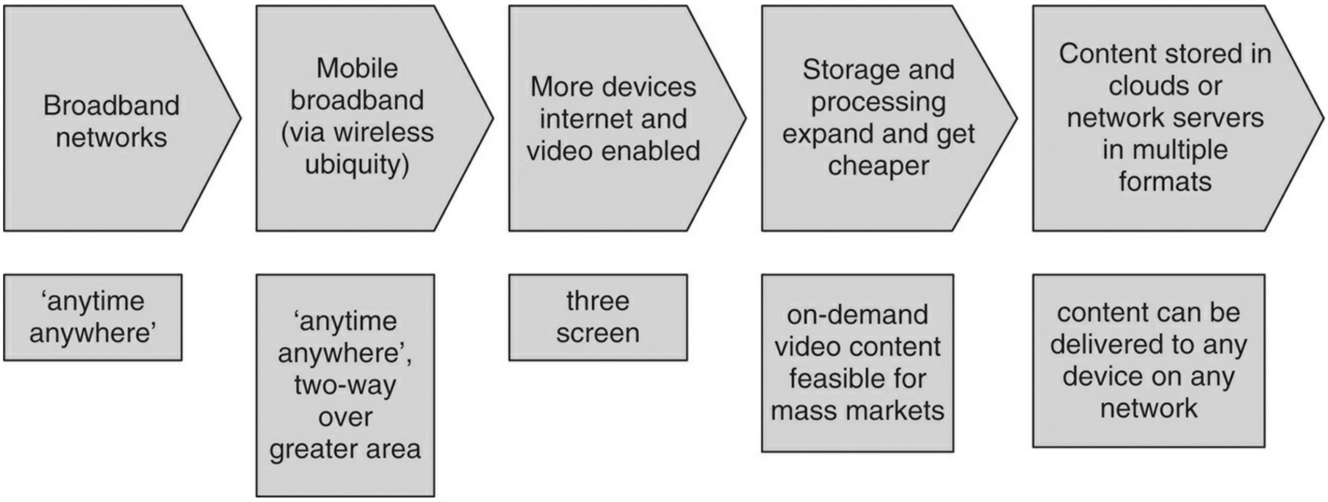
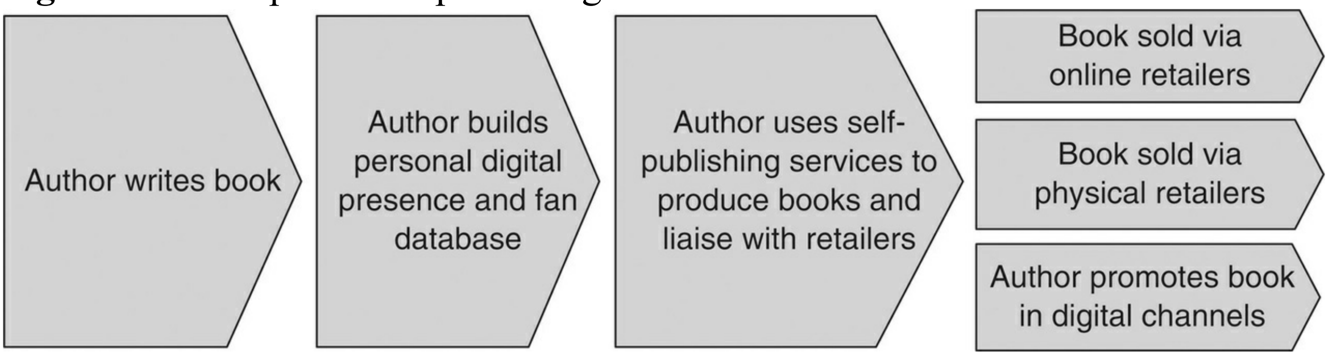


Figure 2.5 Disrupted book publishing value chain



So is the value chain concept now redundant? This question has been posed often since the onset of digitalisation and the internet (see, for example, Rayport and Svioka, 1995; Yoffie, 1997; Downes and Mui, 1998), with an argumentation that runs as follows:

> Convergence is causing value chains to deconstruct, fragmenting into multiple businesses with separate sources of competitive advantage. Porter's model bundles all the functions in a value chain together, averaging out the advantage provided at each constituent stage. What matters is competitive advantage over the whole chain – as long as the sum shows competitive advantage, it doesn't matter specifically where the advantage comes from. However, when value chains are deconstructed, advantage on average no longer matters. Organizations can't subsidize poor performance in one activity by combining it with others in which they are advantaged, since competitors will emerge who focus on maximizing performance at just one specific step. Thus to survive, a competitor has to be advantaged in each and every activity. (Evans and Wurster, 2000: 58)

The value-chain concept is still with us, but what appears to be taking place is 'deconstruction', that is, the dismantling and reformulation of traditional business structures (Evans and Wurster, 2000: 39). Under this umbrella term there are a number of different types of value-chain changes taking place, and these are not mutually exclusive.

Disintermediation and unbundling

Disintermediation and/or unbundling occurs because technological advances, particularly those concerning new means to distribute and receive content, coupled with the deregulation of markets, make it feasible to de-couple specific stages from hitherto tightly enmeshed value chains. This reduces entry barriers encouraging new types of business that concentrate on specific stages of the value chain (Bradley and Nolan, 1998). Thus MTV, discussed below, started life by adding a new stage to the value chain: aggregation, or sourcing external content (music videos) and bundling this into channels. For incumbents, unbundling allows them to split up vertically integrated value chains into multiple businesses, each of which can function as a separate business with its own sources of competitive advantage. This challenges the concept of averaging value across an entire chain, suggesting that if significant competitive advantage cannot be created at a particular stage it should be outsourced (Evans and Wurster, 2000). This alters firms' strategic perspective, which becomes at once narrower and broader: narrower in that they are forced to concentrate on core competencies; broader in that non-core activities are outsourced and relations need to be maintained with outsourcing partners.

MTV – a Product of Value Chain Disintermediation

MTV is a classic example of an organisation created from 'unbundling' a stage of the value chain – packaging – that was hitherto part of integrated players' value chains into a discrete stand-alone business. As such it also represented the emergence of a new stage in the value chain – aggregation, or the sourcing of external content and packaging this into channels. This was to become standard practice for new cable and satellite channels in Europe.

In 1981 MTV was founded as a joint venture between Warner Communications and American Express. The partners saw a business in packaging promotional videos, a marketing tool for pop music, into a music television channel that would appeal to youth audiences and to artists seeking to promote themselves. The music majors and advertisers doubted the appeal of the concept initially (a classic example of a fixed industry mindset limiting innovation), even though record stores saw the potential from the first, and enjoyed a positive impact on sales that resulted from MTV's launch. The music industry's attitude changed only in 1985 with the worldwide broadcast of the Live Aid concerts on both sides of the Atlantic which demonstrated the size of the market for pop music and MTV's ability to promote record sales.

The original MTV product was an idiosyncratic combination of videos and VJ commentaries about musicians. It created a counter-culture image from the start, typified by its graffiti-style logo. In 1984 MTV Networks went public, and in 1985 American Express sold its interest to Warner, who later sold MTV to Viacom. As the popularity of MTV grew, a virtuous circle was created whereby as record companies recognised the potential of the network as a marketing medium, they invested more in the quality of their videos, and the channel gradually shed its alternative, low-budget image. As content improved, viewer numbers rose and MTV became a major force in cable television and in the music industry.

By 1987 interest in continuous music videos was waning and the channel moved towards standard programming fare, such as documentaries, reality television shows such as *The Osbournes*, live broadcasts and series such as *Beavis and Butthead*. It launched MTV Europe 1987 and thereafter it gradually expanded internationally, eventually reaching 90 countries on five continents. In recent years its policy has been to localise content as far as possible. Channels are locally run and free to interpret the MTV brand as they see fit, and presenters use native language and show local artists in addition to international ones. Digital television allows MTV to target even smaller niches, allowing it to attract both international and local advertising.

Fragmentation, extension and contraction

A related concept is fragmentation (although the terms unbundling and fragmentation are very similar and are often used interchangeably). Value chains fragment when stand-alone single stages are unbundled into a number of discrete activities. Thus the content stage can fragment from producing content in-house to be distributed by the company's own distribution network into different content-related activities: buying-in content from third parties and enhancing external content, as well as producing its own content.

Fragmentation inevitably leads to value-chain extension whereby more stages are added, elongating chains. This is particularly apparent at distribution stages. So, fragmentation in newspaper value chains means newspapers have many options for distributing their content including print, PDF, web, mobile, app and podcast formats. Fragmentation at the distribution stage of value chains is expensive, for example the producers of fictional content such as television series ideally need to make their content appropriate for consumption on many different types of devices. New players such as Netflix that have grown up with the new platforms are better positioned to handle this complexity than legacy players who must combine operations on these new platforms with their traditional broadcast distribution infrastructures.

Value chains can contract also. Record companies can discover new artists and distribute and promote their works online, bypassing conventional production, marketing and distribution activities. As we have seen, an author can self-publish a book and sell it as an e-book and a physical one on Amazon. TV series producers can develop concepts and sell them direct to streaming services such as Netflix or Amazon Prime. Personalities can distribute content directly over digital channels, like YouTube, sometimes even achieving mass-market audiences, but bypassing traditional industry value chains entirely.

In these examples of value chain contraction, the media organisations' role has been reduced or even eliminated. To avoid this they can adopt a number of measures designed to demonstrate their value to content creators including using their marketing expertise and media contacts to build their public profile, and demonstrating their expertise in professional content production.

Endemol – Born of Value Chain Fragmentation

Endemol, at the time of writing the largest independent television and digital production company in the world, belongs to a relatively recent category of media organisations – television format providers working on a global basis. This group emerged as a result of fragmentation in television value chains, specifically the trend towards the outsourcing of programming that occurred partly in response to an increase in the number of channels needing content (a detailed discussion of their strategy and core competencies can be found in Chapter 7).

Founded in 1994 and based in Amsterdam, Endemol focuses on a sub-segment of broadcast content – unscripted reality television formats, such as *Big Brother* and *Deal or No Deal*, scripted dramas and soap operas. These formats are designed as multi-episodic, locally replicable content concepts with strong brands that can be exploited simultaneously across multiple media platforms in many different national markets and are attractive to audiences, advertisers and sponsors.

Since creation, Endemol has invested heavily in international expansion, creating a global network of over 90 production companies in over 30 countries, mainly through acquisition (which brings the additional benefit of acquiring new formats) and joint ventures. In addition to the sale of licences to produce the programmes (it owns over 2,000 formats and exports to over 25 countries), Endemol places equivalent emphasis on revenue streams that have hitherto been seen as ancillary – advertising, sponsorship and transaction fees from e-commerce, voting and text messaging.

A diagram of Endemol's central value creation processes would resemble not a chain but a vertically integrated transnational hub focused on the content stage of the value chain, with spokes radiating out across different delivery platforms and linking with the value chains of joint venture and outsourcing partners. This constellation is based on the opportunities created by convergence, fragmentation and globalisation and would have been unimaginable 20 years ago.

The innovative approach of companies such as Endemol (or of its peers such as Freemantle or Shine), especially concerning the active exploitation of new distribution platforms to build traction for their series, has forced traditional players to rethink their value chains. For example, mobile and social media are integral to Endemol's content formats, online channels linked to television programmes run live video streams to attract internet audiences and social media networks are used to build involvement. Many broadcasters have adopted such approaches. Recently, the organisation has consolidated its digital operations to create a multi-channel network called 'Endemol Beyond'.

Non-linear chains

> The traditional [entertainment and media] value chain is changing, particularly in distribution and at the points where traditional sub-sectors meet. … A seemingly unending stream of new formats and devices has complicated distribution. … This growing complexity means that the traditional … value chain is not linear any more, but fluid and multi-directional. Not a chain at all, in fact, but something much more complex. (PWC, 2013)

So far in this chapter value chains have been assumed to be linear constructions – that is, sequential strings of activities. However, as stages fragment and distribution platforms and devices proliferate, non-sequential, interactive alignments, such as fluid cross-sectoral business networks, are emerging. Endemol could also be described as having a non-linear value chain in that it combines vertical integration with high levels of alliance activity and distribution over many different platforms.

Changing business models

> Ultimately, business model innovation is about creating value, for customers, and for society. It is about replacing outdated models. With its iPod digital media player and iTunes online store, Apple created an innovative new business model that transformed the company into a dominant force in online music. (Osterwalder and Pigneur, 2010: xvii)

The value chain is closely linked to another term that has been equally ubiquitous in industry strategic discussions in recent years, the 'business model'. The term 'business model' is widely used, but seldom defined. Indeed, there is no single definition, and usage varies widely by sector and professional specialisation. Information technologists use the term to map the product, service or process architectures. Strategists use it to describe the configuration of resources in response to a particular strategic orientation, for example, firms could experiment with new business models that represented different permutations of reducing costs (cost leadership strategy), engaging in acquisitions to scale the business, and enhancing services, often through personalisation (differentiation strategy).

Business people tend to keep usage simple; it essentially means the product(s) offered, the value proposition they represent for customers and the revenue streams that will flow from them. Thus Osterwalder and Pigneur (2010: 14), in their best-selling handbook, describe it as 'the rationale of how an organization creates, delivers and captures value'. For example, the business model of MTV when it launched was to bundle promotional music videos into TV channels aimed at teenagers and financed by advertising. The elegance of this model was that content costs were low (although the quality of content was generally high), and because content costs were low MTV's advertising rates could undercut competitors and still generate healthy cash flows, because teenagers were a demographic group advertisers want to reach.

Like the value chain, the business model concept can also illuminate industry transformation level. Thus the traditional newspaper industry business model was a portmanteau product that had a broad range of different types of content that would appeal to an equally broad range of users. This would allow the volume sales that would bring unit costs down to mass-market levels, which was necessary because fixed costs (typesetting and layout, printing, paper, storage, distribution and salaries) were high. Revenues came from per copy sales, and also from advertising, with advertising revenues depending on the circulation (number of copies distributed), readership (not the same as circulation because copies can be read by more than one person) and those readers' socio-economic profile. As digital media gained hold, both per copy revenues and advertising revenues declined, and newspapers altered their business models in response, expanding on to digital channels (websites, apps and social media platforms), developing new forms of content (podcasts, video, infographics, listicles, etc.), and experimenting with new sources of revenue (native advertising, e-commerce, live events, for example) and new forms of marketing and distribution (for example, via Facebook, Apple, Google and Snapchat).

Vice Media – An Old Media-New Media Hybrid

Vice Media, founded and run by the larger than life Shane Smith, is a twenty-first-century version of a media conglomerate, and its business model neatly encapsulates the transformation taking place in the media industry. Vice's core business is digital video with a distinctive and gritty counter-cultural feel (described by Vice as 'bad boy' content) for Gen Y audiences (i.e. young consumers). Designed to be platform agnostic, Vice content is distributed on online platforms (over 60 channels on the web and YouTube) and via terrestrial and cable TV channels in over 24 countries, including the renowned HBO. It also has partnerships with Snapchat and Verizon to distribute video and editorial news content, and deals with Facebook to produce customised campaigns for advertisers. In addition to its core digital video activities, it has a marketing agency, a film production company, and magazine and book publishing activities.

Vice is privately-held and reputedly valued at time of writing at over $4 billion. Much of its investment has come from legacy media companies (A&E invested $250 million, Disney $200 million and 21st Century Fox $70 million) which are keen not only to share in Vice's success but also to decode and learn from Vice's appeal to 18–24 year olds, particularly male ones, a demographic group important to advertisers and which appears to be deserting traditional television.

Vice's valuation also reflects its prowess in making commercial revenues from online video. It has a track record of making substantial deals with brand partners that underwrite content concepts. For example, an early deal with YouTube provided Vice with $100 million to create premium channels. This both allowed it to scale up production and boosted Vice's visibility. 'The Creators Project' in partnership with Intel involves video content and live events with artists and musicians around the world. Recently it launched a women's content channel, Broadly, in partnership with Unilever.

This 'native' approach to advertising (that is, using branded content) is rooted in a Vice credo that typical mass media advertising approaches do not resonate well with millennials and younger audiences. This demographic group, Vice believes, is resistant to traditional commercial messages and as a result responds positively to 'the joy of not being sold anything'. Advertisers therefore need to change their strategy and switch from producing commercial messages to creating content that markets their products more subtly. If they do this right they can turn Gen Y-ers into fans. Branded content is, however, just one of several revenue sources. In addition, Vice retains the intellectual property rights in most of its content and generates additional revenues by licensing this internationally.

Strategic development of business models – the search for adjacencies

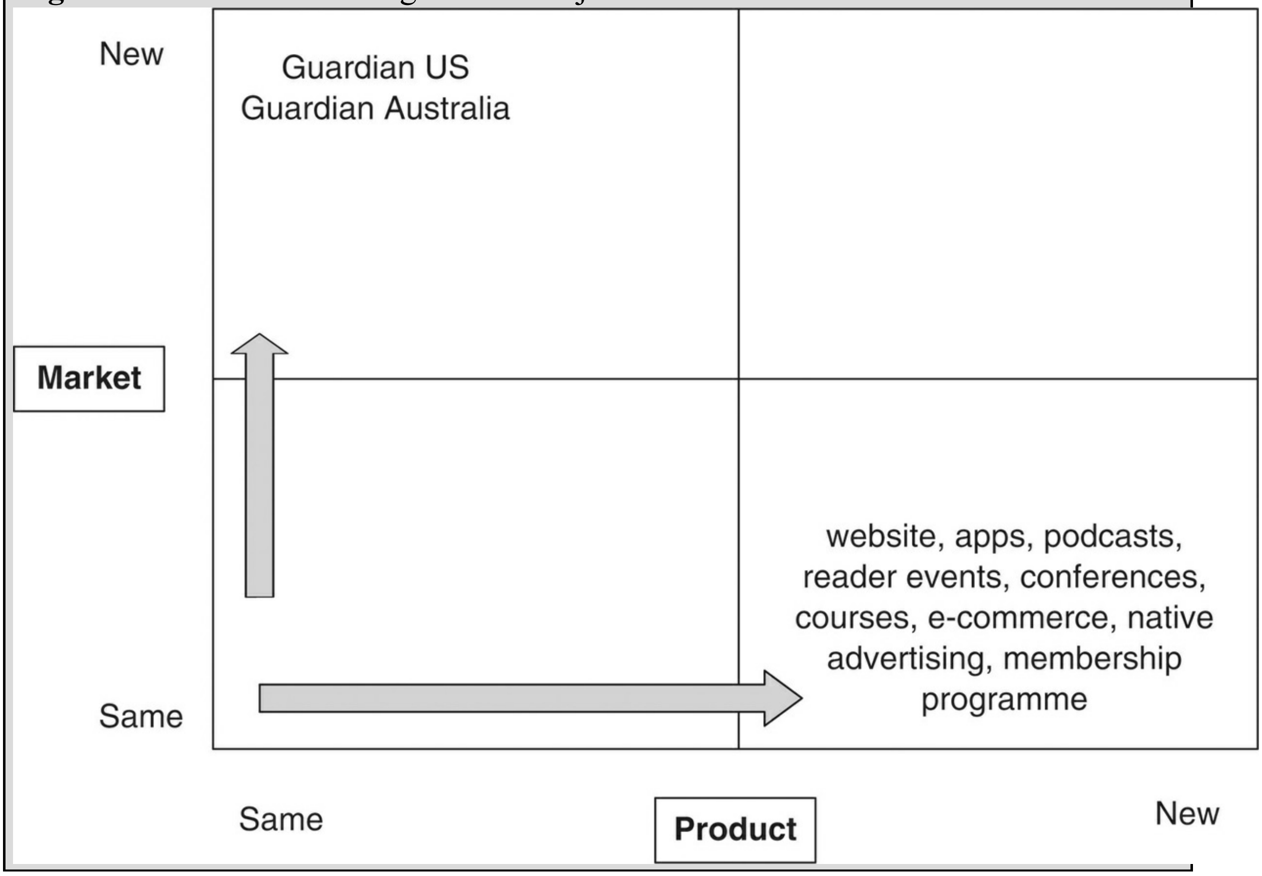
As traditional revenue streams decline, media organisations are searching for new sources of income, often outside their traditional sphere of activities. A relevant concept in this regard is 'adjacencies', that is, a strategy of pursuing growth in adjacent markets (Zook and Allen, 2010), in sectors that have some overlap with existing capabilities, resources and know-how. This can be achieved through internal corporate venturing (the creation of new businesses internally) or by acquisition (of stakes in start-ups or of entire companies).

The new business areas are therefore outside the traditional firm boundaries but still represent a logical extension of existing activities. Thus Apple's launch of iTunes and the iPod moved the organisation from computing into the distribution of media content, and into the small hand-held device sector, a move which paved the way for the iPad and the iPhone. Received wisdom concerning best practice in an adjacencies approach is to focus either on new adjacent markets (for the company's existing products) or on new adjacent products (for the company's existing markets), but to avoid launching new products for new markets, since the organisation will be unable to leverage its existing capabilities, assets and know-how – the elements it is distinctively good at – and will need to acquire entirely new competencies, thus increasing the risk of failure.

Adjacencies Strategy at *The Guardian*

The adjacencies concept can shed insight on how established media firms are altering their business models in response to digital disruption. For example, *The Guardian* newspaper's business model has altered dramatically over the past decade.[1] In an iterative and exploratory process it has expanded into both dimensions of the model, that is, into new products and new markets. It has launched new products for its existing audiences (including a website, apps, blogs, podcasts, reader events and courses, e-commerce and native advertising), and addressed these products at entirely new geographic markets (the US and Australia). These steps are mapped in the adjacencies graphic in Figure 2.6.

Figure 2.6 Business model growth via adjacencies at *The Guardian*



Adjacencies at Amazon – ‘Start Small and Monopolise’

> To be Amazoned means ‘to watch helplessly as the online upstart from Seattle vacuums up the customers and profits of your bricks and mortar business. (Stone, 2013: 17)

Amazon’s strategy for growth has been summarised by venture capitalist Peter Thiel as ‘start small and monopolise’, that is, start with a small market that can be dominated and then expand deliberately into adjacent fields (Thiel and Masters, 2014).

Amazon started off supplying books. This category was chosen because there was a huge range of products which were similar in shape and therefore easy to ship. Further, because of that huge product range, physical retailers could only offer a fraction of the millions on offer. Because it didn’t need to physically store any inventory but simply requested the book from its supplier, Amazon could offer from the onset a greater number of books than any physical bookshop. From there it progressively expanded its e-commerce categories, selling its customers more media products, such as CDs, videos, software, and then an ever wider group of product types – toys, clothes, sports equipment to name but a few. It later added services and the infrastructure to support e-commerce (warehouses, private postal services, drone delivery, and the Amazon Dash Button), devices to consume content (e-readers and smartphones) and streamed media content, first through LoveFilm and later via Amazon Prime. Amazon Prime then expanded from selling TV series and movies into producing original programming itself. Later it moved into selling the infrastructure it developed internally to speed up the deployment of its new applications and services (including Amazon Web Services, at time of writing the largest hosting company in the world).

Impact of the digital platforms – Apple, Facebook et al.

> These platforms are inescapable; you may opt out of one or two of them, but together, they form a gilded mesh blanketing the entire economy. (Manjoo, 2016)

These enormous, yet still relatively new, companies are collectively reshaping the media industry's ecosystem. They have expanded at speed from their original core businesses and are now active in a range of sectors simultaneously, disrupting not only the fields of media and entertainment, but a range of other industries including automobiles, tourism, hospitality, healthcare, finance and retail. Companies such as Facebook, Google and Apple are extremely challenging to respond to strategically on many grounds, not least because they don't 'conform' with existing industry classifications and are active across many sectors, often dismantling existing boundaries between industries through the introduction of new platforms or devices that redefine existing categorisations. This boundary-spanning behaviour is undermining the utility of many classic strategy models (as discussed in Chapter 3).

Apple, for example, is primarily a manufacturer and retailer of devices (these include the iPhone, the iPad, the Mac, the Apple Watch, Beats headphones, and Apple TV), but also has a growing services business (including the iTunes Store, App Store, Mac App store, Apple Music, AppleCare and Apple Pay), and these two categories are bundled, making analysis of the performance of any particular product category difficult. (The iPod and iTunes, for example, represent a combination of consumer device and services providing media content.)

Collectively, these digital platforms have weakened traditional media's market power and influence, not least by constraining revenues (as exemplified by the shift of advertising revenues from newspapers to Google and Facebook). They pose a significant strategic challenge: they are some of the best capitalised companies in the world, they have not only mastered the development of key technologies but in many cases are architects of that development, and they are powerful gatekeepers at the final stage of the media industry's value chains; iTunes and Apple music deliver music; Amazon delivers all kinds of media products and services, physical and virtual; Facebook, Apple and Google deliver an increasing proportion of online news (faster, and to audiences that are simultaneously both larger and more precisely targetable). The power relationship is asymmetrical. The media companies' control over what and how content is distributed is diminished as the platforms' algorithms calculate an optimum fit between content and consumer. More profoundly, while media companies are dependent on these platforms for access to markets, products from the classic media industry represent a fraction of these giants' total business, as described by book publishing industry expert Mike Shatzkin:

> Amazon's arrival began an era which is now in full flower, where the environment for book publishers is largely influenced by major tech companies *for which publishing is a hardly-noticed activity*. [Author's emphasis] (Shatzkin, 2016)

Facebook is dominant in social media where its global user base continues to increase and where video traffic is growing. It is playing an increasing role in content delivery. Facebook's Instant Articles delivers an individually curated feed of news stories supplied by leading news providers. Through its acquisition of WhatsApp, it is moving into payment systems (a threat to the telecoms sector). Virtual reality (via its acquisition of Oculus Rift) is a new and growing business field.

The digital platforms are born out of the Silicon Valley, and belong to the technology sector rather than the media industry. Their strategic priorities are fast growth (in search for scale) and often 'disruption' – that is, displacing established technologies and product categories, and in the process unseating incumbents in a range of sectors (thus the smartphone displaced not only cell phones, but also pocket cameras, pocket calculators, GPS devices, MP3 players and more). Not only does technology lie at the heart of these organisations, but they are committed to heavy investment in R&D, permanent innovation and improving customer experience, and they prioritise experimentation and intelligent risk taking. They can use the data generated by their platform businesses to inform the development of new products and services and the reach of their platforms to achieve fast uptake of these new businesses. Their internal management processes, organisational culture and human resource practices are highly tuned (often having more in common with elite management consultancies and investment banks than the media sector) and this increases their agility and competitiveness. Finally, they can afford to invest not only in R&D but in their workers and work environments (think Cordon Bleu chefs and on-site massage). The pay and perks they offer mean that even pedigreed blue chip traditional media organisations experience difficulties attracting the digital specialists they need.

Streamed media – rent don't buy

> We now have more technology than ever before to ensure that if you're the smallest, strangest musician in the world, doing something that only 20 people in the world will dig, we can now find those 20 people and connect the dots between artist and listeners. (Matthew Ogle, Spotify, cited in Pasick, 2015)

A new and growing segment of the media industry comprises streamed media content (music, movies, television and gaming) and has emerged in response to a combination of technological advances, including new devices, better storage, faster, cheaper internet connections, and improvements in graphic chips. The basic concept is that customers request content from a streaming service via smartphone, tablet, TV or PC. The main server of the streaming provider (say, Netflix, Hulu or Amazon Prime for TV, Spotify or Pandora for music, Sony Playstation for games) then sends the content in data packets over wireless or cable to the consumer's internet-connected device where packets are assembled (and deleted after consumption).

Streamed services are an alternative to consumption from linear service offers (broadcast television or radio), downloading and saving (iTunes) or purchasing (CDs or games). Customers benefit from straightforward access to massive libraries of content that can be consumed as wished. Producers/distributers benefit from savings in logistics and retail costs.

Business models for streamed media are still evolving, but most feature monthly subscription deals (that are easy to cancel and restart, unlike cable TV packages). Video providers such as Netflix, YouTube and Hulu have acquired libraries of existing content and are increasingly generating their own product using insights from data analytics. They are moving into content origination because as more companies enter the sector, original content is becoming an important differentiator in customers' eyes. The biggest providers are investing heavily in original shows. (These internet-delivered television/video programming services are known in the industry as over-the-top – or OTT – offers.) Legacy companies are also active in the field. HBO launched HBO Now, a paid streaming service that allows consumers to watch programmes both live and on-demand without a pay-TV subscription.

This is a competitive field because streaming businesses need scale: additional customers don't add costs but do add revenues (thus Netflix has made international expansion a strategic priority). However, achieving scale is a challenge – free-to-air provision is extensive in many markets and many customers have become accustomed to not paying for content accessed online.

In the streamed music sector, Spotify is a streaming service that launched in 2008. Each song has a link that allows users to purchase the track from partner retailers. Users can create playlists and share them on social media, and insights from this usage data are fed into the recommendation engine, which can generate individual weekly playlists. Pandora is an automated discovery service that selects tracks for users from its library based on individual user's consumption habits. Customers can purchase songs from online retailers. Apple launched Apple Music in 2015 in response to a decline in music downloads in its iTunes service and the parallel increase in users for streamed music services such as Spotify and Pandora.

The ability to make individualised recommendations is a key element to the success of these services. Pandora, Netflix and Spotify all have (different) advanced capabilities in this area, which are crudely based on combining analysis of how customers consume and curate content with detailed classifications (micro-genres) of content attributes or types. This description belies the complexity of the processes involved. Spotify's Discover Weekly playlists draw on 'deep learning', a technique for recognising patterns in huge quantities of data with computers that have been 'trained' by humans. Pandora emerged from the Music Genome Project in which a million pieces of music were coded according to 450 attributes and this data can create predictions on other pieces of music a customer may like. Netflix has a content attribute database with over 77,000 categories. These systems can make highly personalised recommendations to users, which in turn boosts the attraction of services to customers and stickiness for those customers. Both Amazon (via Amazon Studios) and Netflix have used insights from these systems to guide their move into content creation. Such investments in personalised recommendations create differentiation to services from Google and Apple which offer enormous catalogues of music but have placed less emphasis on recommendation and curation services.

Digital pure plays

> To put it in one bleak sentence, no medium has ever survived the indifference of 25-year olds. (Clay Shirky, cited in Aitkenhead, 2010)

As the markets for mass media products such as television channels and national newspapers are splintering, or ‘demassifying’ as it is sometimes put, at the same time substantial audiences are aggregating around the so-called ‘pure plays’ or ‘clean sheet’ digital media organisations, a category that includes companies like BuzzFeed, Quartz, Medium, Politico and Vox Media. These are digital natives whose content is designed to be consumed online, in a mobile context, and distributed via social media. These organisations are staffed by digital natives, produce content for digital natives and are accustomed to ‘pivoting’ (changing strategic direction) as the strategic environment requires. They pose a substantial threat to legacy players. Often generously funded by venture capital, they have a singular focus on scaling their businesses as fast as possible, and that focus is not diluted by a need to devote resources to traditional media businesses as well as to ones focused on new digital markets. Advanced technology competencies are integral to their content creation and to its commercialisation, and their business models are not only multi-platform but also (sometimes exclusively) orientated around social and mobile platforms.

Fragmentation of consumption

> The trigger is technological, but the impact is behavioral. (Newspaper Next: Blueprint for Transformation, American Press Institute, 2006: 6)

As digital start-ups compete with legacy companies, as streamed and on-demand consumption grow, as social media deliver algorithmically curated selections of news articles direct to mobile devices, as launches by global artists are ever more intensively marketed, and as content is available anytime, anywhere, anyhow, the clamour of media products demanding consumer attention grows and grows. Thus, competition is increasing not only between players but also for audience attention. It is unlikely that available hours for media consumption will increase as dramatically as the number of products and channels available and organisations providing them. Welcome to the battle for consumer 'eyeballs'.

None of these developments – increased competition, fragmentation of provision and new patterns of consumption – bode well for the established mass media. Time-shifting and 'space-shifting' are having a particularly significant impact. In the analogue era, different types of content were linked to specific appliances or distribution media and distributed according to fixed schedules. Television programmes were broadcast on a television set at set times, newspapers printed on paper were delivered in the morning, etc. Now consumers can consume content on a range of devices when and where they choose. While a segment of the market still consume content traditionally, according to set mass market delivery schedules, a growing number follow the Martini principle – 'anytime, anywhere, anyhow'.

The broad trends that result include the fact that consumers are spending more time with digital media at the expense of traditional products. Video content is growing at the expense of text-based content. And while consumption has increased in some cases – on-demand catch-up TV services increase overall audience numbers, as do podcasts of radio shows – overall, first-showing mass-market audiences seldom have the dimension they had a decade ago.

The 'packaging' function of the media firm, be it TV scheduling or assembling the first edition of a newspaper, once central to value chains and to competitive performance especially in national broadcast systems, has become far less critical. Increasingly, consumers are scheduling for themselves. Brands and their advertising agencies are having to alter their strategies too, embracing adjacent fields such as sponsorship and native advertising (as discussed in the Vice case), as new distribution options increasingly allow consumers to block or blend out advertising, and as consumers increasingly choose to exercise this option.

Acceleration of the hit model

> In the creative industries success always begets more success, but in an era of globalisation the success can be very big indeed. (Hutton, 2007: 24)

An eternal strategic challenge in the media industry is that content is supremely unpredictable. Despite decades of research and increasingly sophisticated marketing techniques, customer tastes are fickle and it is still more or less impossible to predict which products will succeed, and by extension to reliably produce a stream of popular products (although, as discussed in this book, companies like Amazon, Netflix and BuzzFeed are using sophisticated data capture and analysis techniques to reverse engineer customer content preferences and are using these insights to drive content creation). But for players whose organisations are not built around data science, content creation remains a game of chance, especially in the book, movie and music sectors.

Content involves alchemy – informational, creative and entertaining elements are combined in a way that may or may not strike a chord with public taste. It is not possible to fully explain why *Titanic* was a worldwide hit and *Waterworld*, released at a similar point with a similar theme and a similar budget, flopped. The rule of thumb in the music industry is that 80 per cent of its new releases will fail to cover their costs, despite the experience of the executives who signed up the artists concerned. During Jeffrey Katzenberg's decade at Disney, of the thousand plus projects he oversaw, just 10 per cent accounted for 91 per cent of the studio's operating income (Stewart, 2005: 2).

In response to these existential uncertainties, the media industry traditionally employed two strategic responses. The first, which was followed for decades and is still used in mature sectors with low margins that do not have the resources or infrastructure to play the blockbuster game, is known as the 'mud against the wall' formula. This seeks to increase the odds of success by increasing the number of attempts. In product terms, it means generating high volumes of unique products in the hope that a number of these will spark random interest. Thus publisher Bloomsbury had no idea that the first Harry Potter book would be a bestseller, and its initial print-run was around 500 copies – a standard quantity in book publishing for a first novel by an unknown author.

The primary impulse to create content under this system is creative or artistic, and the underlying assumption is that 'cream rises to the top'. The market, prompted by critical acclaim and word-of-mouth recommendation, will find good products and sales will follow as positive word-of-mouth publicity spreads. From an organisational perspective, this is a *laissez-faire* approach: all products receive a certain amount of time and investment until clear winners appear, at which point marketing attention scales up rapidly. The disadvantage is that resources are spread thinly over a wide range of diverse products and revenues and profitability overall are generally low. The advantage is that such systems allow a wide range of employees to work creatively, meaning levels of intrinsic motivation tend to be high. Historical accounts of 'the golden age' of book or magazine publishing often describe media organisations operating under this product strategy.

In recent years this model has been replaced by the 'hit' or 'blockbuster' model. This is a risk reduction strategy that is becoming both more entrenched and more extreme in the broadcasting and entertainment fields, where blockbusters increasingly dominate the revenues of the largest media firms (Aris and Bughin, 2005). In a blockbuster or hit environment a few media products – bestselling books, blockbuster films, television shows or sports fixtures – generate the bulk of revenues for media organisations, which become disproportionately reliant on these products, and it makes strategic sense to pay high advances and royalties to top content creators and then spur demand by spending aggressively on promotion (Vogel, 1999). Media organisations' product strategy, then, involves identifying in advance a handful of products that offer the greatest market potential and then devoting the lion's share of investment and attention to these.

The primary content-origination impulse under this approach is economic rather than artistic, and the creative and marketing strategies are closely intertwined. There are two underlying assumptions. First, that larger budgets – for talent, production and marketing – mean larger audiences, and, second, that those audiences choose products according to how heavily they are marketed, that audiences can be 'herded to the cinema' (De Vany and Walls, 1999).

A blockbuster strategy imposes a template on content creation. A new concept should appeal to the largest number of audience groups and eliminate the risk that particular market groups might reject the project. Blockbuster movies illustrate this concept neatly (Schatz, in Collins et al., 1993). Ideas for new film must have the potential to be reincarnated in different media forms and become a franchise. This dictates the creative components: narratives and characters are simple, plots explore broad universal themes, and special effects are extremely sophisticated – to compensate for the simplicity of other elements (cynics have suggested blockbusters are designed to work for sub-literate audiences with short attention spans). There must be soundtracks strong enough to support linked music downloads and music videos. The term 'blockbuster' is inextricably linked with the 'high concept', a term attributed to Steven Spielberg. High concept movies appeal to wide audiences and have plots that can be described in a couple of sentences that instantly convey the gist of the movie (thus 'Bus with a bomb' is the high concept for the movie *Speed*).

Why is the hit model proving so pernicious in the era of user-generated content and viral media? Why is the dynamic becoming more attractive to large media organisations in the current environment? There are a number of underlying factors. First, audiences have become more fickle as the range of entertainment and leisure options has increased. Against this backdrop, the appeal of stars like Adele, who can guarantee audience attention, grows. Second, technological advances in recording, processing and transmission have increased the number of multimedia reincarnations that are possible, meaning more outlets to recoup investments and therefore greater leverage for successful products – that is, the potential for economies of scale. Third, globalisation and the borderless nature of media products mean that the potential market for media products has grown and that the potential for economies of scope has increased. Fourth, consolidation means corporate purses are larger: the media majors have more to invest in content and stronger distribution architectures to support their products. Fifth, what is known as 'killer content' has proved to be one of the most powerful means of persuading consumers to abandon existing patterns of consumption and adopt new technologies and products. This has intensified the bidding for certain categories of content, such as key sporting fixtures or movies, to a point where some traditional legacy players, such as public service broadcasters, can no longer compete. Finally, there is a growing recognition among creative talent of their power in the marketplace and a desire on their part to negotiate the best deals they can. This is related to the increasing prominence of agents and attorneys in the media and entertainment industries.

Demassification and the emergence of the niche

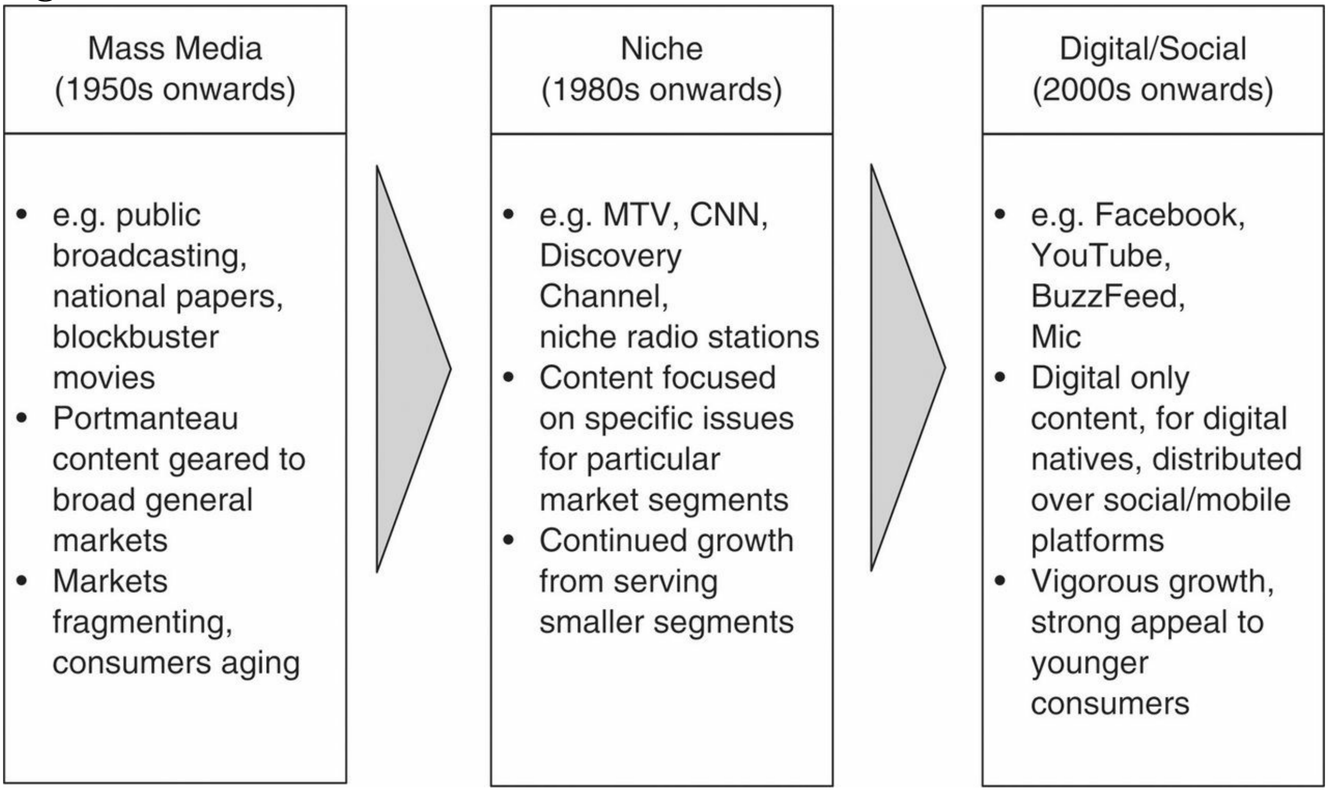
While the largest entertainment organisations continue to seek to perfect ‘one-size-fits-all products’ – blockbusters like Rihanna’s songs, films in the *Star Wars* franchise, *The Game of Thrones* TV series or the computer game *Grand Theft Auto*, which will appeal to the largest audience possible – a parallel trend can be observed, the growth of the niche.

Mass media products are designed to reach large cross-sectional audiences and are based on technologies that allow massive duplication at low cost for huge audiences (newspaper or printing presses, radio or television networks). Advertisers tend to prefer products that are moderately popular with many and actively disliked by none – expressed in the television industry as the concept of the ‘least objectionable programming’ (LOP). However, this can only work when the choice of viewing options is limited. Technological advances have reduced the barriers to entry in content creation, made professional-level production tools widely available, and provided global distribution and promotion architectures. The result is that across all segments, the mass media products – the television channel, the daily national newspaper, the general-interest magazine – which owed their success to catering to many different groups of consumers simultaneously, have declined in favour of specialised products aimed at specific segments – a development first picked up by broadcasting analysts, who termed it a shift from broadcasting to narrowcasting. The stages in this development are shown in Figure 2.7.

From the 1980s onwards, technological advance increasingly allowed specialised content to be matched with specialist audience niches, and audiences embraced this possibility, showing that in many genres of content they prefer targeted products over generalised ones. Thus, in the UK between 1993 and 2003 the viewing share of non-terrestrial channels (i.e. niche or specialist ones) increased from 6 per cent to 33 per cent, at the expense of the dominant mass-market networks, BBC 1 and ITV1.

Of course, mass media products still hold appeal. When audiences across all platforms are consolidated, viewership can still be substantial. The global appetite for video content continues to grow, and television is still the dominant advertising medium (the BBC’s weekly global news and entertainment audience in 2015 was over 308 million). Some TV series are garnering higher audiences and bigger budgets than movies: *Borgen*, a Danish drama on the unlikely theme of coalition politics, has been seen in over 70 countries. *Mad Men* has reputedly earned over $100 million in video and iTunes sales, and a further $100 million from Netflix.

Figure 2.7 Evolution of media content models



Yet mass media audiences are splintering, driven by new offers based on new technologies. ‘Over the top’ (OTT), video on demand (VoD) and streamed internet TV services are eroding broadcast networks’ monopoly of distributing video content to the home. VoD is now present in well over half of US households. These changes in consumption habits will be mirrored in the advertising market. As Mary Meeker pointed out in her 2016 internet trends report, both TV and print receive a higher percentage of ad spend than time spent on those platforms merits, with a particularly sharp disconnect between time spent on print and the ad spend it receives. For mobile media, the misalignment runs in the opposite direction.[2]

Emergent strategic environments

> About fifteen years into the digital wave, tectonic plates seems [*sic*] to drift more apart that ever. On one side, most media brands — the surviving ones — are still struggling with an endless transition. On the other, digital native companies, all with deeply embedded technology, expand at an incredible pace. Hence the central question: can legacy media catch up? What are the most critical levers to pull in order to accelerate change? (Frédéric Filloux, 2014)

The media industry finds itself in a new context, an extremely challenging strategic situation where long-established revenue streams are diminishing (say, classified newspaper advertising and sales of print copies, or music CDs), new delivery and consumption patterns have emerged (including streamed content, time-shifted television viewing and news stories distributed via the Facebook feed). Audiences display very different consumption preferences (for example television watched according to traditional linear schedules, on-demand, or all episodes at once via binge viewing) and new demographic groups like Gen Y, Millennials, Silver Surfers, and so on. This has brought media organisations into the strategic force field of giant new players from the tech industry, including Google, Facebook, Apple and Amazon.

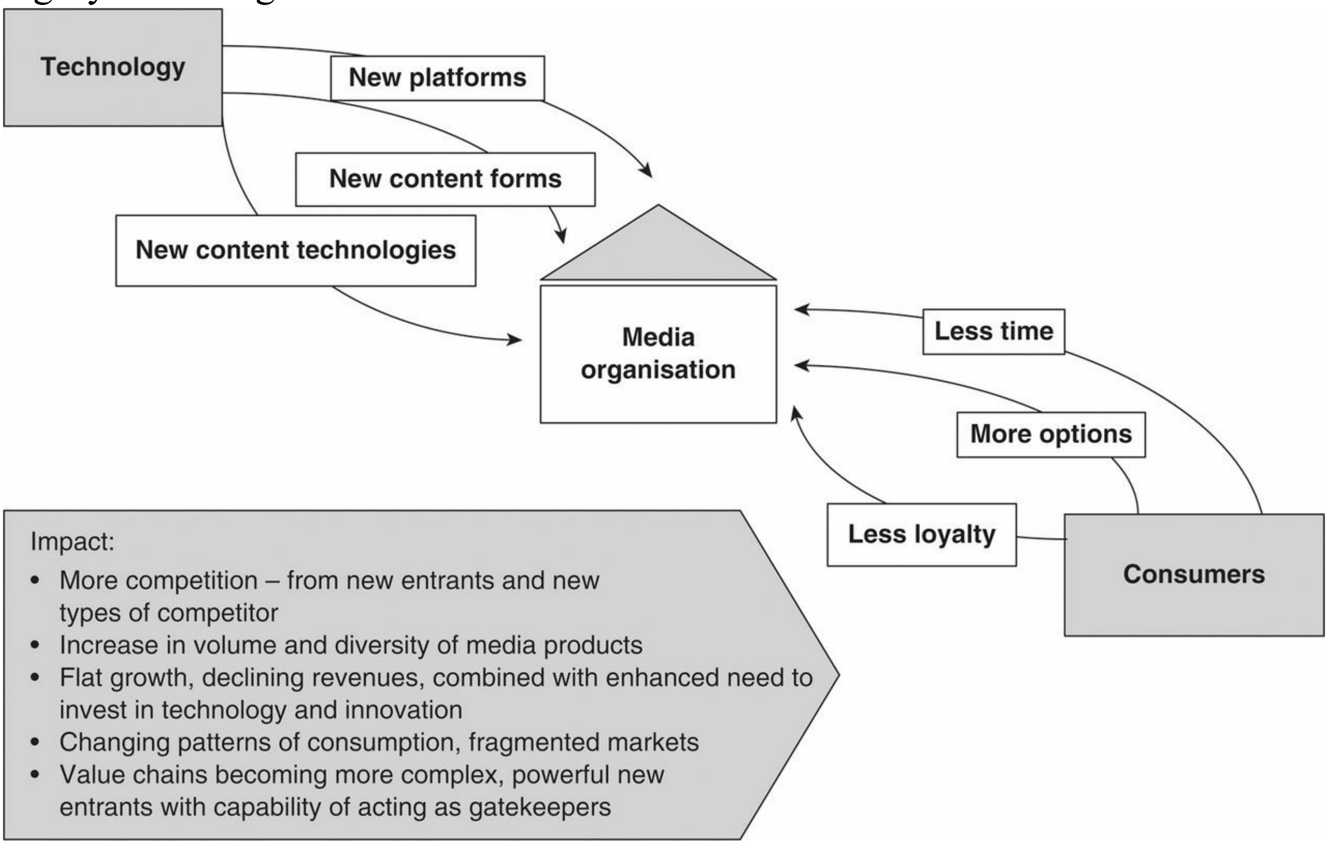
The industry is being transformed as a result. Legacy organisations, or legacy elements of media organisations, are shrinking, digital technologies are permeating ever further into companies' central nervous systems, tech industry innovation principles (agile methodologies, releasing products in beta versions, and reframing failure as learning) are becoming standard practice.

From a management perspective, these changes mean a very different strategic environment, an 'emergent' one. Emergent environments are highly uncertain: industry boundaries are unclear, business models are evolving and consumer preferences along with them, and competition can come from hitherto unknown players (Eisenhardt and Brown, 1999; Robins and Wiersema, 2000).

Emergent contexts present a complex management challenge, particularly for incumbents encumbered by their legacy systems and processes. They will need to embrace new strategic directions that will lead to corporate renewal. They will require new domain-relevant skills, or new fields of expertise. They will need to master new product areas that involve different types of content and different content competencies. They will need to be able to strategise more rapidly (even if decisions regarding strategic priorities, technological choices and capital investments must be made with imperfect information) and make their organisations more agile.

But at the same time as they are damaging existing business models, technological advances are also creating opportunities. They have lowered barriers to competition and allowed new players into the industry. Entirely new categories of products and services have emerged – the iPhone, Snapchat and Twitter would have been inconceivable 20 years ago. ‘Fundamental’ and ‘radical’ are over-used adjectives, but they do accurately describe the changes taking place in the media – the development of an entirely different set of technologies for producing, distributing and consuming media.

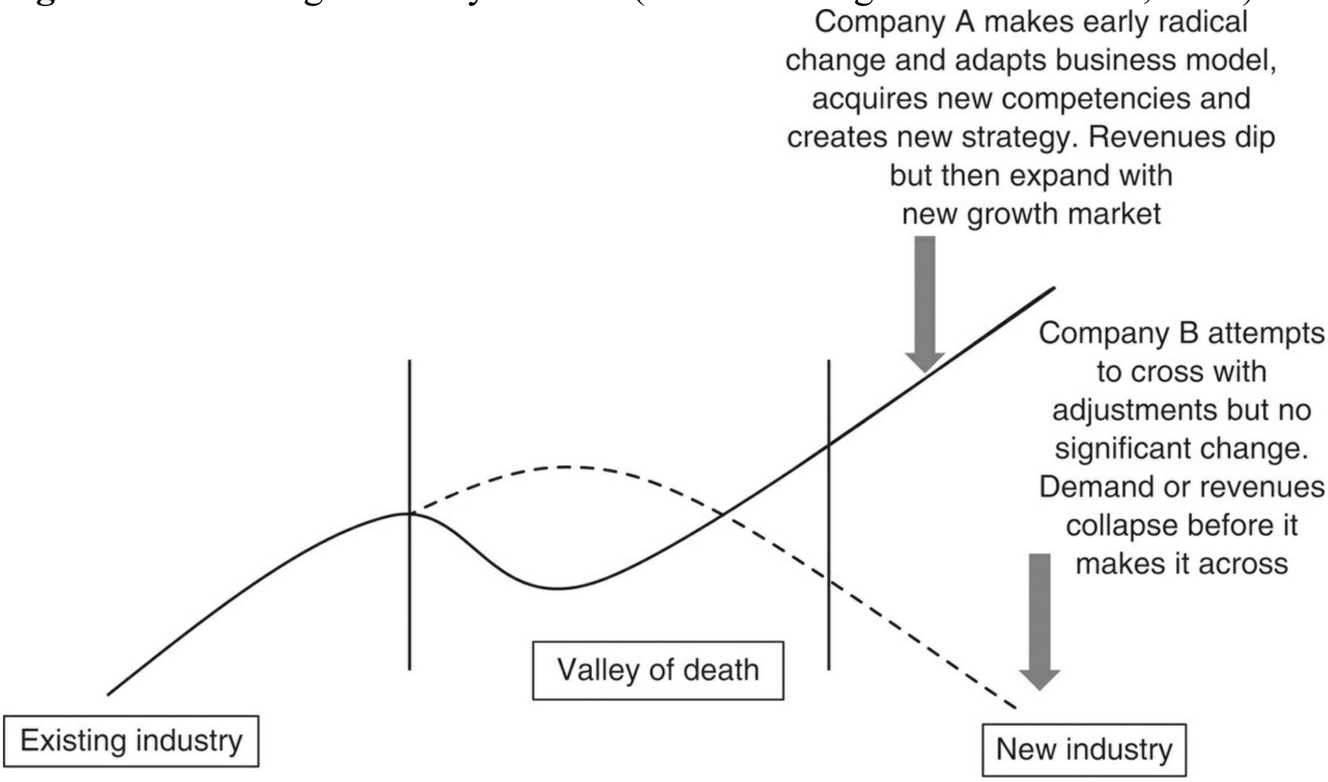
Figure 2.8 Transformations in technology and consumer behaviour put pressure on legacy media organisations



Burgelman and Grove (2012), who have studied such shifts in the IT industry, describe them as ‘strategic inflection points’. They are extremely dangerous for incumbents because they change industry dynamics so irrevocably that business as usual will ultimately mean no business at all. The basis of industry competition has changed, strategic assets (production and distribution systems, competencies and expertise) have lost relevance, or even become liabilities. Organisations find themselves in the ‘valley of death’ (see Figure 2.9).

Ideally, they need to make early radical strategic change which involves acquiring new competencies and a strategy designed for the new environment. This needs careful calibration – if the changes are too radical they may undermine the existing business and revenues or be rejected by some senior managers. If, however, leaders try to navigate the valley by making adjustments but avoiding fundamental change, there is a significant risk that demand or financial resources may collapse before the company makes it across, or inertia prevents change when it gets there. The art, therefore, is to transform the organisation, to make it across the valley of death before the legacy revenues collapse. An early start, made while legacy revenues are holding up, and fundamental change are critical.

Figure 2.9 Crossing the valley of death (based on Burgelman and Grove, 2012)



As this chapter has shown, the traditional media industries are operating in mature sectors with rising costs, declining revenues, increasing competition for audience attention and evolving technological platforms. To ensure future survival and growth they must adjust to this strategic environment and this will require organisational transformation – the second part of this book explores various strategic and organisational levers and tools which can help achieve this.

Notes

1. For full discussion of *The Guardian*'s digital strategy see Küng (2015).

2. Mary Meeker, venture capitalist and former Wall Street analyst publishes an annual (mammoth) slide deck 'Internet Trends' which is available free at the Kleiner Perkins Caulfied & Buyers website (www.kpcb.com/internettrends). One slide of particular interest to the established media industry is the one analysing the relationship between time spent on a particular form of media versus the amount of advertising spending that media form receives (in the 2016 slide deck, see slide 45).

3 Strategic Concepts for the Media Industries

So far, this book has examined the industry context, the strategic environment, in which media organisations operate. This chapter builds upon this basis to explore a variety of different strategic approaches and tools that managers can use to respond to this. It deals primarily with concepts, with theoretically driven approaches that can be used to guide strategic activities in the media sector. Its goal is to build a bridge between the general discipline of strategic management and the specificities of the media industries and media organisations. On paper this sounds like a relatively straightforward exercise; in practice, however, it is complex, due to a number of intrinsic aspects of the field of strategy.

First, there is the problem of breadth. The body of scholarship relating to matters of strategy is quite simply enormous. As Starbuck (1965) pointed out over 50 years ago – since when the field has continued to expand – potentially every single thing ever written about organisations can theoretically be described as concerning strategy.

Second, there is the problem of fragmentation or pluralism. Research in strategic management started in the 1960s. At this point the foci were business policy and general management, and the primary emphasis in research and teaching was single case studies (Hitt, 1997). Gradually, however, the themes of corporate strategy and firm performance rose to prominence, and prompted in part by the publication of an influential book by Schendel and Hofer (1979), the name of the field gradually changed to strategic management, a shift that was reinforced with the publication of Porter's equally influential book (1980) a year later.

In subsequent years the field remained manageable, with investigations centred on three issues in particular: the effects of the environment on strategy, the importance of the fit between strategy and the environment, and the effects of strategy on performance; with most of these involving large samples using secondary data and statistical techniques (Hitt, 1997). Over this period the MBA qualification developed, and business policy or corporate strategy course was often the capstone element in such programmes. At the time these benefited from the fact that the field of strategy was still relatively coherent and rested on a widely accepted set of premises, assumptions, instruments and techniques. In subsequent decades, however, successive waves of research and critical reflection have generated a profusion of different concepts, approaches and schools. This has left the field richer, more mature and more subtle, but also more differentiated and complex.

The third problem concerns compartmentalism – or incommensurability as it is expressed in scholarly literature. The various concepts and theories contained within the field of strategy are not only diverse, but in many cases inconsistent, if not contradictory. This is problematic for researchers and managers: ‘accepting’ the legitimacy of one particular model can often imply recognising alternative approaches as invalid (and also creates tremendous problems in terms of designing and teaching strategy courses, in that providing a thorough overview of the field can mean teaching a series of mutually incompatible theories).

A fourth problem concerns a fundamental difficulty establishing the boundaries to the field. Indeed, one of the rare areas of agreement in the strategy field is that there is little consensus concerning exactly what strategy is. If Starbuck is correct in asserting that virtually everything ever written about an organisation can theoretically be classified as strategy literature, then where, for example, does the discipline of strategy stop and organisational theory start? If we accept the assertion made by some scholars that all strategy is about change, does organisational change differ from strategic change, and if so, how? Translated into practical terms, which concepts and theories should be included in a book such as this, and how should they relate to each other?

There are, therefore, fundamental challenges in deciding what constitutes strategy, and, further, which of the many tenets and tools in the field are most relevant to managers in the media industries. One obvious selection criterion is to choose those most relevant to the field of media management. This is, however, problematic: media management is an emergent discipline and there is as yet no consensus concerning where the boundaries of the field should be drawn. Plus, although managers and researchers use the collective term ‘the media and entertainment industries’, in reality this comprises a broad range of sub-sectors, ranging from academic journal publishing to radio, from pure play digital news providers to movie production, from streamed VOD services to public service broadcasters, and each of its many sub-sectors has an individual constellation of environmental context, core technologies, regulatory requirements, and so on. Thus the relevance of strategic tools can vary greatly.

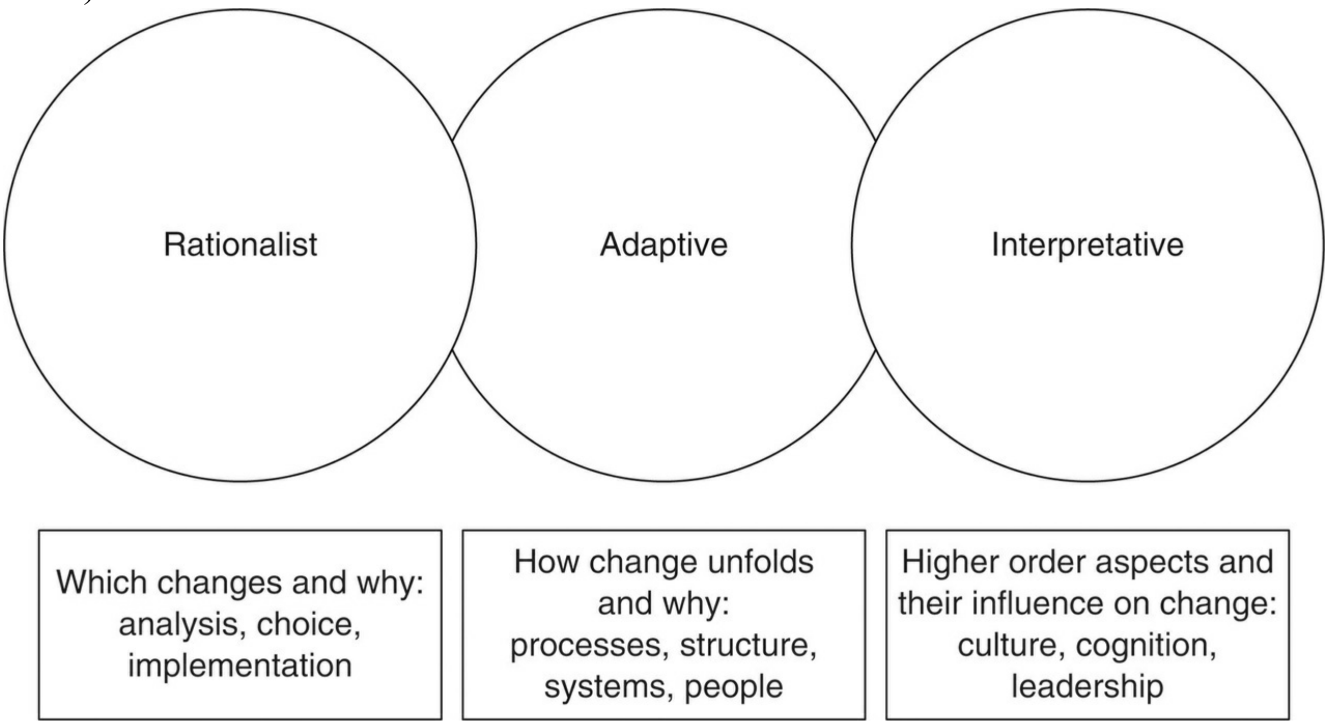
Dimensions of the strategy construct

One way to reduce the complexity in the field of strategy is by categorising or organising the theories within it. A number of researchers have developed proposals for organising the field of strategic theory (see, for example, Whittington, 1993; Rajagopalan and Spreitzer, 1996; Mintzberg et al., 2003). This book uses a categorisation which has been adapted from those of Johnson (1987) and Chaffee (1985). This views strategic models as falling into three core schools which are situated on a continuum moving from rationalist approaches on one side to interpretative approaches on the other, as depicted in Figure 3.1. It provides a means of reducing the complexity prevailing in the field, and accommodating the various, divergent, key concepts. These approaches are described below.

Rationalist approaches

Just about all typologies of strategy literature start with some variant of this category. It includes analytic approaches to the task of strategy, and concepts which assume firms and individuals behave in the main rationally (they can also be termed 'positivist' because of their reliance on analytical reasoning). Rational or classical approaches draw on industrial organisation (IO) economics and have a deterministic view of organisational behaviour. They focus on the strategic behaviour of firms, the structures of markets and their interactions.

Figure 3.1 'Organising' strategic theory (adapted from Chaffee, 1985; Johnson, 1987)



Morgan (1986) uses the metaphor of 'organisations as brains' to describe rationalist approaches: organisations are rational systems that operate as efficiently as possible with standardised processes, mechanistic designs and clear goals. Chaffee (1985) describes such approaches as 'linear' to denote the methodical, directed, sequential action they entail. Rationalist approaches have also been termed the 'external environment school' because of their focus on the external factors that provide competitive and comparative advantages and limitations.

The strong influence of this school reflects the development of the discipline of management in general. In the 1960s formal business education grew dramatically in the US, business strategy grew as a field of study, as did the strategic planning function in firms. The business environment in the US at that time was remarkably stable and uncomplicated: US companies faced relatively little competition from abroad and the economy was growing strongly (Fulmer, 2000). During this period the foundation stones of rational approaches to strategy were laid. They were to be extended and enhanced in future years and still provide the cornerstone of undergraduate and MBA management courses today, as well as of the activities of management consultants (who have created some well-known models in the field, such as the Boston Consulting Group's growth/share matrix or Bain's Structure-Conduct-Performance (SCP) paradigm).

According to the rationalist school, strategy is essentially a plan, formed through the methodical, sequential analysis of the environment and the evaluation of the extent to which organisational resources can be utilised to take advantage of environmental opportunities or to address environmental threats (Minzberg et al., 1998). Some of the strongest and most enduring theoretical influences are Chandler's work in the distinction between strategy and structure and Porter's (1980, 1985) work on competitive strategy and competitive advantage. So, according to Chandler (1969: 383), strategy is 'the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals'. The underlying assumption is that competitive forces in the marketplace determine the success and long-term viability of the firm.

Thus, the external environment is the starting place for strategy, and the uncertainty and complexity present in the strategic environment can be reduced through comprehensive analysis. The models within the rational school focus on the content of strategy, on how plans should be formulated that provide a clear basis for strategic decision and action. The school is extensive, and some of the best-known concepts include Porter's Five-Forces Model (explained below), Porter's Value Chain (explained in Chapter 2), and the resource-based view (also discussed below).

A large proportion of existing research into strategy in the media works with rationalist approaches (see, for example, Croteau and Hoynes, 2001; Doyle, 2002b; Hesmondhalgh, 2002; Sanchez-Tabernero and Carvajal, 2002). In broad terms these studies tend to explore whether a variance (change in state) has occurred in the media sector and if so which causal factors may be responsible – for example, whether the number of joint ventures and alliances by media firms has increased and if the search for specific strategically relevant resources can explain this.

This is understandable. For researchers whose primary scholarly interest concerns industry conditions and structures, regulatory and policy issues, or the impact of media content on media and society, an aggregate level of enquiry makes sense. This research has provided fine-grained insights into shifts in the media landscape and into the drivers of firm behaviour. However, it has meant that the processes of management within the media organisation and the complex interplay of organisational phenomena at play have received less attention.

Further, rationalist models lose validity in rapidly changing industries where structural boundaries are breaking down. Well before convergence had really taken hold, Fulmer (2000), for example, discussed the challenges of applying Porter's Five-Forces Model to organisations such as Sony or Microsoft since it was even then almost impossible to define which industries they are competing in. The core problem Fulmer identifies is that some of the most significant competitors straddle many sectors and contain many different businesses, and are as a result too large and complex to analyse using the strategic models to hand. This problem is even more pertinent today, when even sector specialists are challenged by the breadth and complexity of companies such as Alphabet or Amazon. As discussed in the previous chapter, these technology giants are a new competitive set for the media industry, and hard to categorise and therefore analyse. If we take Google (leaving aside, for the purposes of simplicity, the businesses contained in its Alphabet division), it combines internet-related businesses including search (where it has a virtual monopoly position), advertising, cloud storage (where it is, at time of writing, overshadowed by Amazon, which has a dominant market share of that market), mobile operating systems (Android – and here it is competing with Apple's iOS), and video (YouTube – a dominant business globally).

Many classic approaches to strategy involve exploring the logical consequences of various strategic options within a given set of circumstances and therefore do not adapt well to fast-changing environments (Morgan, 1986). Increasing dynamism and complexity of the media industry's environment, the fact that markets become increasingly 'fuzzy' – that is, key aspects of the market structure, such as the probability of substitution, the number of firms in a market and barriers to entry, are difficult to identify, describe and define (Lacy and Simon, 1993) – mean that it is difficult to make the assumptions necessary to apply these models, although it should be noted that key architects of the school have disputed this conclusion (see, for example, Porter, 1996).

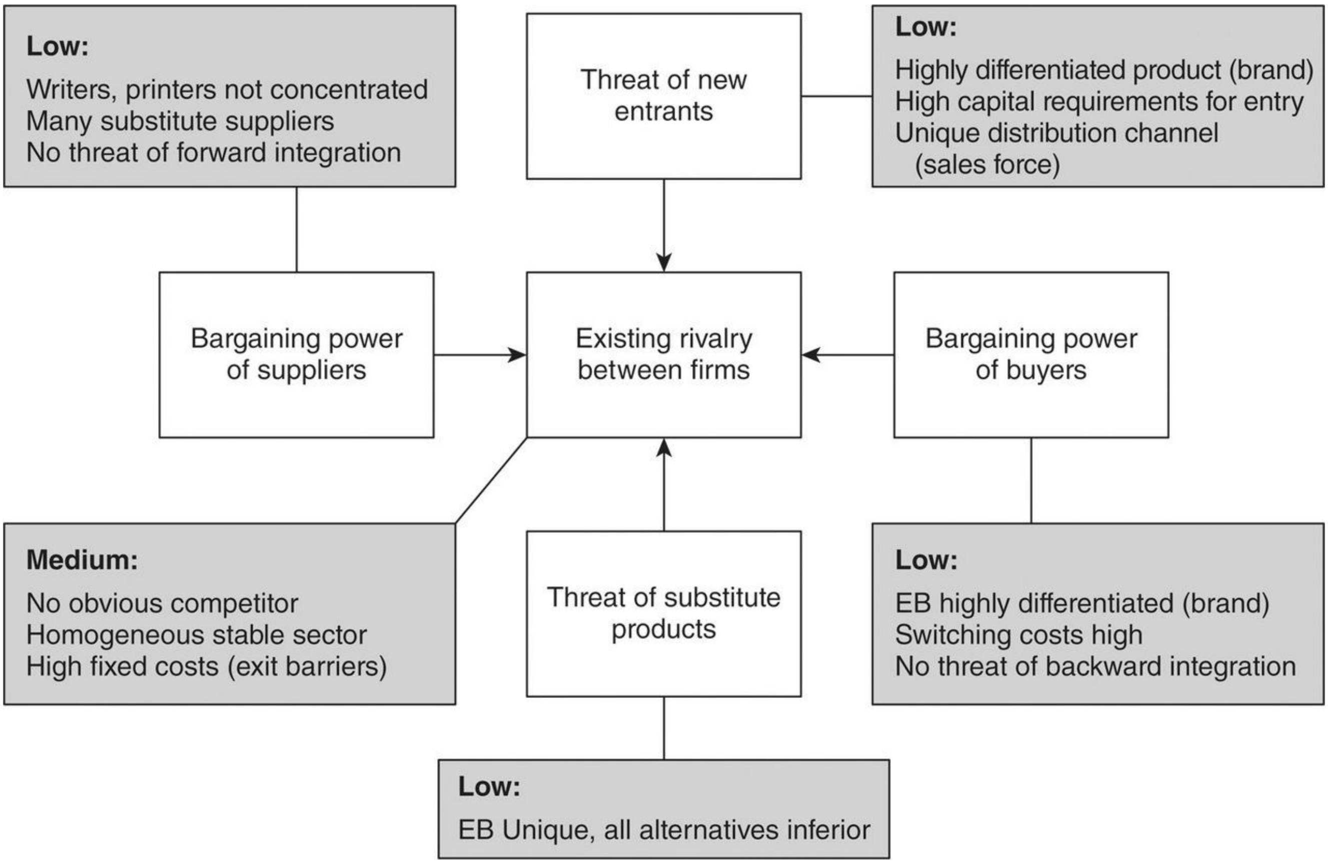
One aim of this book is to demonstrate the relevance of concepts from the adaptive and interpretative schools to the media industries, and underline how these might complement insights gained through the application of the rational frameworks. For this reason, subsequent chapters, in the main, focus on concepts and tools from these two schools (for a detailed breakdown see the 'Conclusions' to this chapter). In order to balance this out, two important models from the rational school are discussed below and applied to the media sector. A third model from this school, the value chain, is applied in Chapter 2.

Porter’s Five-Forces Model

Along with the Value Chain (also from Porter), this is probably the single best-known model from the ‘rational’ school. The base assumption is that above average performance requires determining an optimal strategic position through close analysis of the dynamics of competitive rivalry in the industry concerned. The state of competition depends on five competitive ‘forces’, and the collective strength of these determine the ultimate profit potential in, and attractiveness of, the industry (Porter, 1980). The forces are: the threat of entrants, buyer power, supplier power, the threat of substitutes, and rivalry among existing firms. Application of this framework will support an organisation in finding a product-market position that allows it to exercise bargaining power over suppliers and customers while excluding new entrants and rivals from its product-market positions.

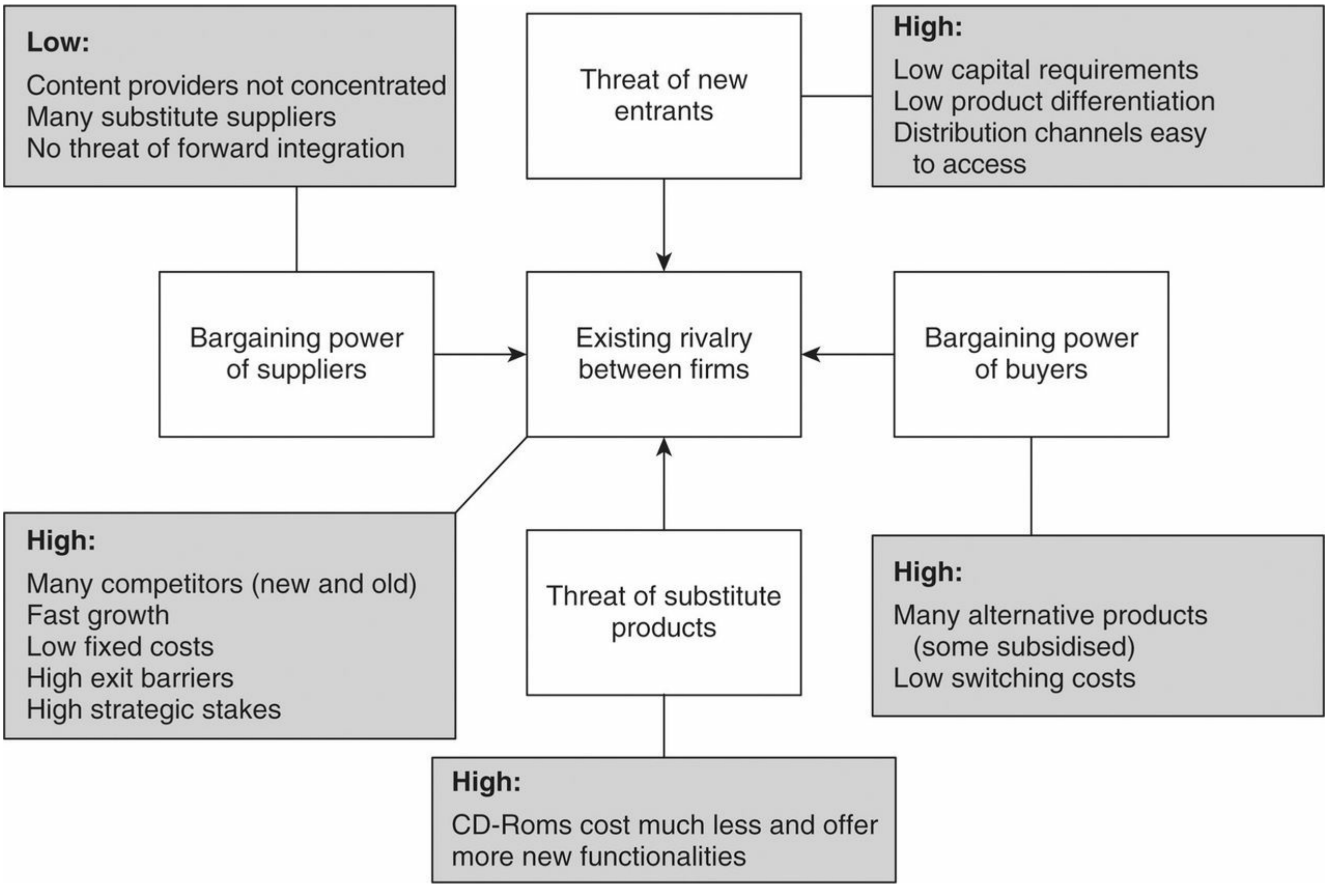
This model can supply valuable insights for organisations in stable contexts and clearly defined sectors. This is seldom the case for the media industry today, but to understand its utility we can apply it to the case of *Encyclopaedia Britannica* (this is explored in Chapter 4 as an example of an unsuccessful strategic response to technological change). Before the advent of the CD-Rom and the PC, rivalry in the multi-volume encyclopaedia sector was relatively benign (see Figure 3.2). High entry and exit barriers brought stability, and the *Encyclopaedia Britannica* enjoyed a premium position with no obvious competitor. It had strong bargaining power over both suppliers (authors were plentiful and there was no threat of forward integration) and buyers (the *Encyclopaedia Britannica* had a highly differentiated brand and switching costs were high – it was unlikely that customers would shift mid-series to another encyclopaedia, or replace *Encyclopaedia Britannica* with another publication). The threat of new entrants was low (the capital requirements for creating a competing product were substantial, especially if the cost of the direct sales force was factored in) as was the threat of substitute products (the *Encyclopaedia Britannica* was the only one of its kind).

Figure 3.2 Five-Forces analysis of *Encyclopaedia Britannica* print edition



However, *Encyclopaedia Britannica* failed to fully understand how the CD-Rom, which was introduced in the late 1980s, would transform competition within its sector. The threat of new entrants increased because it was far less expensive to produce encyclopaedias in CD-Rom format and customers were less fussy about the brands producing them. Distribution channels – retailers – were easy to access in comparison to the complexities of establishing a door-to-door sales force. The threat of substitutes also increased. Not only was this a relatively easy field to enter, but CD-Roms offered functions that books could not match – for example sound, video and search. And while supplier power remained low, the bargaining power of buyers increased dramatically – there were now many alternative products and low switching costs. The result was a far more competitive environment, with more competitors, fast growth, low fixed costs, high exit barriers and high strategic stakes, as shown in Figure 3.3.

Figure 3.3 Five-Forces analysis of *Encyclopaedia Britannica* post-PC and CD-Rom



If we apply Porter's Five-Forces Model to the newspaper industry and its current strategic threats, we see a similar picture. A newspaper publisher in a geographic region where the industry is not yet too disrupted may be considering whether to acquire a competitor in order to increase market share and reduce costs. Analysis using the Five-Forces Model would suggest that benefits would be short-lived because the newspaper sector is not attractive in the long term: the threat of new entrants is high since digital technologies have both made entry into the news sector easier and transformed traditional barriers to entry (in the shape of expensive printing presses, delivery infrastructures, even print journalism expertise) into strategic hindrances; buyer power is increasing since consumers have access to free online news that, thanks to social media, can be delivered in individually curated bundles to their mobile screens; and rivalry between existing firms who face high exit barriers, emotional and physical, is intense.

In his book on the future of the newspaper industry, Meyer (2004: 40–1) applies Porter's theories to identify two basic strategic scenarios open to newspaper proprietors facing digital disruption. The first is what Porter (1985: 311–12) terms 'harvest instead of defend'. This is a short-term strategy with the goal of maximising returns now. It involves concentrating on segments where the threat of substitution is lowest, raising prices, cutting costs and postponing capital investments. The second strategy is to 'enter the substitute industry'. This entails accepting the new competitive situation, viewing the substitute (the internet) not as a threat but as an opportunity, and for newspapers to establish online editions and seek to reap competitive advantages from their existing competencies and relationships with readers and advertisers.

The *Deseret News*: Harvest the Old *and* Enter the Substitute Industry[1]

The *Deseret News* followed an unusually clearly articulated strategy that combined both of Meyer's scenarios, whereby it sought to harvest as much revenue as it could by rethinking and refocusing from the legacy print newspaper business, while at the same time building out an entirely new business that aimed to seize the new opportunities in digital media markets. (The organisational restructuring put in place to support these changes is discussed in the next chapter.)

Founded in 1850 in Salt Lake City and owned by the Church of Jesus Christ of Latter-Day Saints, the *Deseret News* was Utah's oldest continually published newspaper. For 160 years it had followed the standard model for US regional newspapers – daily delivery of a print paper to doorsteps in return for a monthly subscription, and the inclusion of advertising display and classified advertising catering for the local community. When Clark Gilbert arrived in 2009 as new CEO of the newly formed Deseret Digital Media, industry disruption was well underway. A drop in advertising revenue was accelerating: between 2008 and 2010 30 per cent of display advertising revenues and 70 per cent of classified advertising revenues had been lost. However, by 2013, as a result of the new strategy, the Pew Research Center reported that the *Deseret News* was one of only four US newspapers that had bucked the trend of industry decline and managed to boost revenues (Ingram, 2013).

Harvest the old business

When Gilbert took over, the *Deseret News* was a typical general-interest daily newspaper with articles on a wide range of local and national subjects. As advertising revenues continued to drop and as the internet continued to offer more and more generalist news, Gilbert felt this undifferentiated position no longer made sense. Instead, it needed to maximise revenues by identifying the strongest competitive position possible and concentrate on that. This meant making the paper smaller and better,[2] and repositioning it to serve a wider national audience but with a narrower range of content.[3]

Three questions guided the repositioning analysis: ‘what do we do that customers still want?’, ‘what can we still do better than anyone?’, ‘what should we stop doing?’ The conclusion reached was that the paper should shift from addressing Mormon readers in the region to address a larger national audience of all readers engaged in faith practices. Within this broad field, the paper then identified six core themes it would focus its content on: the family, faith in the community, excellence in education, values in the media, financial responsibility, and care for the poor. In addition, a new weekly national Sunday newspaper was launched which, it was hoped, would sell in lower volumes, but with higher advertising rates and higher margins.

These changes allowed Gilbert to increase returns from the company’s sunk investments in legacy assets such as its sales force, print journalists and printing presses and generate new revenues from national advertisers. Stringent cost cuts were also part of the harvest strategy: if revenues had fallen to 1950s levels, then cost structures needed to be cut back to 1950s levels also. A series of measures were introduced including replacing the leadership, lay offs and relocating the newspaper to a building occupied by the rest of the company. Together, these led to a reduction in overall costs of 42 per cent.

Enter the substitute industry

The second element of Gilbert's strategy was to create a new and separate business, Deseret Digital Media, that was designed to exploit the opportunity offered by disruptive innovation. This was intended to be a growth engine and the expectation was that over time it would consume an increasing share of overall investment. The new entity was 'digital only, not digital first', and focused on lower-margin, higher-volume online products and services (often using mobile and social platforms) for small and medium-sized businesses that were not typical customers of Deseret's legacy properties. By 2013, three years after Gilbert took over, digital revenues had reached 45 per cent of total revenues (Levitz, 2013) and Deseret Digital Media revenue had grown on average 44 per cent per year (Jurkowitz and Mitchell, 2013).

Resource-based view (RBV)

Porter's Five-Forces Model argues that a firm should design strategies that allow it to exercise bargaining power over suppliers and customers while preventing new entrants and rivals from entering its market. The 'resource-based view' (RBV) is an approach to strategy that focuses on how companies can gain competitive advantage through the combination of resources it possesses, and in essence proposes that competitive advantage comes from owning unique, valuable, inimitable, non-substitutable capabilities that allow the firm to offer its customers better value than its competitors.

The resource-based view of strategy can be traced back to the late 1950s (Penrose, 1959), although it developed into a substantial and widely applied stream of research during the 1980s. It concentrates on the resources and capabilities a firm possesses and the competitive advantage they can or cannot create in a particular strategic environment (Wernerfelt, 1984; Prahalad and Hamel, 1990; Barney, 1991; Hitt et al., 2001). Firms can achieve sustained superior returns only when they possess resources other firms do not have (Peteraf, 1993; Miller and Shamsie, 1996). Strategically relevant resources need to meet the 'VRIN' criteria, that is, they need to be:

1. Valuable: a resource is only strategic if it is rent-generating and makes a substantial difference to a firm's cost-base or provides a source of differentiation.
2. Rare: possession of the resource must be exceptional rather than standard. A standard resource is a threshold resource, a resource that is not strategic but necessary to compete in an industry.
3. Inimitable: it must be difficult for other firms in an industry to acquire or copy. This can be because rivals cannot understand how they were created or are unable to replicate this process. (Bowman and Collier, 2006)
4. Non-substitutable: there must be no freely available substitutes for this resource.

Resources that meet these criteria influence which markets a firm may enter and the levels of profit it may expect (Wernerfelt, 1984). Examples in the media industry include Pixar's mastery of story-telling using digital animation technology or BuzzFeed's mastery of data analytics to drive content creation and increase its chances of going viral on social media. Both resources all meet the RBV criteria: they are a valuable source of differentiation, are rare, have no substitutes and are hard for competitors to imitate.

The task of imitation is complicated, too, by the fact that a company's strategically relevant capabilities are often acquired in path dependent ways and closely interlinked. Disney's market strength is underpinned by a combination of resources that stem in part from a capability in acquisitions. This brought Pixar, Marvel and Lucasfilm into the Disney fold. These acquisitions brought valuable media properties (the Marvel superhero universe, the *Star Wars* franchise, and Pixar's animated movies), to which Disney applied its expertise in merchandising and licensing to increase revenues from them. These acquisitions also brought Disney a range of cutting-edge technological capabilities (special effects from Industrial Light & Magic that was acquired as part of Lucasfilm, digital animation from Pixar) that allowed it to maintain the 'Disney magic' in an era of convergence.

It is noticeable how often technological competencies feature in the examples above. Indeed, as convergence marches on, technology has moved to the heart of strategically significant core competencies. Competencies in data management and analytics are increasingly core to these. In fact, data are becoming an increasingly important strategic asset for the media, and content strategies and business strategies are increasingly centred on gathering better data and using data more effectively. However, data are also becoming more complicated. Leaving aside the issue of interpretation, there are basic challenges around gathering data, collating data from different platforms and linking these to demographic information.

Here, new organisations have an advantage since they can design their businesses around data analysis from the start. For example, data science lies at the heart of BuzzFeed's business model and content creation. User data are captured, analysed and manipulated in a perpetual loop of analysis, interpretation, experimentation, feedback and refinement. The goal is to identify which content characteristics drive sharing and then maximising these to accelerate the rate at which BuzzFeed content spreads on social networks.

Netflix's Mastery of Data Analytics

A capability in data analytics lies at the heart of Netflix's business model and has made waves in the industry because it underpins a high-profile move into original content, that has resulted in hit series such as *House of Cards* and *Orange is the New Black* (Vanderbilt, 2013). A unique aspect of Netflix's approach is that teams of people have been trained to analyse and tag Netflix content with metadata to create a database of over 70 thousand data points – product attributes ranging from the obvious (plot, actors, genres, period, and so on) to the subjective (the moral status of characters or degree of plot resolution). These detailed tags are combined with machine-generated customer intelligence derived from analysis of viewing habits to develop personalised micro-genres, which resonate closely with members' viewing preferences (Fritz, 2012). This allows Netflix to improve member loyalty and acquisition, since the better Netflix knows what its members want and can provide such content, the more likely it is to retain those subscribers. This finely-grained information on members' preferences also serves as a bridge to content creation, by highlighting the genres, plot twists, actors, contexts, directors, etc. that members find most compelling or appealing. This type of data driven commissioning is a significant departure from the development and piloting process that has long been standard for the television industry (in a further departure from standard practice, Netflix also releases all episodes at once to allow binge viewing). Being able to create successful original content is strategically important for Netflix. Exclusive content strengthens the brand, drives up viewing hours, and allows it to differentiate itself in an increasingly competitive market.

Netflix's data mastery is thus a strategic asset that fits the VRIN criteria. It is valuable (it underpins the creation of content that differentiates Netflix from competitors and attracts new subscribers, keeps those subscribers loyal, and generates additional revenues from the sales of that content in other markets and formats), rare (none of its competitors has comparable analytic database), non-substitutable (there are no freely-available substitutes for this on sale on the market), and inimitable – as of 2014 Netflix invested $150 million a year in developing its recommendation engine (Filloux, 2014).

A number of alternative categorisation systems have been proposed for classifying strategically-relevant resources that fit the VRIN criteria (see Chan-Olmsted, 2006, for discussion). Miller and Shamsie (1996) divide resources into two categories: property-based resources and knowledge-based resources, either of which can stand alone (discrete) or as part of a network of resources (systemic). Property-based resources are inimitable because they are protected by property rights. Discrete property-based resources include legally protected 'scarce and valuable inputs, facilities, locations, or patents' (Miller and Shamsie, 1996: 524). The rights to broadcast key international sporting events such as the Olympic Games or the FIFA World Cup Soccer Championship qualify as examples. Systemic property-based resources include unique constellations of facilities, process and systems that are too complex for competitors to imitate, for example Sky Digital's marketing infrastructure, which encompasses call centre, retail sales team and customer sales team.

Knowledge-based resources – tacit, implicit know-how and skills – cannot be imitated because they are protected by knowledge barriers. A creative team's network of freelance suppliers and a relationship built up over decades of collaboration, and reinforced by market success, is an example of a discrete knowledge-based resource. Systemic knowledge-based resources, on the other hand, involve knowledge-based resources that are integrated throughout an organisation, and would therefore also qualify as core competencies – for example, Disney's ability to leverage the value of one content source across the company's many divisions.

The RBV research stream has been applied frequently to the media sector. Chan-Olmsted (2006)[4] proposes that because competitive advantage in the media industry derives so heavily from unique properties (exclusive content) and expert knowledge (the intangible 'know-how' concerning audience appetites and creative processes), the property/knowledge-based typology is valuable for classifying and analysing media firms' resources, and, by extension, understanding performance differences.

Resources can be created in four ways (Bowman and Collier, 2006). The first is through acquisition, which is a favoured route for legacy players to acquire digital resources. A good example is Axel Springer, which acquired over 190 companies between 2001 and 2015, including *Business Insider*, and stakes in Politico and Blendle. Similarly, News Corp acquired the social agency Storyful in 2013 to expand both its video and its social media capabilities (including social media dashboards, real-time discovery tools, feeds and analytics, all of which are both used internally by News Corp and sold to other customers). The second is resource picking. To do this a firm must have a view of the future that is not shared by other firms, which in turn relies on skills in analysing the external environment and firm information (Makadok, 2001). BSkyB's recognition in the 1980s of the role of killer content in driving uptake of pay-television offers, which led to early moves in acquiring exclusive rights to key sporting fixtures, is an example of resource picking. Third is internal development. This is a path-dependent process by which, over the course of its unique history, a firm builds rare and valuable resources and can exploit these in unique ways. Disney's library of animated films and characters, which provide a basis for content re-exploitation in many formats, is an example of path-dependent resource creation. The last method of acquiring resources is alliance activity. An industry example of this is Vice Media's joint venture with HBO, which provides HBO with video content attractive to Gen Y audiences and Vice with access to prime-time television audiences.

While the RBV has become an enduring and valuable addition to strategic theory, as with many of the frameworks that feature in this book, definitions can prove imprecise when actually operationalised in in-company research. Barney (1991: 101), for example, defines resources very broadly indeed as ‘all assets, capabilities, organisational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness’, a categorisation that could stretch to include just about any aspect of an organisation. The RBV can also be difficult to test empirically because idiosyncratic resources are hard to measure (Hitt, 1997). It has also been suggested that the approach is inappropriate for dynamic and volatile environments (D’Aveni, 1994; Eisenhardt and Martin, 2000) and fails to accommodate the influence of firm evolution over time (Wang and Ahmed, 2007). Finally, some criticise the lack of prescriptive guidelines arising from the theory (Bowman and Collier, 2006).

Core competencies and dynamic capabilities

The core competence is a somewhat more pragmatic 'sister' to the RBV and has achieved greater resonance with practising managers. A core competence is also imprecisely defined, but is generally understood as a distinctive organisational attribute that creates sustainable competitive advantage and provides a platform for future growth – a 'gateway to tomorrow's opportunities' (Prahalad and Hamel, 1994). A competency is understood as a 'bundle' of individual skills and technologies that is integrated and company-wide, is unique to the organisation concerned, cannot be easily reproduced by competitors, delivers real and meaningful customer benefit, is extendable, is sustainable and is appropriable (that is, the added value created by the competence is retained by the organisation – if this value accrues to the individual who possesses the competence, then the competence concerned is not 'core') (Prahalad and Hamel, 1990; Quinn, 1992; Kay, 1993).

The distinction between a strategic resource and a core competence is not easy to draw: competencies, capabilities and strategic resources all fall into resource-based theory. However, the critical distinction appears to lie in the fact that a capability or competence is a more complex phenomenon that is embedded in the wider organisational system. It is home grown (and therefore hard to acquire), involves organisational routines that have been acquired over time, are embedded in its architecture and culture (Teece et al., 1997), and has a high knowledge component. Further, the roots of distinctive capabilities often extend back to the organisation's founding circumstances, emerging in the first place as a means by which an organisation can fulfil its primary mission. They are thus intrinsic to a company's identity, deeply rooted in its culture, and contribute not only to competitiveness but also to the psychosocial 'glue' that creates identity, differentiation and cohesion (Schein, 1992), and they form part of an organisation's personality (Drucker, 1994).

CNN's Breaking News as a Core Competency

In approximately the first 15 years of its life (from 1980 to 1995), in the period before it was acquired by Time Warner and before it became part of the AOL Time Warner empire, CNN was worldwide leader in broadcast news on cable platforms. A core competence in covering and transmitting breaking news on a global basis, faster than any other news organisations at the time, contributed greatly to its leadership position. Analysis using the core competency framework allows the individual components, the routines embedded in CNN's architecture, that together made up this competence, to be identified:

1. Organisational infrastructure. CNN was a news network, and also a geographically diffused network organisation, a response to the requirements of its newsgathering and broadcasting activities. The hub was in Atlanta, Georgia. There were production facilities in Georgia, Washington, London and Hong Kong, ten national and 21 international news bureaux. It had a 32.6 per cent stake in n-tv (Germany) and 50 per cent of TV-6 Moscow, was a subscriber to Worldwide Television News, Reuters TV and APTV, and a participant in news pools covering the Far East, Europe, North America and the Middle East.
2. Distribution infrastructure. CNN's broadcast infrastructure was difficult for competitors to replicate because it had been created in a path-dependent way. Domestically, it was the first cable news service and therefore had locked-in 'must carry' agreements with most cable operating firms in the US. Internationally, it had blocked space on eight satellites that carried its signal. This gave it the largest and most flexible footprint of any broadcast service and by splitting up its signal in so many ways, CNN, uniquely, could offer both global advertising and regionally targeted advertising.
3. Newsgathering infrastructure. CNN achieved success partly through alliances. In addition to its relationships with cable operators, it had reciprocity arrangements with local stations all over the world to exchange its news coverage in return for significant local stories of global interest. This created a worldwide newsgathering system – albeit an unorthodox one for the industry at that time, which had a strong bias for home-grown news. CNN invested consistently in developing overseas newsgathering, by increasing both alliances and the number of international bureaux. It also invested in the technology for international newsgathering, thus making its own operations faster and easier. It pioneered the use of collapsible satellite dishes that could be taken on commercial aircraft – this allowed it to get its journalists on site and broadcasting far faster than competitors. It used a network of high-level relationships to further these activities, particularly through Ted Turner's friendships with heads of state, which enabled CNN to extend its newsgathering network into parts of the world that were closed to other broadcasters (Rosenstiel, 1994). As a result of this newsgathering capacity, CNN became *de rigueur* viewing for world leaders, opening whole new communications systems between governments (Whittemore, 1990).
4. 100 per cent control of airtime. Unlike its competitors, CNN did not depend on advertising for the bulk of its revenues (its main income was from cable providers). This meant it could suspend normal schedules at any point should a new story break. Its advertising-financed competitors could not, in the main, do

this since they would forfeit both revenues from, and credibility with, their advertising customers.

5. Real-time decision-making skills. The news journalists' emphasis on speed infused the entire organisation. Even staff in non-broadcast areas became skilled at making fast decisions.
6. Track record of success/news coups. CNN's track record of news coups helped create a powerful brand associated globally with immediacy and drama. This again was a product of its history and therefore difficult for competitors to copy. In 1986, when the Challenger Space Shuttle exploded, CNN was the only television channel to cover it live. It then sold its footage to broadcasters all over the word, creating an awareness of CNN, particularly in Europe, which would have been hard and expensive to achieve through marketing campaigns. As a result, a few months later CNN was available in over 150,000 households. In subsequent years, CNN's consistent investment in its international newsgathering infrastructure meant it could repeatedly score against its competitors by being the only news service to broadcast exclusive live coverage of events such as the Tiananmen Square Massacre (1989), the US invasion of Panama (1989), the release of Nelson Mandela (1990) and the Gulf War bombing of Baghdad (1991).

CNN's abilities with breaking news classify as a core competency. But illustrating the overlap between the two theories, this 'skill bundle' also conforms to the VRIN criteria used to identify a strategic resource according to the RBV. Thus CNN's competency in breaking news was also rent-generating and a source of differentiation (valuable), comprised an exceptional combination of elements (rare), had no obvious alternatives (non-substitutable) and was challenging for competitors to replicate (inimitable). Applying Miller and Shamsie's (1996) property-knowledge resource typology shows that this core competence combined property-based resources (the organisational and distribution infrastructures were property-based systemic resources, and 100 per cent control of airtime was a property-based discrete resource) and knowledge-based resources (the real-time decision-makingskills and the track-record of success/news coups were knowledge-based systemicresources, the newsgathering infrastructure was a property- and knowledge-based systemic resource).

Competencies, capabilities and resource-based analysis comprise a powerful lens for strategic analysis. While many classic tools from the rational school are difficult to apply in the current environment, this approach highlights how the strategic landscape is changing and pinpoints emerging strategic priorities. Analysis of disrupters' capabilities in terms of creating customer value, optimising customer experience, driving down costs, making organisations agile, and of course in shaping technology infrastructures and data analytics, allow organisations to recognise one of the central truths in the new media ecosystem, the centrality of technology and the strategic necessity of technological competencies: technology is no longer a service function but intrinsic to growth, market share, and value creation. Comparing new players' competencies to an existing players' competence profile can illuminate parts of media businesses that need 'de-emphasising' (to use a euphemism) in order to regain competitiveness. Thus in the past an important core capability for a book publisher was the ability to get books into bookshops and noticed by consumers. Entire sub-competencies were put in place to support this – large sales forces, point-of-sale promotion expertise, strong relationships with buyers at key retailers, and so on. Today, when much buying has moved online and Amazon has an extraordinary competence in getting a specific book into the hands of a customer extremely quickly, and there are far fewer retail outlets, book publishers need to shift resources into building capabilities in search optimisation, building author fanbases, and social media marketing, as well as in developing new revenue streams.

Is long-term strategic planning still possible?

> The tragedy for the vast majority of legacy media is they no longer have the luxury of long term thinking. … By contrast, most digital companies are built for the long term: Their management is asked to grow, conquer, secure market positions and then monetize. It can take years. (Filloux, 2014)

Legacy media organisations have found rationalist strategic approaches hard to apply in the industry's dynamic and volatile environment. Rather than engage in traditional strategic planning, strategy work in many cases has become opportunistic and piecemeal, defined on the one hand by firefighting in response to specific challenges and on the other by a large number of individual strategic projects that only, if at all, coalesce into a coherent strategy in retrospect.[5]

The prevailing if unconscious assumption therefore seems to be that a fast-changing environment, where that change is driven in large part by tech advances, precludes long-term planning because this is contingent on close environmental analysis, which focuses on competitor behaviour within existing product categories, and on existing sources of value creation, and both these categories are evolving. It is striking, however, that the so-called digital disrupters, a group which includes the so-called GAFA (Google, Apple, Facebook and Amazon), engage in very long-term strategic planning, or at minimum strategic scenario building, indeed.

Amazon, as discussed in Chapter 2, has pursued a long-term adjacencies strategy. Apple's strength, as one of the most highly valued companies in the world at the time of writing, reflects Steve Jobs' long-term goal of shaping a post-PC world. The iPod and iPad were both elements in this plan and both were poorly understood when launched because they did not conform to prevailing market/product categories. Both products later established themselves as new categories. Similarly, the iPhone was both a new product in the mobile phone market (ultimately helping render existing categories obsolete), and a disrupter to the PC market. This type of long-term strategic vision aimed at creating new sectors is typical for the tech industry. As Mann (2015) observes, 'innovation in tech is rarely, if ever, short term'.

Adaptive approaches

A core distinction in strategy literature is between strategy content and strategy process (Chakravarthy and Doz, 1992; Pettigrew, 1992). Rationalist approaches focus on the content of strategy, crudely put, the contents of the strategic plan. They seek to find a strategic position that will lead to optimal performance under varying environmental conditions (Chakravarthy and Doz, 1992). They argue that the growth and survival of organisations is influenced by the structure and dynamics of an industry and the quality of response to environmental factors, particularly the economics of business cycles. Strategy involves maximising returns from resources and establishing equilibrium within this context.

An alternative perspective is that equilibrium is rare. Change is endemic to organisational environments and, echoing Schumpeter's concept of 'creative destruction' (1934), is an ultimately positive force. Researchers sharing this viewpoint began to study the interplay between the structure and dynamics of an industry and the structures, strategies and processes inside organisations. They recognised that the interrelationship between these elements needed to be explored, and that an important aspect of strategic activity involved reconciling and integrating these external and internal elements. They also recognised that environmental change, particularly technological change, can erode the strategic value of an attractive product-market position or of distinctive resources or capabilities.

Such considerations lie at the heart of the 'adaptive' school. This views strategy as 'a process not a state' (Pettigrew, 1992) and is concerned with 'how effective strategies are shaped … validated and implemented effectively' (Chakravarthy and Doz, 1992: 5) to ensure that organisations master complex and uncertain environments. An important emphasis is on adaptation and self-renewal: 'strategies must change in keeping with both new opportunities and threats in its environment and changes in … strategies and strategic intent' (Rajagopalan and Spreizer, 1996). Thus strategy is not primarily about planning. Rather, it is about trying to see the world as it really is, and preparing the organisation so that it has a chance of a successful future (Fulmer, 2000), and the reality of strategy lies in strategic actions, rather than strategic statements (Burgelman, 2002).

So change (or adaptation) is intrinsic to strategy and, by extension, strategy is intimately involved with the organisation. A shift in the content of strategy must mean shifts in the organisation – in structure, people and processes. Indeed, for Mintzberg and colleagues the field of strategy is subsumed within the broader one of strategic change, thus 'to manage strategy is to manage change – to recognise when a shift of a strategic nature is possible, desirable, and necessary, and then to act – possibly putting in place mechanisms for continuous change' (Mintzberg et al., 2003: 166).

If rationalist approaches see strategy as a plan, then adaptive ones see strategy as an evolutionary process where change takes place progressively as firms undertake a series of strategic readjustments in response to a changing environment. While the devising of the content of a strategy can be structured and formal, the actual process of strategy is gradual and messy, triggered by learning taking place in various parts of the organisation. Strategy can sometimes be visible only in hindsight as a 'pattern in a stream of decisions', as Mintzberg (1987) famously described it.

Critically, strategy is not decided, then carried out, but emerges in the process of being implemented. Monitoring the environment, analysing developments and making changes are continuous and contiguous activities. The boundary between the organisation and its environment is highly permeable, and the environment is a major focus of attention in determining organisational action.

If the frameworks in the rational school seek to support organisations in their search for a strategic position that will guarantee sustainable advantage, the concepts in this school seek to enable dynamic strategic positioning, for example in the design and redesign of the structures and processes by which an organisation can respond to changes in the environment.

Concepts particularly relevant to the media sector from this school are those concerning responses to technological advance. For example, those that allow organisations to distinguish between different types of technological change and understand their respective implications for different types of organisation, or models that provide insight into which technology will dominate after a technology transition, and explain why an 'inferior' technology may become an industry standard, or concepts that help incumbent organisations resist inertia and establish new ventures based on new technological platforms (these are discussed in Chapter 4).

A further distinction in this field is between incremental change and transformational change. The pace and velocity of environmental change are not constant. Organisations need to be capable of both incremental and transformational change (Tushman and Anderson, 1986). Transformational change itself has more than one incarnation, and can involve a quick dramatic revolution or renewal – a more gradual process. Transformational strategic change, such as is currently required in many sectors of the media in response to the internet and digitalisation, is recognised as one of the most challenging for leaders and uncomfortable for those inside organisations, since it involves moving from the known to the unknown, and requires existing success formulas to be abandoned and new competencies and attitudes to be developed (Mintzberg et al., 2003). These aspects of adaptive approaches to strategy are discussed in Chapter 7.

Strategic Adaptation at the *New York Times*[6]

Founded in 1851, the *New York Times* is one of the most highly respected news organisations in the world. It has been engaged in a two-decade-long journey of strategic adaptation in response to the emergence of the internet and world wide web and subsequent advances in digital technologies, whereby it has innovated repeatedly in response to both opportunities to enrich journalism and serve its audiences using new technologies and new threats in its environment arising from new products, services and competitive actors in the news field.

'The Times' is a 'fast follower' in terms of adapting to technology developments. It launched a website early in 1996, and from then on responded speedily to successive waves of innovation in the industry. It has had a continuous news desk since 2000, started to merge print and online in 2005,[7] created an e-reader app in 2006, established an Interactive News Technology Team of developer-journalists in 2007, launched the 'Times Extra' site that aggregated coverage from other online news sources, opened its numerous APIs to developers,[8] and opened its archives to external data journalists to develop visualisations of its data, and launched iPhone and iPod Touch apps in 2008. An iPad app came in 2010, and in the same year it launched TimesCast, a daily video service.

These projects were not all successful (as is the case with innovation projects in all organisations, legacy or start-up) but the early start and iterative, adaptive approach created competitive advantage through building digital expertise, know-how in digital markets and experience of the challenges associated with organisational transition. Recent strategic adaptations have focused on strengthening its appeal to younger, digital and mobile audiences. The Upshot (launched 2014) is a politics and policy 'explainer' website that combines data and journalism to help readers 'get to the essence of issues and understand them in a contextual and conversational way'.[9] In 2014 a machine learning team was established that combined data engineers, business analysts and data visualisers to interpret online user data to generate insights into usage and ideas for new products. A Video Hub was launched in 2014 with content produced by an in-house team and external partners. Videos are also increasingly added to relevant articles on the website, and included as stand-alone pieces, sometimes functioning as a precursor to a subsequent print story.

Buzzfeed’s Pivots – Strategic Adaptation à La Silicon Valley[10]

Rapid strategic adaptation is standard practice for Silicon Valley, where new companies and their backers are permanently adapting business models and strategy in search of market success. In the Valley lingo, these shifts are known as ‘pivots’ and are seen as an essential mechanism to bring growth.

BuzzFeed, a pioneer in viral content and now a leading digital social news and entertainment company with a global and cross-platform footprint, is a prime exponent of the art of the pivot (Küng, 2015). While founder Jonah Peretti always had a broad strategic direction in mind, there were significant shifts in how the company moved in this direction.

Founded in 2006 by Jonah Peretti, once described as a ‘quintessential nerd genius’, BuzzFeed started life as an experimental ‘viral content skunkworks’ that sought to track viral memes and use data analysis techniques to identify which aspects of content made people want to send it on to friends. At this point, social media had not yet taken off (Facebook was in its infancy, and Twitter did not yet exist), and BuzzFeed was a side role for Peretti. He ran the firm in parallel to his ‘day job’ as co-founder and tech guru at Huffington Post (he only left to join BuzzFeed full-time when the Huffpo was sold to AOL).

BuzzFeed was initially a tech company. Its first product was the BuzzBot, an instant messaging client that analysed viral traffic to detect trending content and sold it to publishers to use on their sites. (Peretti was constrained at this point from working with content, since this would compete with his role at the Huffpo.)

The first pivot was a move from a technology business into an editorial business, initially through a website for ‘contagious’ content that collected some of the most popular links on the web, and then by hiring editorial staff to create original content explicitly for sharing. Content activities grew progressively in scope and professionalism and a distinct BuzzFeed editorial voice emerged – amusing (BuzzFeed described its mission as to ‘make life more interesting for the hundreds of millions bored at work’), optimised for social-mobile consumption, and, above all, designed to share (see Chapter 4 for an analysis of how data science underlies the content creation at BuzzFeed). New genres were developed – the listicle and the quiz – and there was a preponderance of cats.

News represented the next pivot. BuzzFeed, in classic disrupter pattern, moved from the inane listicle to serious investigative journalism. In 2012, with the goal of making BuzzFeed the leading provider of news for the social media and mobile world, BuzzFeed started hiring a series of high-profile journalists from traditional and respected news organisations to build out its news content and make BuzzFeed into a credible news provider. The company now has foreign correspondents around the world and a growing number of journalists.

Video came next, which is now one of the major driving forces of the company. A BuzzFeed YouTube channel was launched in 2013, and in 2014 this division became

BuzzFeed Motion Pictures. This shifted from short-form web video to mid-length serialised video shorts distributed on social platforms including Facebook, YouTube and Snapchat. BuzzFeed is also currently looking at more linear televisual forms of content (much of the 2015 $200 million investment from NBCU was ear-marked to expand its video activities, and the company acquired an additional 250,000 square feet of space in Los Angeles).

There have been pivots too of a subtler nature.[11] BuzzFeed started as a vertically integrated company, with a make your own content, build your own, full-stack vertical integration technology philosophy. It then moved to the network integrated model, where it published on many different platforms (including Snapchat, Facebook, Instagram and Pinterest) and simply focused on getting the data back to optimise content virality. The next stage was to push BuzzFeed into an intelligent network with autonomous nodes that share learning. BuzzFeed can now track, learn and optimise from the relationship between the different platforms and markets on and in which it operates – applying learnings from Instagram to Snapchat, from a post to a video, from a success in the UK to Australia.

BuzzFeed is still best understood as a tech company with a sophisticated layer of media content creation on top. Data science underlies content creation, tech industry processes shape both how the organisation is run and its product development processes. Its fast growth (and high valuation) rests in part on its ability to pivot – in terms of content strategy and in terms of the shape and structure of the organisation, as digital media markets evolve.

Interpretative approaches

Rationalist approaches to strategy in particular have been criticised for failing to accommodate the diversity and disorder of organisational life – Mintzberg once famously claimed that 90 per cent of rational strategies are never implemented successfully – and also for failing to address the habits of mind that so often prevent strong players from making a bridge between one type of environment and another.

The interpretative school of strategy focuses on exactly those elements that often prevent strategic plans being implemented, namely the deeper 'hidden' aspects of the organisation, such as mindset, belief systems, values, motivation and emotions. These elements are often underplayed or even ignored in strategic planning, partly because they are highly subjective and somewhat ethereal, and partly because they concern subjective and unconscious phenomena that are difficult to access and interpret. Researchers in the field, however, argue that interpretative elements can both help and hinder strategic change, and that successful strategic initiatives have found a way to take these powerful but hard-to-manage forces into consideration.

The interpretative approach seeks to understand organisations from the perspective of those working in them with a focus on how meaning is constructed out of events and phenomena, the influence this meaning has on the behaviour of the firm, and the outcomes of that behaviour. A basic assumption is that organisational members actively create or enact the reality they inhabit (Weick, 1979), thus reality is understood as 'socially constructed'.

The adaptive and interpretative schools are closely linked. If all strategic activity is ultimately about change, the adaptive school looks at the changes that need to be made in routines, systems and technology. But congruent changes also need to be made in the organisation's overt and covert cultural and social systems, in its interpretative phenomena, and these issues form the focal point of the interpretative school.

A number of levers can be used to achieve strategic change. While rational approaches tend to focus on tools such as education and communication, the interpretative school looks at how socio-cultural, symbolic, cognitive and political processes can be employed to speed processes of transformation and signal the types of changes required from organisation members. Thus, interpretative approaches focus not only on how an organisation might be restructured (a focus of the adaptive school), but also on the meaning created by the events staged to publicise the change, by the choice of individuals to head up the new structure, by the individuals marginalised through these actions, and how these flag up the changes that are required on an individual level (Johnson and Scholes, 1989).

Of all the schools outlined here, the interpretative school is the least cohesive – indeed, some would dispute whether it even constitutes a school. However, the concepts in this approach have a common starting point, the ‘higher order’, or deeper psychological and often unconscious, aspects of organisations such as underlying beliefs, mindset, mental models and motivation.

Interpretative approaches also consider how the emotions expressed by the change leader allow those in the organisation to frame and ‘make sense’ of the changes (Gioia and Chittipeddi, 1991). Academic understanding of the role of emotions in strategic change is still in its infancy, but the emotional capability of an organisation has been identified as important in processes of radical change in that it affects its ability to acknowledge, recognise, monitor, discriminate and attend to emotions at both individual and collective levels (Huy, 1999).

Symbolic, cognitive and cultural elements are particularly important in media organisations, partly because the individuals who choose to work in the sector are often motivated to do so because of their own ‘higher order’ needs, and partly because of the tremendous influence that the media industries exert over our lives and societies. And there is ample evidence of the strategic relevance of concepts from this school to the media industries. Culture is an important factor in established firms’ ability to respond to new technology.

Many observers have attributed the demise of the print newspaper to cultural rigidity. Meyer (2004), for instance, found that the high levels of cash traditionally generated by the newspaper industry generated a complacent culture that slowed its ability to respond to the threat of new technology, and noted that the new content forms that seize the potential of new technologies are being created by non-journalists who have worked outside the journalism culture.

And in the entertainment sector, the past years have shown how mental models have influenced the music majors’ responses to the internet, and indeed to a raft of earlier advances, including compact cassettes, VCRs, CDs, and so on. Similarly, the blockbuster strategy is a good example of the impact of cognitive assumptions on investment decisions. The movie industry steadfastly clings to the beliefs that big budgets mean big audiences and that consumers respond to saturation advertising, even though the statistical correlation between stars and success in the film industry is disputed (Ravid, 1999).

Conclusions

A central tenet of this book is that strategy is contextual: different strategic conditions mandate different strategic approaches. A media organisation lucky enough to find itself in a relatively stable environment will benefit from the classic analysis and plan-based approaches of the rational school. Those in fast-moving and unpredictable contexts will need to adapt more dynamic approaches from the adaptive and interpretative schools. Subsequent chapters of this book draw heavily on models from the adaptive and interpretative schools, and far less on rationalist approaches. The latter have been applied extensively to the sector, as already discussed, while the other two, appear far less frequently in research. Concepts from the adaptive school are to be found in Chapter 4 (on technology), Chapter 5 (on creativity and innovation), Chapter 7 (on organisation structure) and Chapter 8 (on leadership). Interpretative models feature in Chapter 6 (on culture, mindset and strategy), Chapter 5 (on creativity and innovation) and Chapter 8 (on leadership).

Notes

1. The discussion in this section draws on an interview with Clayton Christensen on the Next Newspaper project in Millie Tran, 'Revisiting disruption: 8 good questions with Clayton Christensen', 23 January 2014, www.americanpressinstitute.org/publications/good-questions/revisiting-disruption-8-good-questions-clayton-christensen.

2. Clark Gilbert, Matthew Eyring and Richard N. Foster, 'Two routes to resilience', *The Harvard Business Review*, December 2012, http://hbr.org/2012/12/two-routes-to-resilience/ar/1 (accessed 24 February 2014).

3. Dean Starkman, 'Media convergence: regional newspaper/national magazine edition', 23 February 2014, www.cjr.org/the_audit/media_convergence_regional_new.php (accessed 24 February 2014).

4. This discussion of the RBV's application to the media industry draws on Chan-Olmsted in Albarran et al. (2006).

5. This finding draws on research conducted into strategic leadership in legacy media organisations over the past decade by the author and which will be published in 2017.

6. This case study is based on a longer analysis of the *New York Times'* digital strategy in Küng (2015).

7. 'The New York Times', Encyclo: www.niemanlab.org/encyclo/new-york-times/?=fromembed (accessed 28 June 2014).

8. API stands for Application Program Interface – a set of tools, commands, functions and protocols that allows programmers to build software for a particular operating system. Publishing APIs means that external parties can build software for the program, and also benefits users since it means that all programs using an API will have a similar user interface. Twitter, YouTube and Google Maps are all available, allowing developers to embed these services into their websites.

9. John McDuling, '"The Upshot" is the New York Times' replacement for Nate Silver's FiveThirtyEight', *Quartz*, 10 March 2014: http://qz.com/185922/the-upshot-is-the-new-york-times-replacement-for-nate-silvers-fivethirtyeight/ (accessed 27 June 2014).

10. Full analysis of BuzzFeed's business can be found in Küng (2015) and Peretti's

leadership approach is discussed in Chapter 8.

11. For more detail listen to an an interview with Jonah Peretti on the Recode podcast, 15 September 2015.

4 Strategic Responses to Technological Change

> A critical pattern in the dynamics of technological innovation … is the disturbing regularity with which industrial leaders follow their core technologies into obsolescence and obscurity. (Utterback, 1994: 162)

The media sector tends to discuss the industry in terms of content and its creation, with technology entering discussions as an enabling, contributory or disruptive factor. The secondary status accredited to technology is surprising since media industries are symbiotically linked with technology and technological change, and, viewed longitudinally, technology is a powerful influence on both organisational behaviour and strategic outcomes. Each of the three core dimensions that constitute the sector – content, distribution systems and the devices that display content (Wildman, 2006) – came into existence because of technological invention and continue to be subject to technologically induced change.

While the industry may underplay its dependence on technology, advances in technology have long been used to give products a competitive edge. Walt Disney and his animators were pioneers in exploiting new technological possibilities, in developing new applied technologies to make his animated films more striking (Bennis and Biederman, 1997; Catmull, 2014). The Disney studio was the first to synchronise sound with movement on film in 1928 and the first to use a new three-colour process from Technicolor in 1932. It invented tools to perfect sound and colour, including the multiplane camera, which allowed more realistic depth effects in animated film, blue screen matting and xerography. It produced the first feature-length animated film, *Snow White and the Seven Dwarfs* (1938). In the 1950s it was one of the only major Hollywood players to embrace television as a growth opportunity.

Media management research on technological advance in the media industries has concentrated primarily on two issues: the adoption of new technologies by individuals and the introduction of new technologies on media markets (Chan-Olmstead, in Albarran et al., 2006). The substantial body of research into firm-level responses to technological innovation does not seem to have permeated media industry or media management academic discourse very far, and one goal of this chapter is to address this shortcoming since this research stream has many significant insights for strategic managers in the sector.

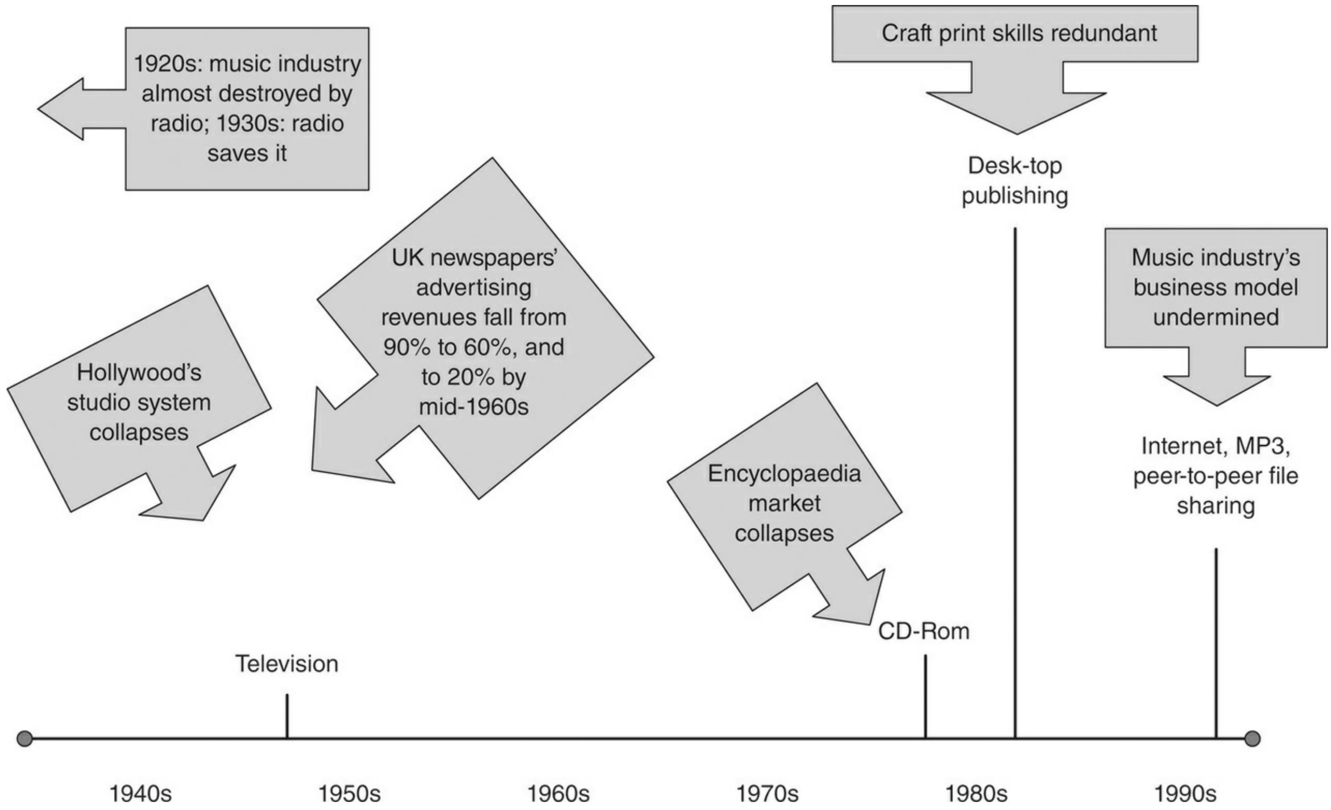
This chapter explores the often intricate relationship between technology, technological change, organisational strategy and the media industry. It explores the industry's symbiotic relationship with technology by tracing the key developments that have shaped, perhaps even given birth to, its various sectors. It reviews theoretical understanding of the relationship between firm strategy and technology, and the distinguishing features of different types of technological change. It then looks at the requirements these various types of innovation place on firms, and at the factors that help or hinder effective responses. These issues are developed further in Chapter 5, which deals with creativity and innovation.

Technological change and the media industry

> What interested me was not that companies rose and fell or that the landscape continually shifted as technology changed but that the leaders of these companies seemed so focused on the competition that they never developed any deep introspection about other destructive forces that were at work. (Catmull, 2014: xiv)

A retrospective glance at key events in the media industry over the last 100 years shows a persistent pattern: technology gives, and technology takes away, but it seldom takes everything away. As Figure 4.1 shows, technological advances create new products and segments of the industry, fuel increases in usage and spending on media products and services, but at the same time erode existing markets, segments and business models. The commercialisation of printing with moveable type by Gutenberg in 1448 disrupted the then print media sector that used carved wooden blocks. The microphone, radio and the technology of sound recording led to the emergence of radio broadcasting and recorded music, but meant reduced audiences for music concerts. The emergence of television added a new pillar to the media industry, but contributed to the demise of Hollywood's studio system, spelt the end of the comic as a major leisure product for children in the US. In the UK it caused newspapers' share of total advertising revenues to fall from 90 per cent in the 1940s to 20 per cent by the 1960s. The emergence of the CD-Rom boosted the sales of home computers but undermined the reference book industry, particularly the print encyclopaedia. Desk-top publishing systems improved the economics of newspaper publishing but rendered traditional craft newspaper printing skills redundant.

Figure 4.1 Technology's track record of undermining media business models



The fact that the media industry owes its existence to technological advance, and that technology is a permanently moving carpet under its feet, is surprisingly seldom acknowledged by the industry itself. It repeatedly greets new technologies with dismay – forgetting that the products its business is currently based around once represented radical alterations to the status quo of existing industries.

Fear of the new is a longstanding feature of incumbents' responses. Hollywood was hostile to television. Both the television industry and Hollywood feared the VCR. The music industry tried to block the compact cassette, the compact disc and, more recently, the internet. Looking further back still, book publishers were concerned that circulating libraries would reduce their sales. However, despite their forebodings, in each case the new technology led to new markets and increased revenues for incumbents: the consecutive introduction of video, cable/satellite, video on demand, DVD and home cinema technology have ensured continued growth for the film industry over past decades.

Table 4.1 Technological developments and the media – an historical perspective

Time	Technological development
1450	Book printing press based on interchangeable type
1826	Black and white photography
1873	Colour photography
1876	Telephone and microphone
1877	Phonograph
1888	Box camera and roll film
1895	Cinematograph invented by the Lumière brothers
1910	Silent film
1920s	Cinema, radio
1927	*The Jazz Singer* – first talking picture, first radio licences granted
1930s	Film with sound, FM radio
1940s	Colour film, RCA markets television sets
1950s	Black and white television and television networks fully established in the US, cinema and library visits show decline
1960s	Colour television, long-playing records
1970s	Teletext, VCR, cable television (US)
1979	Sony Walkman
1979	CompuServe bulletin board
1980s	Personal computer
1983	Internet
1984	Apple Macintosh
1985	Microsoft Windows
1989	World Wide Web, compact discs, satellite transmission (Europe), cable transmission (Europe)
1990s	Penetration of home PC, HD TV
Mid-1990s	Netscape Navigator, digitalisation, digital television and radio broadcasting (Europe), Amazon, Vice Media
Late 1990s	Wireless telecommunications, broadband technologies, fibre optic infrastructure, on-demand television services, personal video recorders, Napster, Netflix, Google
2000	Pandora
2004	Facebook
2005	YouTube
2006	Buzzfeed, Twitter
2008	Spotify
2010	iPad
2011	Snapchat
2016	Ultra HD, 4K, ve

Technological innovations tend, therefore, to supplement, rather than replace, previous technologies. The previous medium is not destroyed, but progressively undermined, more often than not slipping down the food chain with lower revenues and smaller market share. This dynamic was observed by Riepl (1913), chief editor of Nuremberg's biggest newspaper, who proposed that established media never die, but adjust to a new technological environment, perhaps being used in different ways and with different formats.

Convergence and its causes

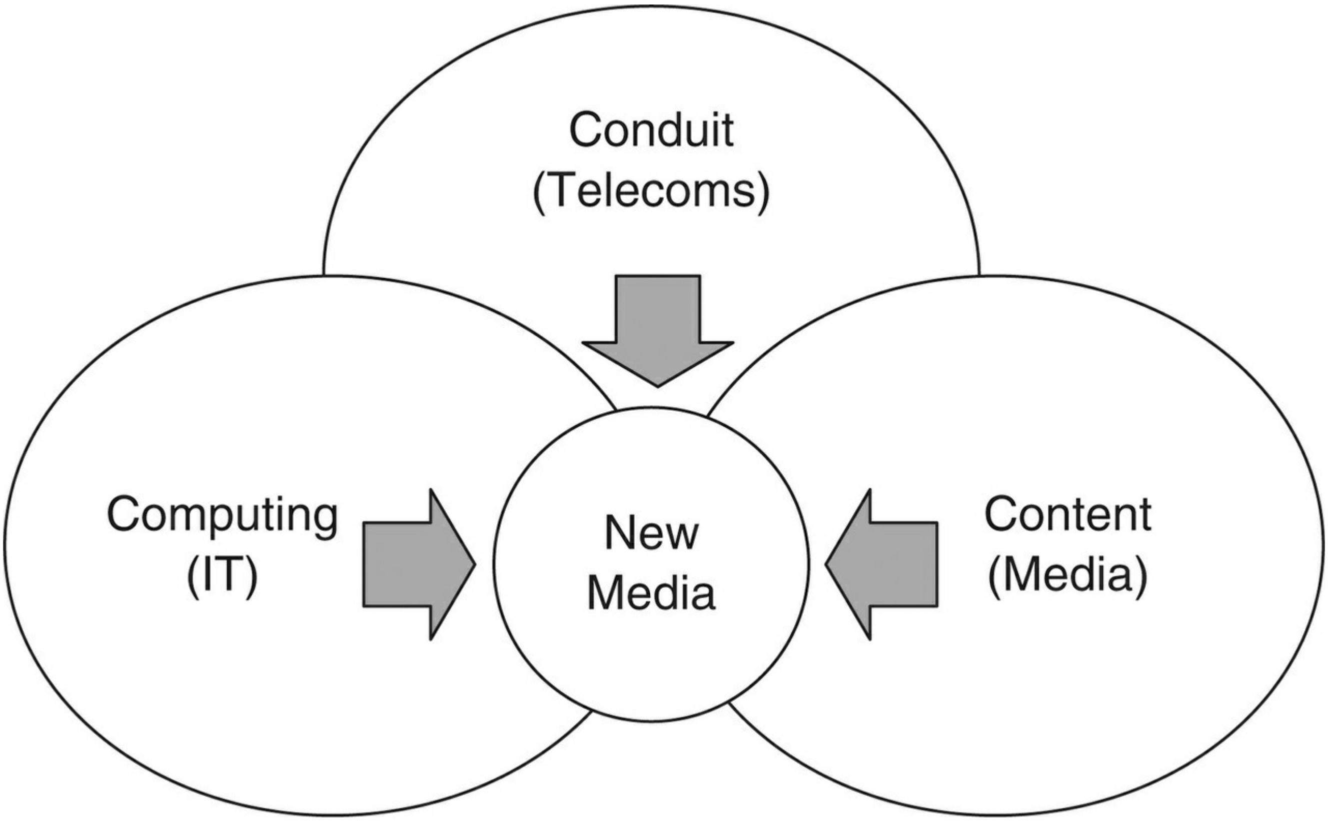
Convergence has been one of the most widely discussed and imprecisely defined concepts in the media industry in the past two decades. It is hard to overstate how profound a development convergence was expected to be in the late 1990s when the phenomenon was first mooted. It was presaged as a second industrial revolution, 'comparable in scale to the biggest changes ever experienced by humans' (Barwise and Hammond, 1998), something that would herald a new industrial era described variously as 'The Era of Networked Intelligence' (Tapscott, 1996), 'The Network Economy' (Kelly, 1997), and 'The Age of Digital Convergence' (Yoffie, 1997).

While many interpreted the dotcom bust of 2000 as an indication that the media industries could return to business as usual, as the tech industry has grown in size and strategic significance, as mobile devices and social media command what feels like an ever larger share of consumers' attention spans and wallets, it is clear that the technology, media and telecoms sectors are indeed blending, and that this process is accelerating, and that inside this broader phenomenon are nested 'sub-layers' of convergence between sectors of the 'old' mass media industry, and between content formats.

The term 'convergence' has always been both ubiquitous and poorly defined, more of a buzzword than a formally expressed concept. Although a fundamental element of business and policy discourse, scholarly definitions display little consistency. Indeed, in its field, convergence stands out as an impressively imprecise concept (as one academic pithily observed, 'uses of the term convergence have not converged'). In the field of convergence constructivism rules – what you understand by the term depends on who you are and where you stand.

The media industry has historically understood convergence as the technologically-driven fusing of the content (i.e. media), computing (i.e. information technology, particularly software) and communications (i.e. telecoms and broadcast distribution) industries into a mammoth new 'media and communication' sector' (Bradley and Nolan, 1998), commonly expressed in the so-called '3-C Model of Convergence' (see Figure 4.2). A subset of industry-level convergence is corporate convergence – whereby companies from one sector acquire or ally with other firms, or start new ones, in another of the converging industries.

Figure 4.2 '3-C' Model of convergence



Nicholas Negroponte of the MIT media lab is credited with originating this view of convergence. He predicted in 1979 that communications technologies will undergo a joint metamorphosis whereby the broadcast and motion picture industry, the computer industry, and the print and publishing industry would come together to create a new sector and new forms of communications (cited in Fidler, 1997). The consultancy KPMG developed a definition of convergence which captured the intricacies of the process from the perspective of media firms. This viewed convergence as:

> an on-going process which entails the coming together of content from the audiovisual and publishing industries, potentially separate physical infrastructures (such as those supporting broadcast television or telecommunications services) able to carry similar sorts of information at increasingly lower costs, the interactive storage and processing capabilities of the computer world and the ubiquity, improving functionality and ease of consumer electronics.[1]

This, it predicted, would lead to a gradual blurring of industry boundaries as companies, products and services emerged that straddle all sectors. We can see this development today, where, for example, Apple produces laptops, television systems, mobile phones and tablets, has retail stores, distributes media content via its iTunes, Apple News and its App store, and has plans to produce its own content.

Amazon sells media content physically and virtually, sells media devices (e-readers and smartphones) and is creating its own media content in the shape of scripted series and movies.

Newsroom convergence

A variant of convergence that was not particularly flagged up by theorists ahead of the event but which in practice proved to be a huge theme inside legacy media is newsroom convergence. This involves the merging of traditional and internet-based content creation activities. Thus broadcasters have seen radio, television and web journalism activities combined, and newspaper organisations have seen first the merger of print and online areas, followed by a gradual move into video content.

The first step towards newsroom convergence was to create new units to produce and distribute news on new digital platforms. As a second step these new units were integrated into the 'parent' newsroom. This was driven in most cases by a search for synergies and efficiency gains arising from the combination of content, staff and other resources, both of which grew in necessity as revenues from analogue products diminished.

'Digital first' is the third stage in this convergence process. Here, digital activities are prioritised, not only in terms of when content is released, but also in terms of the strategic attention and investment they receive. This derives in part from the recognition that the internet is fast becoming the dominant distribution platform for media content, thus digital platforms represent an opportunity for growth, eclipsing and perhaps ultimately replacing legacy platforms. It also stems from the need to conserve resources, especially in the face of stiff falling legacy revenues and ever-increasing investments that need to be made in digital systems and staff. These two factors have given rise to the contradictory-seeming phenomenon visible in legacy news organisations of cash-strapped legacy newspapers shedding journalists, yet at the same time hiring expensive digital specialists.

Convergence at individual level – the digital editorial thinker

The media industry has traditionally defined itself in terms of the content it creates, and technology has been subservient to content creation. Now, as technology becomes central to content quality, reach, engagement, and the ability to monetise, a central convergence challenge now concerns the melding of content and technology. These fields are integrated from the start in digital native media organisations, where content management systems, workflow, mobile, video, social and design are designed to work together and staff working in these areas also sit together (sometimes these skills sets are combined at an individual level, for example with journalists acquiring coding skills) (Küng, 2015). Legacy players are moving towards this level of convergence (for example, the *New York Times*' Innovation Report[2] noted that its technology and editorial departments communicated poorly, and more significantly that the two were not even meant to communicate) but synthesising content and technology is a significant undertaking since it requires extensive change inside the organisation, ranging from the acquisition of new skills and competencies, to the redesign of key roles and processes, and changes to the physical layout of offices and to reporting relationships.

Accommodating the evolution in platforms, products and format means that flexible teams are becoming more common. These are multidisciplinary, interconnected units that work on a project basis, for example the development of a new app. Equally, roving experts in, say, data journalism, are being recruited, who attach themselves to specific desks or beats as stories dictate. These developments not only flatten hierarchies, but they also increase speed of strategic adaptation, since such semi-autonomous units can experiment and innovate and move new projects ahead faster and make the company as a whole more agile.

The convergence between digital technologies and the processes of journalism is changing the shape of journalism. Digital tools are allowing new forms of story-telling to emerge, combining different content formats (text, video, pictures, sound, graphics) and different content feeds (from professionals and from users). Social media is also altering the shape of journalism. As Facebook, LinkedIn and Snapchat feeds become a gateway to news, the purveyors of news need to ensure that their content is not only present on those platforms, but presented in a way to maximise consumption and sharing. Headlines become shorter, graphics more common.

Software is eating the media

A shift can be observed in the developments listed in Table 4.1 above, and this is a gradual move from technological advances that are tied specifically to the media industry, to broader technological developments or product launches that have had a massive knock-on disruptive impact on the media sector. Viewed from a distance, the classic media industry has been caught up in successive epochs of consumer technology – from the PC (from around 1985), to the internet (from the mid-1990s) to the mobile and cloud era of today.

This is a facet of convergence, but perhaps more accurately an understanding of convergence as a process by which the media industry, while retaining its distinct mission and culture, is nonetheless gradually subsumed into the technology sector. Certainly, the profound changes outlined above mean that technology has jumped to the strategic fore for media companies. This is nowhere more evident than in the fact that software now underpins nearly every function in the organisation and its value chain. Marc Andreessen, founder of Netscape and now an influential Silicon Valley venture capitalist, coined the phrase 'software is eating the world' to underline how more and more businesses and industries are being run on software and delivered as online services. This applies to the media as it does to all other sectors.

The centrality of software, coupled with the emergence of the internet and wide-scale broadband, means industry boundaries have become porous and this has allowed the entry of entrepreneurial tech companies into sectors of the media sector that was discussed in Chapter 2, for example into books (Amazon), filmed entertainment (Amazon, again, and Netflix), and music (Spotify, Apple and Google). Tech-driven content creators like BuzzFeed, Snapchat and YouTube are new variants of mass media organisations. Google and Facebook are global distributors of media content.

Established media firms need to adjust to these new competitors and hold on to market share in the teeth of their aggressive growth ambitions. This involves not only understanding disruptive products and their appeal for consumers, especially young consumers, but also mastering elements of the technological competencies that underpin them.

Technology and strategy

> I expect all of you to have a love affair with technology. (Disney CEO Bob Iger to his top executives, cited in Weinberger, 2016)

As we have seen, technological change is always present in the media field and the need to adapt to this has been a long-standing strategic requirement (D'Aveni, 1994; Bettis and Hitt, 1995; Christensen and Overdorf, 2000). However, it can be argued that the volume and velocity of the changes now underway – the internet, HD, 4D, social media, mobile media, virtual reality, wearables, and so on – have created a peculiarly challenging environment for the media industry, one where existing business models are clearly expiring, and where the volume and velocity of change, and the fact that key developments are coming from organisations outside the classic media sector, makes outcomes non-linear and unpredictable.

This chapter explores strategic and organisational responses to such developments. Technological change can clearly be analysed from a rational strategy perspective – for example, its ability to lower entry barriers, to create substitutes, to alter value chains and affect competitive positioning. But as an ongoing phenomenon, an emergent one and a complex one, it can also be viewed through an adaptive lens, which would, in terms of strategic responses, highlight the iterative processes by which an organisation aligns itself with its environment (Drazin and Schoonhoven, 1996), and the ways in which organisations alter structures, processes and systems (see, for example, Kanter, 1983, 1992).

It is important not to oversimplify the relationship between technology and strategy. There is always a risk of overemphasising technological factors at the expense of other factors in the cultural and social arena (a phenomenon termed 'technological determinism' (Williams, 1974) or 'technological reductionism' (Hesmondhalgh, 2002)). Technological change needs to be understood in relation to other contingent factors, and it must be recognised that there is a complex iterative path between technological advance and the successful implementation of these developments by organisations. Technological advance arises from the interplay between innovation, government policy, competitive behaviour, organisational strategies and social influences. For example, Murdoch's controversial but successful launch of electronic newspaper systems in the UK in the 1980s, which paved the way for their wide-scale adoption by the industry, was the result not only of technological advance, but also from government objectives of stimulating the adoption of new technologies in the workplace and constraining trade unions which might act against such innovation (Marjoribanks, 2000). In his classic book *Diffusion of Innovations*, Rogers (2003) highlights the role of sociological factors in technological adoption, particularly people's perception of value and fear of risks.

Technological advance can also involve the combination of independent inventions. Drucker (1985) provides a number of media industry examples of this. To return to the newspaper industry, the independent mass market newspaper emerged as a result of two technological advances: the telegraph and high-speed printing. These allowed James Gordon Bennett, founder of the *New York Herald*, to produce a paper at a fraction of the usual costs. However, his model did not exploit the potential of mass advertising as a source of revenue that allows editorial independence. This was added 20 years later by Joseph Pulitzer, Adolf Achs and William Randolph Hearst, who created the modern newspaper chain. In the case of news magazines, the First World War created an appetite for national and international news. Henry Luce realised that a publication to satisfy this would have to be national rather than local since otherwise there would not be enough readers or advertisers. He also saw that it would need to be weekly rather than daily since there was not enough news of interest to a large public. These factors dictated the editorial format of *Time*, the first news magazine.

‘Organisational technology’

Fostering technological advance (usually in the shape of promoting the establishment of a ‘digital cluster’ of organisations) is a government goal in many countries: technological innovation is a root to economic growth, wealth creation and industrial renewal. The path from technological discovery to economic growth runs through organisations: new technologies require an organisational response, an effective organisational response, if they are to realise their potential.

These issues underlie the substantial attention management researchers have paid to technology. A strand of this theory, one which is of considerable relevance to strategy in the media industry, is known as ‘organisational technology’. It concerns the interrelationship between technology, organisations and innovation. The field itself has a long pedigree with roots stretching back to Marx and Schumpeter (1934, 1942), both of whom viewed new technology as an underlying driver of organisational and political dynamics and therefore a critical determinant of societal and institutional outcomes. But while long established and carrying significant implications, it is also a fragmented field (Tushman and Nelson, 1990). This perhaps explains why, despite its potential import, with the notable exception of Clayton Christensen’s theories of disruptive innovation (discussed in depth in this chapter), thinking from this field has not permeated much into industry discussions about how to capture the growth potential presented by technological advances.

Technology transitions and dominant designs

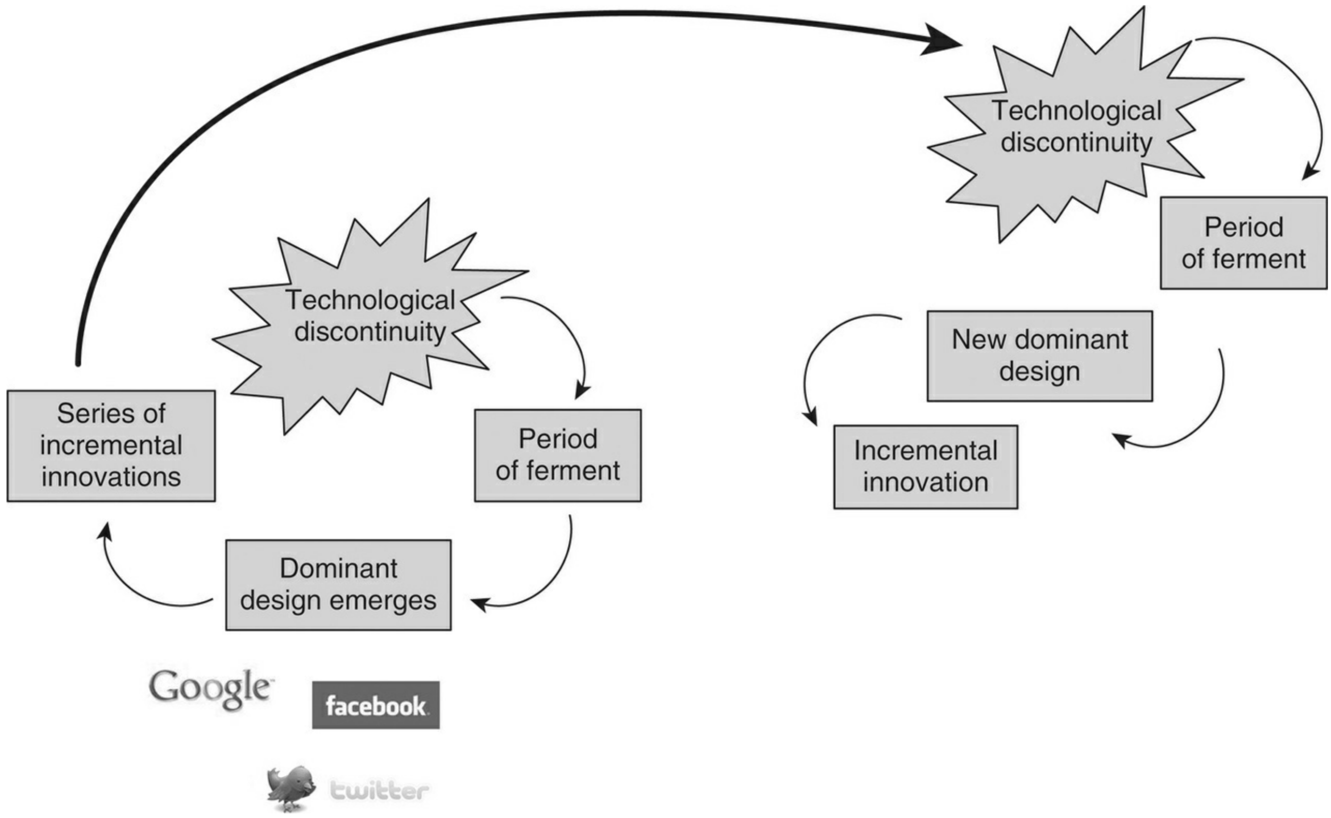
According to organisational technology researchers, the technological evolution of industries follows a cyclical pattern where long periods of relatively minor change are punctuated by rare instances of technological discontinuity which disrupt entire product classes and require a response from virtually all companies in a sector (Abernathy and Utterback, 1978; Tushman and Anderson, 1986; Tushman and Smith, 2002).

These periods are confusing, uncertain and expensive for the firms involved. They trigger a period of ferment where rival new technologies compete intensively between themselves and with the existing technological regime (Henderson and Clark, 1990). They are also of tremendous strategic significance because they close with the emergence of a 'dominant design' (Tushman and Smith, 2002). This normally synthesises aspects of prior technological innovations and provides a basis for standardisation that allows scale economies to be established (Utterback, 1994).

The dominant design has a profound impact on subsequent technological advance, the industry and the structure of competition. Its emergence represents a 'technology transition'. Once it has been established, other paths of product innovation are in the main abandoned and competitors must adopt the standard or risk exclusion (Abernathy and Utterback, 1978; Tushman and Anderson, 1986; Tushman and Smith, 2002). It is followed by a period of incremental as well as architectural technological innovation (for a discussion of these terms, see below).

An alternative name for this cycle, by which organisations in a sector evolve through periods of stability during which incremental changes occur that are punctuated by irregularly occurring discontinuous transformations, is the punctuated-equilibrium model (Gersick, 1991). But, either way, the strategic import is the same: technologies gradually evolve through a clearly distinguishable life cycle, starting with an early fluid state characterised by relatively easy entry opportunities (albeit also characterised by challenges in terms of evaluating the long-term significance of the development), moving to a highly rigid one where entry is more complex and expensive.

Figure 4.3 Technology transitions and dominant designs (based on Tushman and Smith, 2002)



Theories of organisational technology view technological development as an important growth driver, spurring firms to enter new markets and revitalise existing products and services (Tushman and Nelson, 1990; Nelson, 1995). However, that process of development is messy, unpredictable and interactive, with causal relationships flowing in both directions: technical change affects organisations, institutions and society, while organisations, their markets and society influence the path of technological advance (Tushman and Nelson, 1990).

For strategic purposes, it is important to note that a technology that gets enthroned as the ‘dominant design’ may not automatically be the best one on offer from the point of view of the sophistication of the technology it represents. Nor does the firm which pioneers a dominant design automatically retain control of it. Indeed, history shows again and again that technological superiority does not automatically bring market success. Scholars have offered a number of explanations for the triumph of inferior solutions, ranging from a combination of an early lead in the market and a dynamic of increasing returns, to adoption (Arthur, 1994), a superior match with consumers’ needs as expressed in terms of the best ‘bundle’ of features (Utterback, 1994), or non-technological, ‘socio-political’ dynamics (Tushman and Rosenkopf, 1992). However, to bring discussion down to a pragmatic level for managers within organisations affected, an important common implication from this theoretical research is that the outcome of technology-based competition is always hard to predict and can have surprisingly little to do with the respective quality of the competing technologies on offer.

Encyclopaedia Britannica – Unsuccessful Response to Technological Change

This historic case presents an example of an absolute brand leader media product being more or less wiped out within the span of a few years as a result of a new distribution technology. Particularly noteworthy in this case is the fact that the media organisation concerned did not fail to respond to the technological change (although it was slow to perceive the scale of the threat and took a few early mis-steps that proved very damaging), but its strategic responses were inadequate to the scale of the challenge.

Over 200 years old, *Encyclopaedia Britannica* at its peak was the oldest continuously published reference work in the English language, one of the strongest and best-known brands in publishing, and a staple of the 'family library' (which ideally contained the Bible, a dictionary and an encyclopaedia). Its multi-volume sets cost around $1,500–$2,000 and were sold via door-to-door salespeople, who were legendary at persuading parents that the *Encyclopaedia Britannica* was essential if children were to be well educated – education, so the argument ran, being the key to a successful career. In terms of content, *Encyclopaedia Britannica* aimed for the best, and had a long-standing tradition of inviting text contributions from leading scientists and theorists of the time.

In the mid-1980s, when CD-Rom technology emerged, *Encyclopaedia Britannica* was approached to license its content for CD-Rom delivery. The company doubted the potential of this new platform and was perhaps reluctant to cannibalise its printed edition by launching a digital one. It chose to remain a book product, also turning down a joint venture approach from Microsoft, which went on to develop its own product *Encarta* (that later became the best-selling CD-Rom encyclopaedia in the world). *Encyclopaedia Britannica*'s market collapsed. Between 1990 and 1995 it lost 50 per cent of its revenues.

Encyclopaedias on CD-Rom were then selling for $50 (with the majority of sales through computer retailers), but were also frequently given away free. Production costs were about $1.50 per copy against the $200 cost of printing, binding and distributing a set of encyclopaedias in book form (although CD version production costs did increase as the amount of multimedia content increased). *Encyclopaedia Britannica* belatedly responded to digital developments and launched a CD-Rom product (but priced at $1,000).

Encyclopaedia Britannica clearly misdiagnosed the disruptive potential of CD-Rom technology, but it did not ignore technological advance. Indeed, it engaged seriously, intelligently and speedily with various electronic formats. In 1981 they licensed their content to Lexis-Nexis, in 1983 they developed educational software programs with Apple, in 1985 they acquired Designware and Eduware to design and develop entertainment and education software, purchased the American Learning Corporation which provided specialised learning instruction using audio-visual equipment, acquired Blue Chip Software, and acquired a 75 per cent stake in *Encyclopaedia Britannica* Educational Corporation, a supplier of films and educational materials to elementary and secondary schools. In August 1988 they partnered with Educational

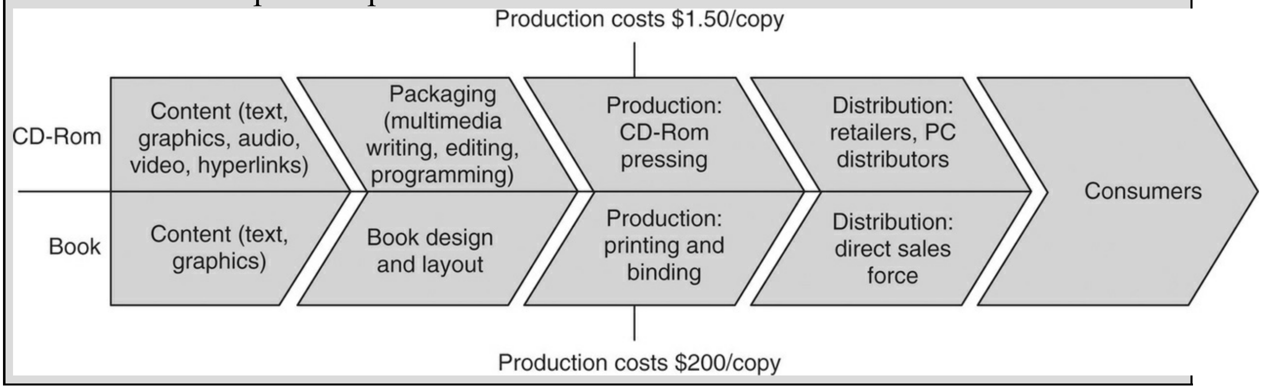
Systems Corp to build an electronic version of *Compton's Encyclopaedia*, a networked CD-Rom for elementary and secondary schools.

In March 1989 *Compton's Multimedia Encyclopaedia* was launched. In 1991 a MS Windows version was produced, later that year a second version was released and in 1992 a CD-I version. In August 1992 an electronic index to *Britannica* was released (but without electronic access to the contents). Microsoft's *Encarta* was launched in 1993, in the same year Compton's was sold to the Tribune Company, and a CD-Rom containing the entire text of *Encyclopaedia Britannica* in searchable format was released, and a few months later this was distributed electronically to universities and some libraries over the internet. A CD-Rom for consumer use was released in 1994, only a year after Microsoft's *Encarta*. This concern led to channel conflict, whereby existing sales forces and intermediaries fought hard against a new distribution channel that appeared to threaten their business. In July 1995 they offered free trial access to the internet site. A year later *Encyclopaedia Britannica* was sold for $135 million. At this point sales had dropped 83 per cent since 1990. A new strategic goal was developed to leverage the brand into the electronic age. Over the next few years expanded and enhanced CD-Rom versions were produced at lower prices, as well as online versions which were initially subscription-based and later free. The publication, however, failed to maintain its value proposition in the face of the tremendous scale and scope of information resources available for free on the internet. The most serious competition came from the free online encyclopaedia Wikipedia. Its status as legitimate competitor was boosted by a study published in 2005 in *Nature*, which reported that out of 42 competing entries, Wikipedia made an average of four errors in each article, and Britannica three. Britannica disputed these findings, pointing out errors in the analysis, but Wikipedia's status of an at least equivalent source of information had been established. In 2012 the print version (priced at $1,395) was finally shelved in favour of a continuously updated website and educational products for schools in areas such as maths, science and the English language.

This case offers many different insights, and also demonstrates the benefit of using different diagnostic tools to analyse corporate outcomes. It shows how the strategic value of content as a strategic resource can be undermined by technological advance. If we look at the first stage of the reference book transformation, from book form to CD-Rom, *Encyclopaedia Britannica*'s extraordinary content and brand position suggested it would be the logical player to dominate the multimedia encyclopaedia market. But this position actually went to Microsoft because multimedia encyclopaedias required a different set of competencies, not least software skills. Ironically, at that point, *Encyclopaedia Britannica*'s expansive content was a liability, since in 1993 it was too big for CD-Rom and the company could not therefore launch a quick response to *Encarta*.

The case also demonstrates the utility of value chain analysis. This shows that the shift from print to CD-Rom altered every stage of *Encyclopaedia Britannica*'s value chain and, by extension, its competence profile (see Figure 4.4). *Encyclopaedia Britannica*'s existing competencies in book design, printing, binding and in door-to-door marketing became irrelevant and indeed liabilities in that they represented high fixed costs that new entrants did not have to contend with, and the employees involved in these areas were understandably reluctant to accept new business directions. (For the sales force, a drop in selling price meant an unwelcome drop in sales commissions.) In their place came a new set of skills that were required – multimedia text development, software programming, CD production and the development of a distribution capability based around the PC industry.

Figure 4.4 Value chain analysis of the impact of the CD-Rom on *Encyclopaedia Britannica*'s competence profile



Untangling types of technological change

The messy and unpredictable impact of technological change results in part from challenges in distinguishing between different types of change and understanding their various respective implications. The nomenclature in this area is particularly confusing. Technological change can be radical, disruptive, discontinuous, and more. Some view these terms as distinct definitions carrying precise meanings, others see these as interchangeable, and these semantic issues impede scientific understanding and managerial application (Tushman and Smith, 2002).

Clarification can be achieved by applying a typology that classifies technological change according to two dimensions: proximity to the current technological trajectory; and proximity to the existing customer/market segment (Abernathy and Clark, cited in Tushman and Smith, 2002).

Incremental innovations

During non-transition phases, when an industry is in equilibrium, technological change involves the ongoing adaptation and improvement of existing technologies. These incremental innovations extend the technologies currently used and usually involve alterations to either processes or materials, so creating improvements in products and increased customer satisfaction (Hill and Rothaermel, 2003). An example for the media industry would be the shift from manual to electric typewriters or improvements in types of paper used for publishing. Incremental innovations are so termed because they build upon and extend the established knowledge base and current technological capabilities, and thus the organisational response required involves extending existing core capabilities and engaging in continuous improvement of production processes.

Architectural innovations

These involve often relatively simple technological or process innovations in the subsystems and/or linking mechanisms that allow existing products to be modified and directed at new markets (smaller cheaper copier machines or laser printers would be typical examples). Although they represent unspectacular technological advances, such developments have the potential to transform a product class or fundamentally change a business (Henderson and Clark, 1990). Their challenge lies in their deceptive simplicity since there is a risk that incumbents 'mis-label' these as incremental rather than architectural changes, and miss their potential to undermine existing competencies and knowledge. Organisations may fail to realise they need to restructure their organisations, seek new markets, or alter their production processes (Henderson and Clark, 1990). Personal video recorders, which allowed television viewers to record programmes and also to blend out advertising, are an example of an architectural innovation. They did not represent spectacular technological advances (VCRs had been around since the 1980s), but because they were often bundled with on-demand television services, they accelerated the decline of the commercial free-to-air television model by reducing advertising income and speeding the shift to interactive television.

Figure 4.5 Untangling categories of technological change

Incremental Innovations	Extend existing technology trajectory e.g. shift from manual to electric typewriters
Architectural Innovations	Simple innovations in subsystems or linking mechanisms that transform a product class e.g. personal video recorders (VCRs)
Discontinuous Innovations	Discontinuous change to core subsystem that cascades through all processes e.g. computerised newspaper production systems
Market-based 'disruptive innovations'	Simpler technological products that address down-market segments, but allow new players to gain foothold, and then move upmarket e.g. online news services

Discontinuous innovations

These are ‘transformational’ developments that represent a break with existing systems and processes because they ‘sweep away much … existing investment in technical skills and knowledge, designs, production technique, plant, and equipment’ (Utterback, 1994: 200), bringing ‘discontinuous change to a core subsystem causing cascading changes in other subsystems and linking mechanisms’ (Tushman and Murmann, 1998). They involve methods and materials that are novel to incumbents and are derived either from an entirely different knowledge base or from the recombination of parts of the incumbents’ established knowledge base with a new stream of knowledge (Freeman and Soete, 1997; Hill and Rothaermel, 2003). These developments are dangerous for incumbents because they are ‘competence destroying’ (Tushman and Anderson, 1986). They make competencies which have hitherto been a source of competitive advantage obsolete and require firms to develop entirely new ones (Cohen and Levinthal, 1990).

The history of the print media industry is rife with examples of discontinuous innovation. The computerised newspaper production systems that emerged in the 1980s allowed newspaper pages to be assembled onscreen and transmitted electronically to printing plates. This made print workers’ specialist competencies of setting hot metal linotype and composing text obsolete. Instead journalists were required to master desktop publishing skills (Marjoribanks, in Cottle, 2003). The newspaper print unions in the UK mounted a powerful block to adopting this discontinuous innovation, until what proved to be an even more powerful element in the industry – Rupert Murdoch – decided to take on the unions and introduce the new technology, necessitating relocation to a new non-unionised workplace in Wapping in 1986 and leading to pitched battles between the police and striking print union members.

The launch of satellite television in Europe was also a discontinuous innovation, not simply because of the primary changes it brought – expanding distribution capacity and decoupling the cost and distance of transmission – but because it provoked a set of second-order changes, relieving spectrum scarcity, ‘de-legitimising’ political interference in broadcasting markets, and weakening the philosophical foundations of public service broadcasters (Collins, 1998).

Disruptive innovations and the ‘Innovators’ Dilemma’

> The dilemma is that the criteria managers use to make decisions that keep their present businesses healthy make it impossible for them to do the right thing for the future. What’s best for your current business could ruin you for the long term. (Christensen, cited in Hamm, 1999)

During the first internet era, the adjective ‘disruptive’, used in connection with either ‘technology’ or ‘innovation’, became a catchphrase. This is probably due to the enormous resonance found by one concept in particular – Clayton Christensen’s theory of incumbent failure in the face of what he terms ‘disruptive innovation’ (Christensen and Bower, 1996; Christensen, 1997; Christensen and Overdorf, 2000). Christensen’s 1997 book, *The Innovator’s Dilemma*, reputedly the only business book ever read by Steve Jobs, is mandatory reading for new recruits at Amazon, and was described by *The Economist* as one of the six most important books about business ever written. Its concepts have been a rallying point for managers of incumbent firms worried about the impact of the internet on their businesses.

Disruptive innovations, as Christensen defines them, are disruptive to established market structures, but are not technologically disruptive. Indeed, they often involve relatively simple technological developments, but these have the capacity to upset the structure of the markets and undermine the attractiveness of existing products. They ‘disrupt’ because they lead to new and often simpler product categories that incumbents may disregard because they fail to perceive their market appeal. These new products start off at the bottom of the market by offering customers a very basic value proposition. BuzzFeed’s early content in the form of listicles and cat videos, Netflix’s mailing out of DVDs in padded bags, even free commuter newspapers are all examples. These simple – simplistic even – new products or services are based on a different business model, and allow new players to establish a toehold in the market. Over time their offers become more sophisticated, and the new players gradually move up the value chain, eventually challenging and ‘disrupting’ established players in their home territory. Thus BuzzFeed has moved on from frothy listicles to serious investment in investigative journalism. Netflix’s business distributing physical DVDs has moved on to streaming movies and TV series, it has overtaken HBO in subscription revenues and the BBC in investments in original programming, and is winning industry awards for its content. Further, these disruptors are not burdened with their legacy competitors’ expensive overheads, are profitable on lower margins, and have the luxury of focus on the new emerging markets.

Central to Christensen's work is the difference between 'sustaining' technologies and 'disruptive' ones. Sustaining technologies improve the performance of established products along dimensions that mainstream customers in major markets have traditionally prized. Disruptive technologies are technologies that, initially at least, offer little visible benefit to incumbents. They generate simpler, cheaper products that are inappropriate to the needs of an organisation's core customers, appealing instead to less sophisticated lower-margin niche markets. Thus products based on disruptive technologies are in the main unattractive initially to incumbent players with established product-market offerings because they offer less financial and market potential than current ones. Over time, however, ugly ducklings grow into swans. Applications of the disruptive technology become more sophisticated, their market appeal grows, and a new market is established, one which incumbents may need to enter late and at considerable cost. 'Doing the right thing' by existing markets therefore can cause companies to fail in new ones.

Disruptive innovations therefore disrupt two elements of incumbents' activities. First, they disrupt incumbents' markets by introducing new segments and/or product categories (Tushman and Smith, 2002). Second, and this point receives far less attention than the market disruption, they disrupt the architecture of the incumbent firm because the firm will need to revise its strategy, markets, product portfolio and business model. An organisation's ability to do this depends on its resources, processes and, critically, values (Christensen and Overdorf, 2000). Values effectively mean culture, a subject covered in depth later in this book, and cultural values are decisive because they determine how resources are allocated and thus which new activities will be supported by the organisation. At base, therefore, the innovator's dilemma is caused by a maladaptive resource allocation process that concentrates resource commitments on markets and products that match existing business priorities and ignores 'downmarket' customer groups or less sophisticated products (Christensen and Bower, 1996).

Figure 4.6 Different types of technological change require different organisational responses

Incremental	Extend existing core capabilities Continuous improvement of production processes
Architectural	Recognise threat Alter production processes Address new markets Restructure organisation
Discontinuous	Develop new competencies and perhaps abandon existing ones Ensure core competencies don't become 'core rigidities' Create 'new organisational space' with new value system
Market-based	

It is critical to note that the 'disruption' that occurs, as conceived by Christensen, is a process, not a one-off event. Thus Netflix gradually moved upmarket to challenge HBO in its core market. BuzzFeed gradually moved from listicles to investigative journalism. And to take an example from outside the media, Easyjet started off catering for a niche of highly budget-conscious flyers and then moved upmarket to develop product features to appeal to business travellers.

These definitions show that all instances of technological innovation are not the same and, critically, there are no universally applicable strategic or organisational responses. Different innovations affect different firms in different ways, and responses depend on the nature of the innovation involved and its specific implications on the firm's products. Figure 4.6 summarises theoretical recommendations on how organisations should respond to the different types of technological change discussed above.

Inertia and its causes

> Complex societies collapse because when some stress comes they have simply become too inflexible to respond to. … In such systems there is no way to make things a little bit simpler – the whole edifice becomes a huge interlocking system not readily amenable to change. (Clay Shirky, 2010)

Figure 4.6 above presupposes that firms will change. Often they do not, or change inadequately. The pattern by which dominant incumbents with strategically appropriate resources follow technological advances, but nonetheless fail to master the changes these advances bring, is well documented. Historical analysis of the largest US firms shows repeatedly that some of the largest, best resourced and best managed firms declined and were superseded by smaller players or newcomers that exploit new technologies (Utterback, 1994). More recently we have witnessed how IBM lost out to Microsoft when software became more important than hardware. Microsoft in turn lost out to Google in the field of online search. Google, however, failed to dominate social networking; the leading position in that sector was taken by Facebook.

This 'pathology of sustained success' (Tushman and Smith, 2002: 387) has been observed in a wide range of different national and industry contexts (Tushman and Nelson, 1990; Leonard-Barton, 1992; Prahalad and Hamel, 1994; Christensen, 1997). Examples of incumbents who do manage to extend their leadership positions across technology transitions are rare rather than the rule. The cause lies not in strategies but inside the firm, in the structures, routines, systems and processes that ensure survival in stable environments, coupled with the culture and self-identity that successful incumbents develop over time, which can stifle attempts to respond to a changed environment (Tushman and O'Reilly, 1997; Burgelman, 1983, 1994; Hannan and Freeman, 1984; Tushman and Anderson, 1986; Christensen and Tuttle, 1999; Christensen and Overdorf, 2000).

Incumbents are therefore hampered by inbuilt impediments in the form of the routines, systems and processes that all organisations develop over time to ensure predictability. These are not malign in themselves, but at the same time as they ensure reliability, reduce the risk of error, reduce costs and simplify decision-making, their sophistication makes the organisations become too inflexible to respond to the demands of their environments. This inflexibility is what scientists call inertia, the forces that stop an object from moving. Inertia is what stops successful existing organisations from benefiting from the opportunities presented by new technologies. Ironically, inertia is the inevitable by-product of running complicated organisations well, and just about any aspect of an organisation's everyday ways of doing business can give rise to it.

How success creates inertia

Success is, ironically, closely correlated with inertia. This happens in the following way. Successful organisations seek to strengthen their position still further by extending their existing core competencies and making incremental improvements to their products and processes. However, when a technology transition occurs and a new dominant design emerges, the incumbent is required to dismantle some aspect of these structures, even if they are functioning well. This is counter-intuitive and normally hard to do – so the organisation is effectively trapped by its success (Tushman and Anderson, 1986; Tushman and Smith, 2002).

Inertia from infrastructure, systems and processes

Inertial factors can be tangible or intangible. They can range from physical buildings, plant and machinery through semi-tangible, say, skills, organisational performance metrics and pension arrangements, to the intangible, shared beliefs and cultural assumptions. For example, newspapers' expensive printing presses and distribution infrastructures were once strategic assets: they were huge barriers to anyone else seeking to enter the market and allowed those inside the industry to make healthy profits. Now those investments can represent high fixed-cost burdens that constrain the ability to compete.

Processes and systems can create inertia too. These 'troublesome' elements are in themselves constructive; they exist for excellent reasons – to ensure strategies are implemented, to eliminate waste, and to boost quality in key products for key customers. However, tools such as the balanced scorecard and key performance indicators can keep attention on existing products. Quality control systems can enshrine particular constellations of product attributes. Investment criteria seek to introduce rationality into how resources are spent, but normally channel investment into fields where returns are quantifiably highest. That is seldom the case with new technologies and emerging markets.

Intangible sources of inertia

Some of the most intractable sources of inertia stem from ephemeral aspects of an organisation, particularly success. Success is surprisingly problematic. When a company is celebrated by the markets and the media, this acts as a powerful reinforcement for the idea that the company's current way of doing business is correct and undermines perceptions that innovation may be necessary.

Examples of the media industry failing to see the risk posed by technological advances are plentiful (see Wolf, 1999; Picard, 2004). The US television networks were slow to respond to cable television and VCRs, and ceded market share as a result (Auletta, 1991). High profits earned by newspapers convinced them they knew what readers really wanted and left them vulnerable to digital news providers. Success can blinker incumbents to the potential of new technologies also. We saw in the last chapter that it was CNN, a start-up, that saw the combined potential of satellites, cable technology, handicams and suitcase-sized satellite up-links to create a breaking news channel, and how Netflix and Amazon have perceived the potential of data analytics and streaming technology to understand and serve customer needs better.

New business units as a solution to inertia and path to innovation

A widely recommended solution to the problem of inertia in the response of technological advances in the strategic environment is to set up a new business specifically to respond to the new opportunity. The belief that 'it's hard to develop new things in big organisations' is central to Silicon Valley start-up thinking; bureaucratic hierarchies, it is held, inevitably move slowly and are risk averse. By extension, the ossified structures of legacy media block agility and create a huge strategic disadvantage in comparison to digital natives (see, for example, Filloux, 2014).

Autonomy has been positively correlated with innovation by researchers. Kanter (1992) speaks of the need for firms to develop 'entrepreneurial enclaves' where innovative new businesses can develop. Christensen (1997) argues that a new parent must create a 'new organisational space' where a different set of processes and values can emerge: businesses based on disruptive technologies will usually require a different business model. Since it is difficult for an institution to manage two different business models within one organisation, the solution is to create a new organisational space. He identifies three options to do this: spin out an independent company, create a new organisational structure within the corporate boundaries, or acquire an organisation whose processes and values closely match the requirements of the new task (Christensen, 1997; Christensen and Overdorf, 2000). Gilbert's (2002) comparative research of US newspapers' print and online operations found that newspapers that had granted their online sites autonomy were twice as innovative as those that had integrated operations and had 60 per cent higher penetration. He attributes this difference in part to cognitive 'framing': while the parent organisations tended to view online activities as a threat to established systems, processes and so on, the new ventures were able to view the internet as an opportunity and therefore avoid a syndrome known as 'threat rigidity'. Integration, therefore, can distract or even debilitate a new venture. Schein (in Coutu, 2002), however, warns that 'autoimmune system rejection' can be a problem for successful change initiatives that start off low key and 'off the radar screen'. As news of their success percolates outwards and then upwards, the rest of the organisation can come to resent the new unit, and then try to subvert and even reject it. Such situations require careful management on the part of the parent.

In a later study into the newspaper industry, Christensen and Gilbert found that only 9 per cent of businesses are successful in the face of disruption. Of that 9 per cent that succeed, 100 per cent have established a separate business unit. Not one single company succeeded when digital was developed inside the legacy parent. So they concluded that the rule is separate or die: put the core parent business on a firm footing, strengthening relationships with core customers by investing in sustaining innovations, and build out the new one because it represents the future. This allows a new strategy to be developed for the core business that isn't driven by the need to compensate for the revenues lost to disruption, and gives the new business the freedom to grow in response to market opportunity.

Autonomy certainly makes life easier in volatile, fast-moving industries because it allows organisations to innovate and evolve in step with the market, without constant reference to and accommodation with the parent. Quartz, a highly regarded news start-up is a stand-alone venture that operates autonomously but is backed at arm's length by its parent, Atlantic Media. The *Mail Online*, one of the most successful English-language online news sites in the world, operates with a high degree of autonomy from its print newspaper sister, and caters for an entirely different demographic. Back in 2003, Schibsted, the consistently creative Norwegian media group, recognised the importance of autonomy and set up a new unit to disrupt the advertising sales activities of its newspaper properties. More recently, *Forbes Inc*., *Die Zeit*, and the *Dallas Morning News* have also increased digital units' autonomy in an effort to boost innovation. (Note, autonomy is also a core component of organisational creativity, and this point is discussed in Chapter 5).

Ambidexterity – combining exploration and exploitation

Ambidexterity is a more complex solution for organisations that need to be incrementally innovative in the long run. An ambidextrous organisation (Tushman and O'Reilly, 1997) combines 'explorative' and 'exploitative' units within a single structure. The explorative units' task is to experiment with new technologies, products and services. They need to be small, decentralised and highly independent so that they can develop a climate that fosters risk-taking and fast response, and which accommodates flexible product structures and work processes. These elements in turn foster entrepreneurial competencies. The exploitative units' role is to maximise the performance of existing products, drive out variation, maximise efficiency and optimise revenues.

Burgelman (1983) proposes 'internal corporate venturing' as a means of resolving the 'fundamental paradox' between the 'chaos arising from the autonomous strategic behaviour necessary to initiate [innovative] businesses, and the administrative discipline that must be imposed at some point so the parent can take advantage of the new strategic thrust' (1983: 121). This is a process by which diversified firms transform activities based on new technologies into new businesses that involve competencies not previously available to the mainstream business of the parent. Integrating the different cultures, structures, processes, management teams and human resources of these two types of unit is the task of senior management. They must ensure that the strategic context, which determines corporate objective-setting and resource allocation, and the structural context (the mechanisms by which operational behaviour is kept in line with strategy) do not preclude autonomous strategic behaviour which falls outside current strategic goals. They must also show unwavering support for entrepreneurial activity, regardless of fluctuations in the parent's wider business. This in turn requires a 'flexibility and tolerance for ambiguity in … strategic vision' that allows 'experimentation and selection' (Burgelman, 1983: 1362).

An alternative structural recommendation for incumbents seeking to master technological turbulence is to combine organic and mechanistic structures. This, it is argued, is a key 'dynamic capability' required in 'high velocity' environments (Brown and Eisenhardt, 1998). The mechanism that will allow organisations to flex rapidly in response to technological discontinuities and resolve the contradictions inherent in the need for stability and change is the 'semi-structure'. These are strategic business units that are small enough to be agile but large enough to be efficient and achieve some level of critical mass (Eisenhardt and Brown, 1999). Semi-structures allow organisations to 'patch' – a corporate-level process that allows incumbents to 'remap dynamically' resources in response to changing market opportunities by ‘adding, splitting, transferring, exiting, or combining chunks of businesses’ (Eisenhardt and Brown, 1999: 74). Over time, this pattern of ‘small’ realignments coalesces into an organisational routine and, in retrospect, into a cohesive strategy, albeit an emergent one. A number of processes are required to support patching. There must be clearly defined project priorities that are tightly tied to resource allocations, extensive communication, including cross-project communication, and unambiguous responsibilities. However, design processes must allow products to develop iteratively and flexibly. The combination of these elements should be ‘neither so rigid as to control the process nor so chaotic that the process falls apart’ (Brown and Eisenhardt, 1997: 3).

Bringing exploratory new businesses back 'in-house'

While Silicon Valley believes that innovation needs autonomy, many believe that at some point innovative new businesses need to be re-integrated, to some extent, with the parent. Schein (Coutu, 2002) argues that despite the attractiveness of autonomy, some level of integration is necessary so that the individual and group learning achieved by the new venture can permeate the rest of the organisation – otherwise there is a risk that this becomes a case of 'uncoordinated learning'. Kanter (1983) suggests that institutionalising new ventures by ensuring they become part of a legitimate and ongoing part of the business is the final challenge of entrepreneurship. For Gulati and Garino (2000), the benefits of integration are almost always too great to abandon entirely.

The *Deseret News* – Christensen's Theories in Action[3]

> Innovators, such as Clark Gilbert at Deseret Media, know that to preserve the part of the business that, although shrinking, provides the biggest part of revenue is a seductive mistake and focusing most of your energy on what is shrinking is a strategy for slow death. (Rosenstiel, 2013)

We looked at the *Deseret News* case in the last chapter as an example of a bifurcated strategy by which an incumbent sought both to maximise revenues from the old business (harvest) and at the same time create a new one designed to compete head on in disrupted markets (enter the substitute industry).

The *Deseret News* also stands as a rare example of theories of disruptive innovation being applied in an undiluted way to an entire media organisation. This is no accident. Clark Gilbert, the CEO, had been Professor of Entrepreneurial Management at the Harvard Business School, where he had worked closely with Clayton Christensen, not least on the American Press Institute's Newspaper Next project, which sought to find a strategy for the newspaper industry to adapt to digital disruption. The strategy they developed had four stages, and Gilbert implemented each of these at Deseret.

1. Separate legacy and digital

    > You don't get excellent from either if they're integrated. (Clark Gilbert, cited in Levitz, 2013)

    This stage of the Deseret strategy is discussed in the previous chapter. It involved splitting the legacy newspaper business from the digital operations.
2. Reposition the legacy business to keep it alive

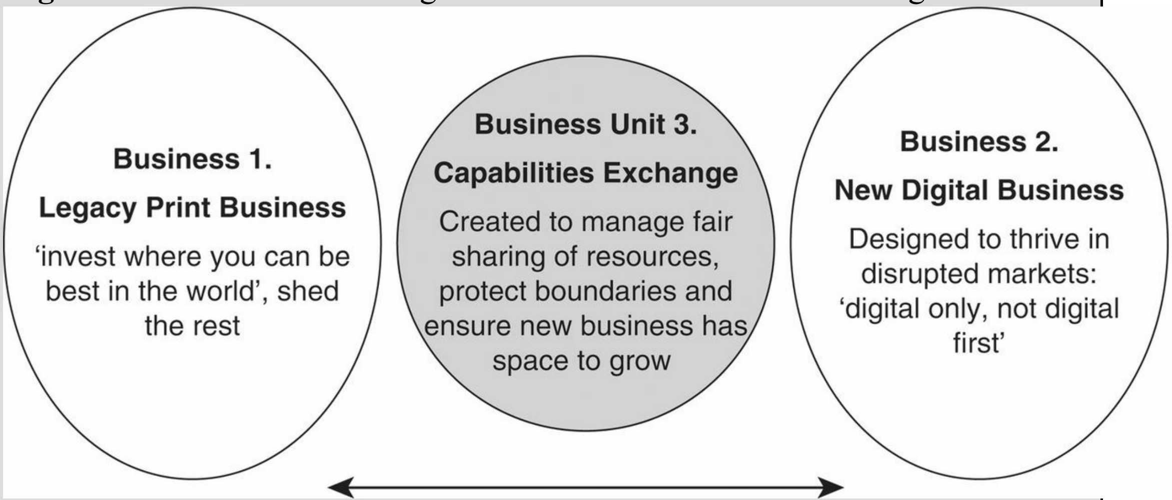
    > Invest where you can be the best in the world. … The failure to choose is a choice to be mediocre. You can't do everything. I am getting out of anything I'm not the best at. (Clark, cited in Jurkowitz and Mitchell, 2013)

    Once separated, a harvest strategy was applied to the legacy business whereby it was refocused to serve a wider national audience with a narrower range of content. Differentiation was achieved by focusing on six core themes which were highly relevant for the national 'faith-based audience' it was aiming at. It also launched a new weekly national paper to serve this segment nationally. Costs were cut dramatically.
3. Create a new business based on the disruptive innovation

    Meanwhile a new company, a growth engine, was established that could seize the potential of disrupted markets with new, digital only, products and services.

This had new management – staff with 'digital in their DNA and e-commerce in their bones' (Clark, cited in Levitz, 2013), new processes and a different culture. Deseret's legacy paper, radio and TV stations were moved into this unit, and a new digital agency was created to develop targeted advertising and search engine marketing.

Figure 4.7 Transformation stages at *Deseret News* and Deseret Digital Media



4. Create a 'capabilities exchange' to manage shared resources

> Having the same people run both the traditional and the digital side simultaneously is like having the fox manage the chicken coop. It doesn't work, and it annoys the chickens (or worse). (Gilbert, cited in Ingram, 2013)

The final major element of Deseret's 'dual transformation' involved creating a so-called 'capabilities exchange'. This unit ensured that the two other companies remained independent, but that certain key resources were also shared (the Deseret brand, editorial content, marketing expertise and data on customers). This issue needed managing because the tendency is for the old business to 'suck the life out of' the new one, or for legacy employees to meddle with the new business ('stomp on the camel's nose') (Clark, cited in Levitz, 2013).

Conclusions

This chapter has discussed how even though it is not a very evident element of the industry's self-image, the media industry is rooted in technology, and its fate is intimately connected to the path of technological innovation. Strategy, the subject of this book, is in part about how an organisation orchestrates a response to a changing environment. Technological advance is a permanent aspect of that environment. This can be a force for good – a source of new products and services and therefore of economic growth – but at the same time it poses challenges. The appeal of established products and services declines when innovative new ones find resonance with the market. This often unseats incumbents, even leading ones, and initiate their own process of decline. And incumbents' ability to master these challenges can be undermined by the complexity arising from the interplay between innovation, social influences and organisational response.

However, not all technological advance is the same, and one of the key messages in this chapter is that media firms, like their peers in other sectors, need to be able to differentiate between different types of innovation and orchestrate their strategic responses accordingly. Their ability to respond depends not only on the 'content' of their strategic response, but also on the strategic process employed to implement that response. Specifically, as we have seen in this chapter, a number of relatively mundane organisational elements must be carefully conceived, tightly interlinked and well executed. Critical among these are furthering creativity and innovation, finding the correct structural option for the new venture tasked with responding to a new technology, and fostering the right culture, mindset, and leadership. These topics have featured in this chapter's analysis, but are handled as stand-alone subjects in the following chapters.

Notes

1. KPMG: *Public Issues Arising from Telecommunications and Audiovisual Convergence for the European Union at* www.ispo.cec.be.

2. The *New York Times*, ‘Innovation’, 24 March 2014. Available at: http://mashable.com/2014/05/16/full-new-york-times-innovation-report/.

3. This case draws on an interview with Clayton Christensen on the Next Newspaper project, in Millie Tran, ‘Revisiting disruption: 8 good questions with Clayton Christensen’, 23 January 2014, www.americanpressinstitute.org/publications/good-questions/revisitingdisruption-8-good-questions-clayton-christensen.

5 Creativity and Innovation

Ideas shape the course of history. (John Maynard Keynes)

This chapter explores one of the most important strategic issues for media firms – creativity. The links between this and previous chapters are strong: creativity is the first stage of innovation, innovation is implicit in all technological advance, and technological advances are a major driver of strategic change in the media.

Creativity in media organisations – why it is so important strategically and why that importance is increasing in the current environment – is therefore the focus of this chapter. Like other chapters in this book, it begins by reviewing theoretical understanding of this issue, that is, how creativity 'occurs' or what drives creativity in organisational settings. It then looks at how understanding of creativity has developed over time, and at how creativity that occurs inside organisations is defined, in the process delineating the distinction between creativity and innovation, two terms that are frequently and (in the scientific sense) erroneously used interchangeably. One of the biggest strategic challenges facing media organisations now is that the need for creativity has expanded. As a result of technological advances and the resulting changes in platforms, products and consumption habits, they must now be creative in a broader realm than simply the content they produce. This chapter therefore also explores creativity in terms of systems and business models.

This chapter draws heavily on a single body of theory, socio-constructivist approaches to organisational creativity. These identify the sources of creative responses in individuals and institutions, and the aspects of the work context that influence levels of creativity in organisations. This body of theory was not developed within the context of the media industry but is highly relevant to it. It addresses particularly organisations with knowledge workers – professionals who are required to solve complex problems creatively – and it provides insights into the reasons behind performance differences between media firms. It is not, however, well known by scholars or managers, and this chapter seeks to rectify this by providing a media industry-orientated overview of the theory.

The role of creativity in the media

Creativity is, of course, central to all organisations – a new idea is the uncircumventable first stage in all new organisational initiatives – whether involving products, processes or procedures (Amabile, 1988; Staw, 1990; Woodman et al., 1993), and these new products, processes and procedures are the cornerstone of an organisation's ability to adapt, grow and compete (Kanter, 1983, 1988; Porter, 1985; Van de Ven, 1986).

Creativity is arguably even more important for media firms – they don't need the odd great idea, but rather an ongoing supply (Caves, 2000; Towse, 2000; Hesmondhalgh, 2002). Performance is strongly affected by the quality of content they create, with 'create' being the operative word. The act of content generation is the sector's fundamental activity and *raison d'être*, and thus the requirement for creativity is constant.

From an economic perspective, creativity is a critical strategic resource because of the nature of cultural goods. Because they can rarely be standardised on a long-term basis, and because customer demand is fickle, there is an incessant need for novelty. Viewed strategically, the higher the levels of product creativity, the higher the media firm's ability to satisfy this customer need and the greater the potential for market success and competitive advantage. This gives rise to the primacy of creativity as a strategic organisational resource, since 'without their employees coming up with ideas that can be turned into commercial, saleable commodities [media firms] are dead' (Scase, 2002: 8).

Inside the sector, creativity is so much part of the DNA of everyday activities that it is often hard to see at surface level. Researchers without empirical exposure to the sector can be surprised by the absence of roles or business units overtly tasked with 'innovation' or 'research and development', and wrongly conclude that the industry places surprisingly little emphasis on such an important factor. What they miss is that creativity is deeply embedded in many routine roles. And the need for creativity extends further than coming up with the original idea: decisions concerning how to develop the product, exploit technological features, find the right price, recruit the right talent, and promote the product to the industry and to consumers, all involve creativity.

It is almost self-evident that the need for creativity – in all firms, not just media ones – is exacerbated when environments become more turbulent, an observation made decades ago by Schumpeter (1942) (DeVanna and Tichy, 1990; Bettis and Hitt, 1995; Ford and Gioia, 1995; Dutton et al., 1997; Hitt et al., 1998; Eisenhardt and Martin, 2000; Danneels, 2002), especially when that turbulence involves emerging technologies (Yoffie, 1997), as is currently the case with the media sector. Thus, while creativity has always been critical to the media industry, technological change has both underlined the strategic centrality of creativity for the sector and expanded the scope within organisations where creativity is required. Media firms must now not only to be more creative with their products, but also organisationally and strategically. They must apply creativity to business models, the design of their organisations and the roles within it, and develop new products and services for entirely new categories of media platforms and audiences.

In a study of media majors' convergence strategies, Dennis, Wharley and Sheridan commented that:

> once associated with writers, producers and designers, creativity is now mentioned as an essential quality for managers and executives as well. Partly because some content producers are medium-centric and have little experience across platforms, business executives are increasingly asked to think creatively about integrating content, marketing strategies and audience data beyond decades old distribution channels as they seek new formats and communicative styles. Given the need for business models that exploit convergence, creativity is a critical skill set. (Dennis et al., 2006: 33)

Although strategy theorists agree on the importance of creativity to organisations, overall, surprisingly little attention has been devoted to increasing understanding of its origins and influence on performance. This omission is reflected in science in general, where for a variety of reasons the subject was long avoided, a tradition stretching back to Plato, who felt that creativity involved divine intervention and was therefore outside the scope of man's intervention. Popper concluded that research into creativity was irrelevant rather than unfeasible since creative inspiration is an irrational process and could not be accessed via scientific or systematic investigation. For management researchers, especially those of the positivist school, the inspirational component of creative acts made them hard to accommodate within rational management concepts.

Researching creativity

Despite these reservations, from the 1950s onwards a steady and growing stream of researchers has investigated the nature and causes of creativity, albeit not within the context of the media industry. In the period from 1950 to the 1980s there were two clear strands in this work: the first focused investigations on the creative individual, and the second on the creative process.

Investigations into gifted individuals were premised on the assumption that creativity was more or less determined at birth, that a few exceptional individuals are ‘born creative’. This so-called ‘person approach’ looked at outstandingly creative individuals in the field of arts and science, often retrospectively through analysis of autobiographies, letters, journals and other first-person accounts, and sought to identify the cognitive processes and personality traits that might be predictive of creative performance (Barron and Harrington, 1981; Amabile, 1988, 1996; Deazin et al., 1999). A typical finding is Koestler’s proposition that rather than being a random process, creativity results from the deliberate connection of two previously unconnected ‘matrices of thought’ (1964, cited in Amabile, 1996: 21). From a gifted individual’s thought processes, research shifted to the wider personality of creative individuals, that is to ‘those patterns of traits that are characteristic of creative persons’ (Guilford, 1950, cited in Amabile, 1996: 21), and an approach rooted in psychometric testing.

The second major strand in creativity research concerned the process by which creative products are generated, the so-called ‘process/product approach to creativity’. This concentrates on the characteristics of processes that lead to creative outcomes (Amabile, 1988, 1996; Oldham and Cummings, 1996) and has now become the dominant approach to the field (Amabile, 1983; Woodman et al., 1993).

Context was seldom an explicitly addressed variable in these studies, although the majority of these were conducted in creative or intellectual settings such as schools and various types of cultural institution (Ford, 1996). Over the years, the research domain has broadened to include more prosaic institutional settings (Ford and Gioia, 1995) and from group to pan-organisational environments – although investigations of small project groups have tended to dominate (Deazin et al., 1999).

However, an explicit focus on the influence of the work setting on creativity was absent until the 1980s when Amabile sensitised the research community to this omission and instituted a new branch of research (Staw, 1990; Ford and Gioia, 1995). This new research strand, also known as ‘interactionist’ or ‘socio-constructivist’ approaches, looks at how social influences and contextual factors influence creativity. Aspects previously stressed, such as cognitive skills, personality traits and process issues, are not ignored but subsumed into a larger framework. The approach is more egalitarian than some: creativity is not restricted to the chosen few; rather, it assumes that given the right task and circumstances most individuals are capable of certain levels of creativity. To that extent it is also positivist in that it assumes that changes in the environment can produce changes in levels of creativity – this has led to criticisms of functional-reductionism (Rousseau, 1985; Deazin et al., 1999).

This approach does, however, allow a coherent framework to be constructed concerning how strategic management can further creativity. It is therefore used to supply a backbone for the analysis and discussion in this chapter, since media organisations cannot rely on a scattershot approach to creativity but rather need a systematic strategy for building sustained creativity.

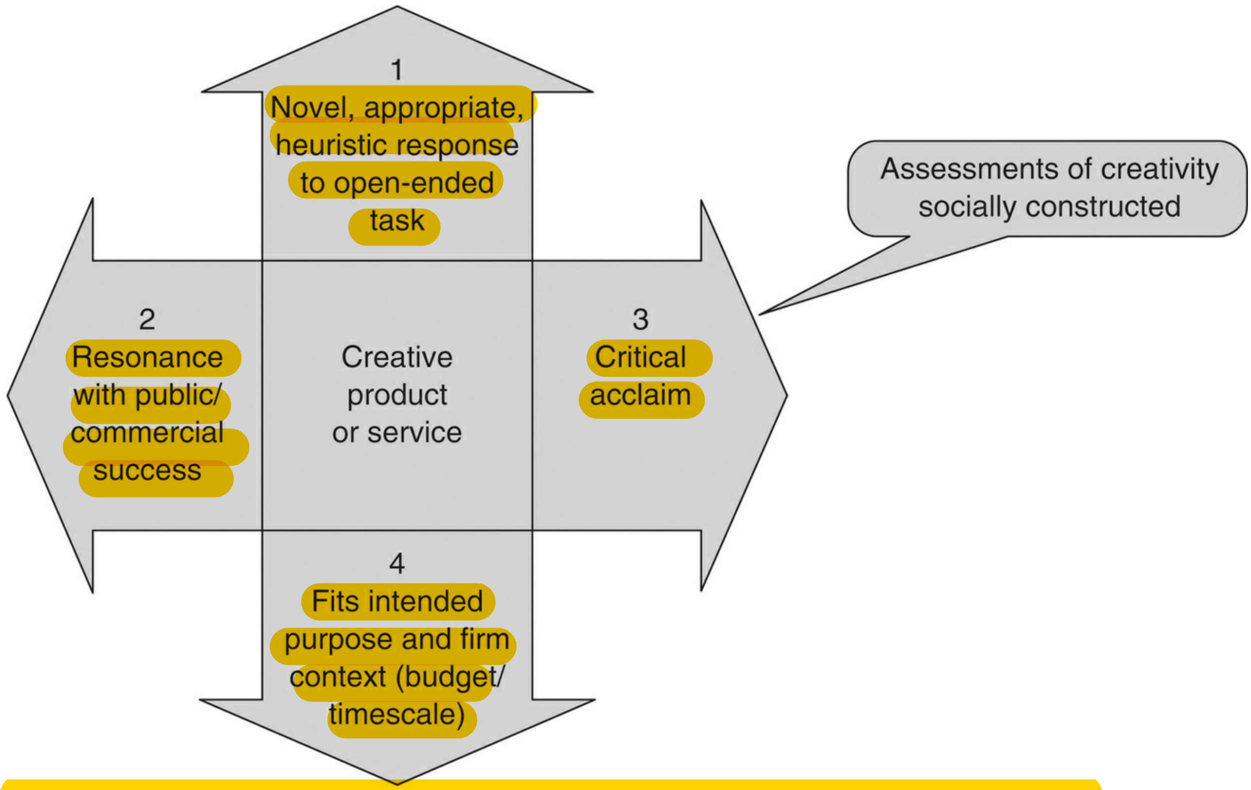
What is creativity in organisational contexts?

This chapter focuses on creativity inside organisations – where creativity is required for business, rather than for personal purposes. Of course, it is not only the media industry that needs a strong pipeline of creative ideas. Many other sectors do too, including the pharmaceutical industry, biotech, high-end luxury goods, retail, and many more.

Theories of organisational creativity do, however, provide a definition of creativity that is precise and comprehensive enough to be employed as a basis for research: 'A product or response will be judged as creative to the extent that (a) it is both a novel and appropriate, useful, correct or valuable response to the task at hand, and (b) the task is heuristic rather than algorithmic' (Amabile, 1996: 35). Drawing from this definition, four criteria can be identified to define creativity in a product or service:

1. It is original, novel or unique and solves a challenge that is open-ended, where there is no clear straightforward path to an acceptable outcome (in psychological terms an heuristic rather than an algorithmic response to a problem). The term 'path to a solution' is critical – with heuristic tasks it is part of the problem-solver's task to identify an appropriate solution, and identifying the nature and scope of the problem is a key aspect of the creative task (Amabile, 1983: 127). Novelty for commercial products that need to find a market, as opposed to those designed to meet purely artistic and cultural ends, does however need to be tempered. Originality is important, but commercial media products ideally blend familiar and novel elements (Lampel et al., 2000), and finding a synthesis of the two is a highly subjective process that depends on high levels of sector expertise (the importance of expertise for sustained creativity is discussed below).

   Figure 5.1 Defining criteria of creativity in organisational settings (adapted from Amabile, 1983, 1988, 1996)



2. It resonates with the public and/or finds commercial success, and, by extension, it is useful, has value and/or brings benefits to others. An original product which pleases only those who created it, and perhaps a select group of industry experts, but which is not perceived by potential users or customers as valuable and novel, cannot be termed a successful creative entity according to this body of theory.
3. It receives critical acclaim. Assessments of creativity are socially constructed, that is, there are no absolute criteria for judging whether a product is creative or not, subjective judgement is always involved. That subjective judgement derives from the social context and development of the particular field. It is therefore impossible to judge the creativity of a product without some knowledge of what else exists in a domain at a given time (Amabile, 1996: 38) – which means that creativity is linked with experience and expertise in a certain field. Thus definitions of creativity also include assessments from industry insiders and experts. A useful metric in this regard for the media industry is industry awards.
4. Finally, and here the organisational perspective comes to the fore, in order to be creative a product must help the organisation meet its strategic objectives and work within available budgets and timeframes.

Creativity versus innovation

Innovation and creativity are slippery concepts. Practitioners tend to use them interchangeably, and so do many researchers – see, for example, Drucker (1985) and Burns and Stalker (1961/1994). This does, however, confuse two different streams of scientific research that have different scholarly associations, epistemological roots and areas of application.

Research into creativity is based, at root, on psychology. It focuses on the initial inspiration – the 'bright idea' – that leads to the creation of a new product or service. Innovation from this perspective is understood as the successful implementation of creative ideas in the shape of processes, products or services (Amabile, 1988, 1993; Woodman, in Ford and Gioia, 1995).

Innovation is a broader concept. Innovation theory concerns the processes by which products are manufactured, the organisation structures and strategies that support this process, and the relationship between innovation and corporate performance (Utterback, 1994). Thus Janszen (2000: 8) defines innovation as 'the commercialization of something new'. Theories of innovation stem predominantly from the fields of engineering and technology management. These tend to subsume creativity under the umbrella term of innovation, viewing creativity as a subset of the broader domain of innovation, and innovation as a subset of an even broader construct of organisational change (Woodman et al., 1993). Innovation theory is closely linked to the study of entrepreneurship – thus Drucker (1985: 26) describes it as 'the specific instrument of entrepreneurship'.

Where does creativity come from? The core components of creativity

The first stage in any new program, product or service depends on someone having a good idea – 'the creative spark' – and then being able to develop that idea further. Both the likelihood of having that initial idea and developing it into a concrete entity are strongly influenced by the social environment within organisations (Amabile et al., 1996). According to socio-constructivist approaches, creativity has three core components which need to be present in an organisation if creativity is to occur. These are outlined below (and discussed in detail in Amabile, 1983, 1988, 1993, 1996, 1998; Amabile et al., 1994, 1996, 2002, and the following text draws on these references unless otherwise indicated).

1. Creativity-relevant skills

The best way to have a good idea is to have lots of ideas. (Linus Pauling)

These refer to the ability to think creatively and generate different alternatives. Alternatives are necessary because individuals who have access to a variety of potentially relevant ideas are more likely to make the connections that can lead to creativity (Amabile et al., 1996). Creativity-relevant skills include:

- **Cognitive style**. This includes the ability to understand complexities, to break 'cognitive set' during problem solving, to keep options open as long as possible, to suspend judgement, to use 'wide' categories allowing relationships to be found between apparently diverse pieces of information, to remember accurately and to break out of 'performance scripts'. Bennis and Biederman (1997) point out that members of highly creative teams tend to enjoy this kind of problem-solving activity for its own sake.
- **Creativity heuristics**. This involves ways of approaching a problem that can lead to set-breaking and novel ideas. They can be highly idiosyncratic, but they should allow the exploration of new cognitive pathways.
- **Working style**. Creativity requires a working style that is far from popular preconceptions concerning the work style of 'creative individuals'. Rather than being chaotic and undisciplined, as popularly understood, creative teams need to combine a range of rather pragmatic abilities: to concentrate for long periods, to abandon unproductive searches or temporarily give up on stubborn problems, persistence, high energy levels, high levels of productivity, self-discipline, an ability to delay gratification, perseverance in the face of frustration, independent judgement, a tolerance for ambiguity, a willingness to take risks, and a high level of self-initiated, task-orientated striving for excellence.

2. Expertise

Termed by psychologists as ‘domain-relevant skills’, expertise represents a combination of knowledge of the existing facts and issues concerning a specific area (or domain), coupled with the experience necessary to be able to find feasible solutions to problems in that field. Expertise, unsurprisingly, arises from immersion and experience, and for that reason newcomers to an area who lack knowledge of prior work are unlikely to be able to come up with truly path-breaking, creative solutions.

Expertise in the media field tends to rest on tacit rather than codified knowledge (Lampel et al., 2000). It stems not from qualifications attained, say, in the fields of engineering or finance, but from a combination of experience derived from exposure to the field and individual judgement and intuition.

3. Intrinsic motivation

> The greatest pleasure that life has to offer is the satisfaction that flows from participating in a difficult and challenging undertaking. (Mihaly Csikszentmihalyi)

Intrinsic motivation, the final component of creativity listed here, is first among equals. It provides the cornerstone for this body of theory, which is also known as the 'intrinsic motivation theory of creativity'. Intrinsic motivation will be familiar to many as the state of 'flow'. It means being motivated to do something for its own sake, because the task in itself is pleasurable and rewarding, rather than because it provides a means to meet an extrinsic goal.

Intrinsic motivation matters for creativity because when levels are high so too is cognitive flexibility and the ability to deal with complexity (McGraw, 1978). In this state individuals are more likely to take risks, explore new solutions and experiment. Intrinsic motivation explains why many talented and highly educated individuals are keen to work in the media industry and creative arts despite relatively low salaries: the state of flow is so gratifying that people will tolerate low pay (or no pay at all in the case of industry internships), and in extreme cases physical or psychological discomfort to achieve it, something that the media industry and cultural sector wittingly or unwittingly has long exploited.

By contrast, external motivation – the motivation which results from external goals – can undermine creativity. External motivation is motivation that arises from sources outside the task – evaluation, deadlines, rewards such as bonuses, competition – a nagging parent in the case of children. It is important to note that extrinsic motivation does not preclude high-quality output. It can give rise to good work but is unlikely to lead to creative breakthroughs because it narrows the cognitive focus and precludes the path-breaking novel solutions that are the hallmark of true creativity. Indeed, external motivators such as financial rewards have been found to 'crowd out' intrinsic motivation (Frey and Jegen, 2000) – as Drucker pointed out when he warned against 'bribing' knowledge workers with stock options (Drucker, 1985).

Designing a work environment to boost intrinsic motivation

> We learned that the only way for businesses to consistently succeed today is to attract smart creative employees and create an environment where they thrive at scale. (Google founder Eric Schmidt, cited in Schmidt, Rosenberg and Eagle, 2014)

The idea that it is possible to 'organise' for creativity may seem like a contradiction in terms, but a prime contribution of the body of theory this chapter is based on is to demonstrate that relatively prosaic changes in the work environment can have a direct positive effect on levels of intrinsic motivation, and therefore on creativity. Five aspects of the work environment have been identified as particularly influential: encouragement, challenge, autonomy, resources, and team composition and function. (These are discussed in detail in Amabile, 1983, 1988, 1993, 1996, 1998; Amabile et al., 1994, 1996, 2002, and these sources are the prime references in the following sub-sections, unless otherwise indicated.)

Encouragement

If creativity is required from staff, then those in charge need explicitly to request it, and explain why it is strategically important. Often a company will prioritise creativity, but miss taking the steps that underline their commitment. Actions which can show that creativity is a priority include how key strategic goals and key performance indicators (KPIs) are set, which projects are put at the top of the agenda, which projects or teams are given resources, and which behaviours or teams are most highly rewarded. Creative contributions need to be publicly celebrated. Feedback on new ideas is also important. If these are disregarded or handled clumsily, staff can feel that the interest in creativity is only cosmetic and experimentation will be discouraged. This is dangerous since high levels of creativity need high levels of experimentation. Attention must be paid to all suggestions, good or bad, and ideas that are unsuitable need to be evaluated constructively.

Figure 5.2 Contextual factors influencing levels of intrinsic motivation (adapted from Amabile, 1983, 1988, 1993, 1996, 1998; Amabile et al., 1994, 1996, 2002)

Encouragement	• Creativity needs explicit encouragement Real value of project must be clear
Autonomy	• Freedom concerning means but not ends • Autonomy concerning process fosters ownership and intrinsic motivation
Resources – money – time	• Resource sack reduces focus and discipline • Parsimony means creativity channelled into increasing budgets • Over-tight deadlines reduce scope for 'combinatorial play' and risk burnout
Challenge	• Project goals should be clear, stable and feasible • Too much challenge overwhelms and demotivates
Team composition	• Should represent diversity of perspectives and backgrounds

The creative challenge and how it is framed

> Creative people work for the love of a challenge. They crave the feeling of accomplishment that comes from cracking a riddle … they want to do good work. (Florida and Goodnight, 2005: 127)

Creativity is enhanced by clearly defined overall project goals (Amabile and Gryskiewicz, 1989), which means that the creative challenge must be clear, unambiguous and feasible. Complex tasks that are challenging, multi-faceted and non-routine increase intrinsic motivation (Amabile, 1988; Oldham and Cummings, 1996), but the degree of stretch needs to be calibrated carefully. Complex challenges need to be mobilising but not overwhelming, and there needs to be a good match with expertise and creative-thinking skills. Kanter (2006) describes how adjusting the creative challenge increased creativity at *Time* magazine. In 1992, when new CEO Don Logan took over, the magazine was poor at developing new titles. This was reversed by replacing a too-demanding requirement that new concepts should have immediate bestseller potential with a requirement that staff experiment with original ideas with long-term potential.

Autonomy

Autonomy featured prominently in the last chapter's discussions of how organisations can structure themselves to respond to far-reaching technological changes. In this chapter we explore why autonomy also fosters creativity.

Autonomy is perhaps first among equals of the contextual factors required for high levels of intrinsic motivation. In this context it simply means that the creative team need to be free to get on with solving their creative challenge. Those engaged in creative projects need autonomy, particularly freedom from organisational constraints such as burdensome reporting requirements and the fulfilment of non-essential organisational tasks.

Like resources (below) this factor must be carefully gauged. The creative team should be able to decide autonomously how their goal is to be achieved (that is, concerning the process by which they solve their problem), but they do not need autonomy in deciding what that goal should be. The goal itself should remain clear, constant and unambiguous. This is critical because autonomy concerning process fosters creativity because it heightens a sense of ownership, and therefore intrinsic motivation, and also allows employees to approach problems in ways that make the most of their expertise.

That small group autonomy is important for creativity seems to be familiar to some of the largest players in the industry. News Corporation has a tradition of viewing small decentralised groups as critical for generating quality content within the context of a large global media conglomerate, and Rupert Murdoch has spoken of the dilemma of striking a balance between encouraging independence but ensuring overall responsibility. He gives executives at the local level the freedom to deal with problems as they arise, but will personally intervene in crisis situations (Coleridge, 1993, cited in Marjoribanks, 2000).

Bertelsmann has also historically had a policy of encouraging autonomy in its strategic business units. Reinhard Mohn made decentralisation the company's official policy in 1959 because he believed that managers of profit centres would thrive best with high levels of autonomy and the freedom to diversify and expand. The company departed from this strategy under Middlehof, CEO from 1998 to 2002, who felt the decentralised structure inhibited a coherent internet strategy and slowed decision-making. He increased centralisation to heighten cross-unit synergies and created an Executive Council and Office of the Chairman. By mid-2001 however Bertelsmann's internet businesses were failing, the Napster experiment had yet to bear fruit and company incomes were being battered by a global advertising downturn. Middlehof's subsequent exit arose from a variety of reasons, including the fact that his attempts at centralisation had brought him into conflict with the corporate culture which valued business unit independence. Bertelsmann has since returned to its policy of decentralisation:

> The principle of decentralization is at the heart of Bertelsmann's management philosophy. It enables our employees to act with flexibility, responsibility, efficiency and entrepreneurial freedom. Our operating businesses are run by managers who act as entrepreneurs: they enjoy considerable independence and bear full responsibility for the performance of their companies. Our executives act not only in the best interests of their individual businesses, but are also obligated to the interests of the group as a whole.[1]

Resources

The resources critical for boosting intrinsic motivation are money and time, and, as with autonomy, the levels of both need to be carefully judged. They should be sufficient to allow the task to be achieved, but not over-generous since resource slack can reduce project focus and discipline (Nohria and Gulati, 1996). Conversely, if funding is meagre, creativity can be channelled into finding additional funds.

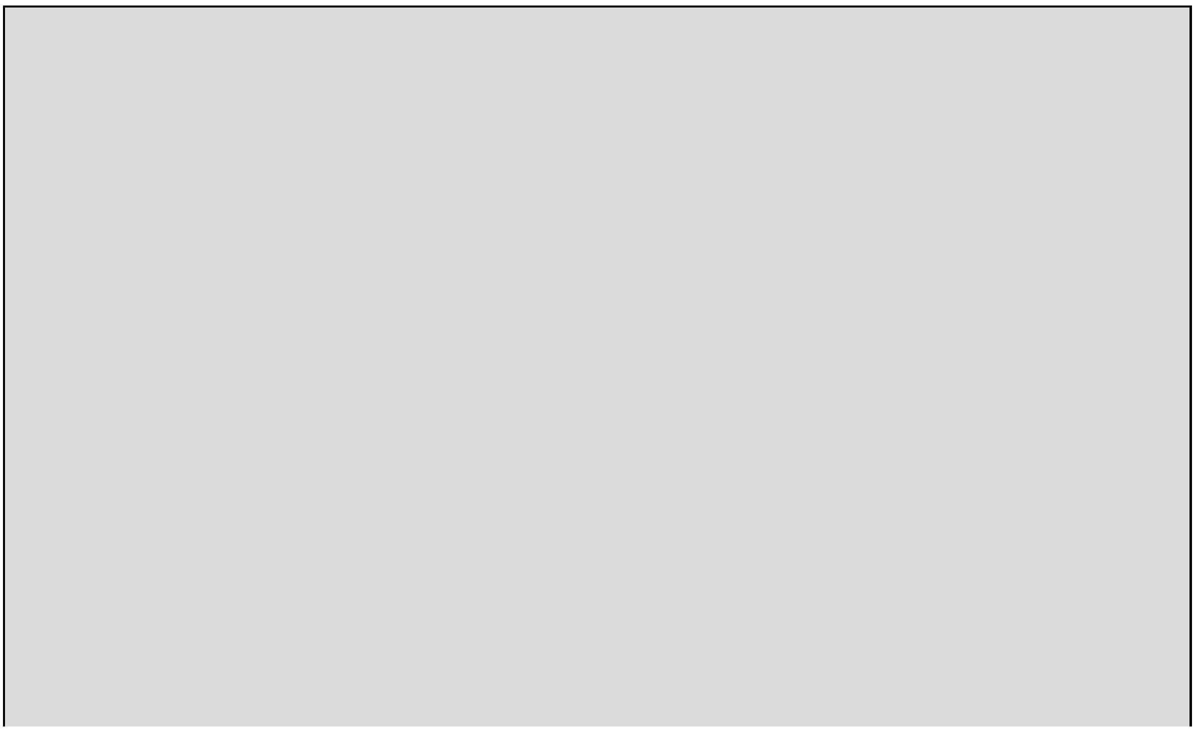
In terms of time, deadlines for creative projects need to be carefully judged. Despite the received wisdom that deadlines focus the mind and increase creativity, if these are too demanding and unrealistic staff will have no time to ‘play’ with concepts and solutions. Time to play is important since creativity results from the formation of a large number of associations in the mind, followed by the selection of associations that are particularly interesting and useful. Time pressure will limit or remove entirely the scope for such combinatorial play, and may additionally risk burnout in the creative team.

Team composition

> Smart creatives … are the product folks who combine technical knowledge, business expertise and creativity. When you put today’s technology tools in their hands and give them lots of freedom they can do amazing things amazingly fast. (Google founder Eric Schmidt, Schmidt, Rosenberg and Eagle, 2014)

Creativity is popularly supposed to result from solitary acts of inspiration (the lonely artist in the garret). This may be true for great cultural works generated by individuals, but creativity in organisational settings require the coordinated contributions of a diverse team. And that creativity should encompass perspective, expertise, background and preferred mode of problem solving.

The reason team diversity matters is that creative challenges are often epistemologically unsolvable by any one person and require input from a range of specialist disciplines and a broad palette of expertise. Teams that are homogeneous can hinder creativity since there will be too much similarity in experience and approach to the task, plus too much social cohesion can inhibit the exchange of ideas. Within the team, working practices need to be open to encourage the constructive challenging of ideas and shared commitment, which in time can allow the development of a strong sub-culture. Attention needs to be given to the team’s communication skills. If these are poor, necessary expertise and insights will not be shared, particularly the tacit knowledge that emerges during the course of the project (Kanter, 2006).



Home Box Office Original Programming Division

> HBO has shaped a creative environment which almost anyone would tell you is the best place to work in town. (Peter Chernin, then President and COO News Corporation, April 2003[2])

Home Box Office, or HBO for short, is a pay cable television network in the US. Founded by Time Inc. in 1972, as the name implies, HBO started life as a pay movie/special service cable operation in New York offering recent Hollywood films and occasional boxing matches. When the channel was launched original entertainment content did not extend far beyond one-hour stand-up comic specials, and the channel was noted for its frugal spending in comparison with network television (Shamsie, 2003).

However, from these inauspicious beginnings its original programming division has grown into an industry leader in creative original programming, responsible for a chain of critical and commercial hits, including *The Sopranos*, *Sex and the City*, *Six Feet Under*, *True Blood* and *Game of Thrones*. Under the slogan 'It's not TV, its HBO', original programming is now central to HBO's strategic positioning. Many of the hit shows mentioned above can be judged creative according to the definition given earlier in this chapter. They are novel, since HBO's trademark is its ability to disregard the elements judged to be prerequisites of commercial successes by other broadcast networks, such as likeable characters or clear underlying premises (Shamsie, 2003), and yet be successful. Second, in terms of commercial success, in 2015 HBO was available in around 30 per cent of all US homes with pay TV and had over 120 million subscribers worldwide. In 2014 its operating income was $1.79 billion. Third, HBO also enjoys substantial critical acclaim. In 2015 it won 43 Primetime Emmy Awards, with *Game of Thrones*, *Veep* and *Olive Kitteridge* scoring particularly highly. This score was higher than the next five competitors combined, and is strategically significant in that this type of industry recognition boosts HBO's attractiveness to both creative talent and viewers, which is particularly important in an era characterised by increasing competition, notably from new players such as Netflix, Amazon and Hulu.

In terms of the core components of creativity in organisational settings – expertise, creative thinking skills and intrinsic motivation – sector expertise is particularly noteworthy. Senior executives synthesise a deep knowledge of entertainment content in the widest sense, that is, script writing, plot, character, dialogue, and so on, with knowledge of how cable television functions, particularly audience behaviour and business models. Further expertise comes from the freelance creative staff. Here a virtuous circle comes into play: the critical praise received by HBO programmes attracts high-calibre writers who want to be involved in HBO programmes. Their high-calibre skills contribute to the ongoing creative quality of the channel's output, which in turn leads to commercial and critical success, continuing to attract high-quality creative freelancers.

The contextual factors conducive to intrinsic motivation present in the HBO work setting are summarised in Figure 5.3. First, in terms of creative challenge, creativity is intrinsic to its strategic vision and its core mandate. Its strategic positioning is ‘to be good and different’ (Shamsie, 2003: 63). Its advertising strapline is ‘It’s not TV, it’s HBO’. This translates into a clear strategic challenge, HBO is looking for shows that are different and unique and don’t look like series that have been seen before. Pilots with test screening approval over 75 per cent are rejected on the basis that anything so acceptable to the ‘conservative masses’ is unlikely to be edgy enough for HBO, and conversely shows that may initially confuse audiences are accepted.

Figure 5.3 How HBO ensures a strong creative pipeline

Explicitly demands creativity	Core mandate is ‘to be good and different’: ‘It’s not broadcasting, it’s HBO’ Entire strategy is based on ‘differentness’
Sets clear creative challenge	Clear, deliverable and inspiring: ‘series that will gain creative approval and commercial success’
Provides adequate resources	Funding substantial, but not over-generous Long-term commitment to projects and writers
Provides autonomy for creative teams	Teams have creative freedom within tightly controlled operation Distinct HBO identity, fiercely independent from Time Warner Low bureaucracy: ‘ideas are not nibbled to death by ducks’

In terms of autonomy, the company seeks to ensure that staff have the scope to realise this goal, particularly ensuring they have the space to concentrate on the creative task. In the words of Alan Ball, screenwriter of *Six Feet Under*, ‘there’s less levels of bureaucracy to dig through. … To make a good show on HBO is almost easier work. You’re living and dying by what you believe in, and you’re not being nibbled to death by ducks’ (cited in Shamsie, 2003: 64). This means that notes (comments on ideas under development) come from just one or two people, and those people are regarded as experts (in contrast, networks’ notes can come from up to ten different reviewers and can be contradictory, the net result of which can be to shift the idea towards standard approaches).

More autonomy is provided because, despite being part of the Time Warner/AOL/Verizon empire, HBO enjoys high levels of independence, being physically and operationally removed from the conglomerate’s other TV activities. Further, its policy is to give its staff scope for creativity within a tightly controlled operation – writers have high levels of artistic freedom, but must seek to create series that will garner critical acclaim and approval with the viewing public. HBO’s business model also contributes to creative autonomy, since cable subscription funding means it is less reliant on fast ratings success and less burdened by regulation than the mainstream networks.

With regard to resources, HBO is adequately funded but finances are not overabundant. However, the fact that it is subscription-financed means that its income is relatively secure and not too sensitive to dips in the overall economy (which affect media advertising spend disproportionately). In terms of time, HBO’s deadlines allow staff to play with concepts: it is unique in the industry for offering writers a five-year contract, with the explicit goal of providing creative stability and the psychological freedom to take risks.

Pixar Animation Studios

> [T]he most reliable creative force in Hollywood. (Kenneth Turan in the *Los Angeles Times*, cited in *Slate*, 5 June 2003)

Pixar Animation Studios has prioritised organisational creativity from the start. It came into being when Steve Jobs purchased the computer division of Lucasfilm using $5 million of his personal funds and set up a new company, of which he became Chairman and CEO (he invested a further $5 million to finance the company). At that point its primary asset was the Pixar Imaging Computer, which had been designed for film frames but also had uses in business-to-business (B2B) fields such as medical imaging and design prototyping.

The first decade was a struggle financially. Pixar was searching for a business model and, as Catmull observes (2014: 52), 'mostly just haemorrhaging money'. It needed frequent cash injections from Jobs, who tried to sell Pixar three times between 1987 and 1991, but each time walked away from the deal at the last minute. The Pixar Imaging Computer had sold only a few hundred units and revenues came mainly from sales of its software. It also produced animated commercials (up to 15 a year) and while these won awards and allowed it to hone its technical and story-telling skills, it had to lay off over a third of its employees in 1991. This period did however produce early indicators of Pixar's future path and future creative success in the shape of two highly acclaimed short films, *Luxo Jnr* (1986) and *Tin Toy* (1988) (the first computer-animated film to win an Academy Award).

In 1991 the five-year-old Pixar signed a deal with Disney for three digital animation movies: Pixar would create them and Disney would own them and distribute them, retaining 90 per cent of the profits and the merchandising rights. Jeffrey Katzenberg, head of Disney's motion picture division, also wanted to buy Pixar's technology, to which Steve Jobs reputedly replied: 'You're giving us money to make the film, not to buy our trade secrets' (Catmull, 2014: 55).

The first movie produced under this deal, *Toy Story*, was released in 1995. It was the first full-length 3D animated feature film, the first to win an Academy Award, and it broke box office records. Jobs presciently proposed this was the moment to go public: *Toy Story* was going to be a huge success, Disney would realise it had helped create a competitor and when its deal with Pixar was up for renegotiation would probably try to clip Pixar's wings, whereas Pixar should actually be seeking a 50/50 revenue split. But an equal revenue split would require Pixar to finance half the production budgets itself, which it currently did not have the financial resources to do. Hence the plan to go public: this would provide the necessary finance to allow Pixar to fund half of production budgets for its movies, and it would in return receive half the revenues from them. Jobs had called the situation correctly. The IPO raised $140 million, and when Disney sought to renegotiate the deal, Pixar received a deal featuring an equal split of both production investments and profits (less a distribution fee of 12 per cent).

Following the success of *Finding Nemo* (2003), Pixar wanted to renegotiate again.

Disney refused and relations soured, not least because Eisner had exercised Disney's right to make sequels to Pixar movies without Pixar input. The partnership ended in January 2004 but after Eisner left in 2005 the relationship was rebuilt due in part to the reconciliation efforts of incoming CEO, Bob Iger. In 2006 Disney bought Pixar outright for $7.4 billion, Jobs joined the Disney board and Pixar's John Lasseter became Disney's Chief Creative Officer and Ed Catmull became President.

Do Pixar movies meet the defining criteria for creative products?

Pixar's output does indeed meet all the defining criteria for creative products outlined earlier in this chapter. In terms of uniqueness, Pixar films were novel, not only in their content, but because they reinvented the somewhat tired animated film genre. They abandoned hand-drawn animation in favour of digital techniques, but used these to create extraordinary levels of texture and sensory detail; the matted wet rat fur in *Ratatouille*, for example.

Creativity was apparent also in the notion fundamental to its business model, that animated films could be made sophisticated enough to appeal to adults as well as children and therefore to work for both markets simultaneously.

Pixar's output has succeeded at the box office, but in addition to commercial success, it has also received high levels of critical acclaim, as evidenced by the many industry accolades it has received – by 2003 it had won 15 Academy Awards, primarily for technical innovations. Industry insiders judged that it 'led the computer animation industry, both technically and aesthetically'[3] (and established both a core competence and product niche that were very difficult for competitors to duplicate). And finally, in terms of fit with organisational requirements, Pixar places great emphasis on ensuring its movies are developed on schedule and to budget (see the discussion later in this chapter on Pixar's explicit process for resolving the inherent tension between setting stretching creative goals and the need to respect financial and time limits).

Expertise at Pixar

> I've made a policy of trying to hire people who are smarter than I. (Catmull, 2014: 23)

Pixar's technological expertise is renowned and made up of countless innovations in digital animation, dating back to RenderMan, a programming language that allows the disparate parts of the 3D production process to connect and communicate. This is available commercially and has become an industry standard, as has a batch of associated programs covering other aspects of the computer-animation process that it has developed and marketed. Its mastery of the artistic skills involved in animated filmmaking is also widely respected, as are its narrative skills in the field of story-telling, script writing, portrayal of characters and storyboarding.

Short films are a key mechanism to build new expertise. The tradition started in the early 1980s and the first wave of films functioned as a means of sharing Pixar innovations with the scientific community. Pixar stopped producing them in 1996, and then re-started, booking the costs under the R&D budget (in a similar move to digital publishers who charged early digital experiments to their Training and Development budget). Pixar's 'second generation shorts' served several purposes, all central to furthering creativity. They allowed staff to develop a broader range of skills, forced technological advances (in the rendering of difficult characteristics like faces, hands, or water, for example), provided a way for the smaller teams who worked on them to form deeper relationships with colleagues, built goodwill with film goers, demonstrated Pixar's commitment to artistry (because the shorts have no commercial value) and provided a relatively inexpensive way to make mistakes.

Expertise is acquired through a commitment to meticulous research. Filmmakers on *Finding Nemo* visited sewage treatment plants and learned to scuba dive. Those working on *Monsters University* visited dormitories, lecture halls and research labs at MIT, Harvard and Princeton, 'documenting everything … right down to … what the graffiti scratches looked like on the wooden desks' (Pixar art department manager, cited in Catmull, 2014: 197).

Factors in the Pixar organisation that boost intrinsic motivation

> since I was a boy … I had yearned to be a Disney animator but had no idea how to go about it. Instinctively, I realise now, I embraced computer graphics – then a new field – as a means of pursuing that dream. If I couldn't animate by hand, there had to be another way. In graduate school I'd quietly set a goal of making the first computer-animated feature film, and I'd worked tirelessly for twenty years to accomplish it. (Catmull, 2014: xii)

To start with creative challenge, at Pixar this comes from the top. Jobs' overt goal for the organisation was 'to let creativity flourish'. For Catmull, the challenge was larger than simply commercially successful creativity:

> My hope was to make this culture so vigorous that it would survive when Pixar's founding members were long gone, enabling the company to continue producing original films that made money, yes, but also contributed positively to the world. That sounds like a lofty goal, but it was there for all of us from the beginning. (Catmull, 2014: 65)

Part of Catmull's strategy to achieve this is to avoid a syndrome termed 'Feed the Beast'. This arises when the success of each new film enlarges marketing infrastructure, creating a compulsion to create more products simply to fill this pipeline (Catmull, 2014). Instead, Pixar focuses on a small number of films. In order to keep the creative challenge manageable, creatives are encouraged to break larger tasks down into creative steps.

Pixar's resource strategy has developed through trial and error. Striving for greatness can result in very long lists of ideal features that filmmakers would like to incorporate in their projects. Deadlines are used to force both a priority-based reordering of such wish-lists, and difficult decisions about which items on the lists are not feasible and will need to be dropped. Catmull (2014: 199–200) describes how:

> We have constantly struggled with how we set useful limits and also how we make them visible. … The very concept of a limit implies you can't do everything you want – you must think of smarter ways to work.

In terms of autonomy, unusually, Pixar staff are authorised, whatever their position, 'to stop the assembly line, both figuratively and literally' if they feel things are going wrong. This is part of an overall approach that requires staff to solve problems when they surface, without first asking permission – which means it is also accepted that this may result in mistakes. This philosophy extends right up to the top of the organisation, whereby Steve Jobs also encouraged Pixar to function autonomously, recognising that the organisation's considerable expertise was in a different domain to his own. As Catmull (2014: 100) describes, 'at Pixar, he didn't believe his instincts were better than the people here, so he stayed out'.

Teamwork is the basic building block of Pixar's *modus operandi*. It seeks to promote 'unfettered group invention' and stresses that its films are the product of groups, rather than of key individuals. A Pixar tool for maximising teamwork is The Braintrust, which is:

> the primary mechanism to push us toward excellence and to root out mediocrity … our primary delivery mechanism for straight talk … one of the important traditions at Pixar. (Catmull, 2014: 86)

This meets every few months to assess each movie as it develops. Feedback is constructive and focused on solving problems within an atmosphere of trust and mutual respect and rooted to shared beliefs. The first belief is that 'Pixar films are not good at first, and our job is to make them so' (Catmull, 2014: 90), and the second is that 'People who take on complicated creative projects become lost at some point in the process' (Catmull, 2014: 91). Underlying this is an additive approach that 'starts with the understanding that each participant contributes something even if it's only an idea that fuels the discussion or ultimately doesn't work' (Catmull, 2014: 101).

Figure 5.4 Factors boosting intrinsic motivation at Pixar

Setting the creative challenge	Overall goals are to 'let creativity flourish' (Jobs) and 'produce films that contribute positively to the world' (Catmull) Shuns the hit model – doesn't fall into the trap of 'feeding the beast' Concentrates creative energy on few products of highest standard
Resources	Financial – adequate but not over-generous Deadlines are used as a mechanism for teams to identify real priorities and work smarter Tries to avoid burnout
Autonomy	'[Jobs'] talent is to identify good people and give them free rein' Staff can 'stop the production line' if things are not working People are encouraged to solve problems without permission, and mistakes are tolerated as the inevitable sometime consequence
Teamwork	Seeks to promote 'unfettered group invention' Teams are the basic building block of output; films are produced by teams, not individuals 'Braintrust' concept is used to push towards excellence 'Post mortems' are used to consolidate new learning

An equally important element of the teamwork process is the post-mortem. This is a meeting held shortly after a movie is completed where the team explores what worked and what didn't, and aims to consolidate key learnings. Historical data are analysed too: Pixar tracks the rates at which things happen, and how long processes actually take versus estimates, in the goal of identifying patterns and providing inputs on where improvements can be made.

Creativity in creative organisations

The definition of creativity used above to analyse Home Box Office and Pixar was conceived for all types of organisational setting. There is a small body of work that focuses on creativity in creative organisations. In terms of defining this, Lampel, Lant and Shamsie (2000) note that because the creative quality of creative products is hard to judge, since their consumption is a highly subjective experience, actually defining creativity in these contexts is difficult. They draw a distinction between creative organisations and ones that are primarily engaged in artistic endeavours: whereas in cultural organisations, for example, creative products must only satisfy artistic and cultural criteria, in commercial creative organisations they need to meet commercial objectives too, which entails their finding a market, although, if they are too creative and original, this may not succeed. Thus they need to synthesise new and familiar elements (Lampel et al., 2000).

Gil and Spiller (2007: 245–6) identify a number of essential characteristics of creative work in creative organisations (which they describe as 'internal creative production') which cause challenges 'quite different from the standard' in organisations (some of which correlate closely with theories of organisational creativity):

1. An informational asymmetry between creatives and management because creatives have an expertise that management do not have and possibly do not understand.
2. Management cannot force the creation of high-quality work; rather they can only create conditions that are conducive to it occurring.
3. The 'infinite variety' problem, which means there are an infinite number of possible solutions to any creative challenge and a manager cannot specify in advance what output is sought, nor can a creative employee specify what will be produced.
4. The 'nobody knows' problem, which arises from the fact that the performance of a creative product is virtually impossible to predict. Thus the average internal rate of return in the movie industry is negative (Dekom, in Squire, 2004) and the majority of new books published fail to earn back their authors' advances. Even when a formula works once, there is little guarantee that it can be repeated in exactly that way.
5. The 'art for art's sake' problem. Creatives are intrinsically motivated and work on creative projects because of the sense of fulfilment or achievement it brings. This means high levels of commitment, engagement and ownership, but also an unwillingness to compromise on their creative solutions. This can make management interventions difficult and lead to time and cost overruns.
6. Many types of creative product have very high development costs, which,

because of the uncertainties implicit in creative markets, can spiral out of control. If a project develops poorly, a strategic decision has to be made about whether to invest further to the project. Because success is uncertain, a decision is often made to continue, leading to the 'Ten-Ton Turkey Syndrome' (Caves, 2000).

7. Creative expertise cannot be appropriated by organisations but resides with the owners of that talent. Particular creative talents may become identified with particular products, and future attempts to exploit that product may encounter a hold-up from that creative talent. Similarly, creative staff may not share all of their creative ideas with their current employer. Thus creative businesses are subsidising the future career opportunities of their creative talent.

Creativity and the business model

If we look at the two examples in this chapter, Home Box Office and Pixar, while the respective funding bases differ, their business models are similar in that they provide a degree of protection from market forces. HBO is subscription financed, which brings the luxury of being able to build audiences slowly in step with word-of-mouth publicity as people acclimatise to the novelty of their products. Pixar initially had a co-financing deal with Disney, which meant more freedom to incubate ideas, experiment and take creative risks. A degree of protection from market forces has also contributed to the BBC's track record in creative programming. This has allowed it not only to experiment but also to persevere with novel concepts until they find their markets. This dynamic contributes to 'slow-burn' successes such as *Fawlty Towers* and *Monty Python*, which took a while to find audience favour, but ultimately proved to be lucrative long-term products.

Thus business models that provide a degree of cushioning from market forces appear to be positively correlated with creativity. This is an area where more research is needed, but elements of the mechanism might be that such arrangements create a level of psychological security that encourages playfulness and combinatorial play in members of the creative team, allow a longer and deeper product incubation period, and can withstand a slower rate of audience growth which can be necessary for highly novel ideas.

Creativity in systems and strategy

It is easy to restrict the search for creativity in the media industry to the realm of content, but creativity is also required in the broader set of activities concerned with how organisations mount a response to their strategic environment. Novel ideas are needed to enable media firms to grow, adapt and compete. As we have seen, the media industry has been subject to a continuous stream of fundamental changes in the technologies used to develop and deliver products – ranging from new platforms such as cable, satellite and the internet, to the digital downloading and social sharing of media files. This stream of change triggers in itself a fundamental ongoing need for renewal in terms of systems, process and strategy, irrespective of the need to develop new media products. Organisations that master these challenges can establish powerful bases of strategic advantage, as two examples from the broadcasting sector demonstrate.

CNN – Creativity Applied to Systems and Strategy

CNN, during the first 16 years of its life (from its founding in 1980 to its takeover by Time Warner in 1996), offers many examples of creativity in terms of systems and strategy. CNN's concept has been so widely adopted by the industry that it is hard now to view it as exceptional, but it was extremely novel when it first emerged.

The idea behind CNN was to set up a channel that concentrated only on news and to broadcast that news round the clock. The news would be global and it would be live. CNN would try to cover news as it happened, rather than report after the fact. A central element of this was to create 'a role in the process for the viewers'. This would be achieved by avoiding the groomed approach of the US networks in favour of open sets within newsrooms, and a presenting style that would create a sense of immediacy, authenticity, and of stories evolving as viewers watched. Overcoming industry cynicism, this unconventional approach held real attraction for viewers and revitalised what had become a stale genre – so much so that two decades later the CNN style had become a standard for news delivery worldwide.

The core product could therefore be categorised as creative. But creativity was also evident in the systems and processes that supported the content proposition. The concept of CNN was designed to exploit a number of simultaneous technological advances – cable television, communications satellites, suitcase-size satellite uplinks and handy cams – in order to reinvent the way news is produced and delivered. A number of highly innovative processes were introduced in order to implement this strategy against a background of extremely limited resources – both in terms of time and money. The most famous example is probably the invention of the video journalist or VJ. The VJ is a 'one-man television band' that is capable of covering a story without the expense of a full film crew, shooting video as well as reporting, and then editing the material too. Like many of Ted Turner's inventions, this concept has now been adopted by broadcasters all over the world. Similar organisational creativity can be found in CNN's network of broadcast affiliates all over the world. The traditional affiliate relationship is one-way, from the channel or network to the affiliate, and most news organisations pride themselves on the exclusivity of their content. CNN revisited this approach by establishing a reciprocal network of 600 television stations worldwide which both received news feeds from CNN and fed local footage back to CNN. This was initially a pragmatic solution to the need to offer global coverage without adequate resources, but it became a strategic asset in that it enabled CNN to build a global presence quickly, defray the cost of its own newsgathering, and provided footage of breaking events all over the world far more quickly than its competitors could get news crews on the scene.

Conclusions

This chapter links closely to the previous chapter on technological change. However, it differs in its approach from all previous chapters. So far the book has looked primarily at the strategic environment – particularly at the individual sectors that make up the media industries – and the technological influences that are shaping their development. This chapter focuses on the impact of the strategic context on the internal organisation of the media firm, on the link between strategy and management in the media. It is also unusual among the other chapters in this book in that it focuses mainly on one particular stream of theory, socio-constructivist approaches to organisational creativity, whereas previous chapters have, in the main, covered a far broader theoretical terrain. The reason for this lies primarily in this research stream's high relevance for the field. Sustained creativity is one of the prime drivers of above-average performance in the sector, and the need for creativity is enlarged when environments become unstable. This body of theory provides insights into how levels of creativity may be improved.

A key message is that creativity can be improved, not only via interventions by external consultants and experts, but also by the carefully judged handling of relatively mundane aspects of projects – elements such as deadlines, financial resources, team composition and goal-setting. Two aspects of this are interesting. The first is the sustained performance outcomes that can result when these elements are well and coherently managed, and, by extension, the scope for optimisation that probably exists in the majority of media organisations. The second is how some findings from this body of theory undercut received wisdom in the media industry. To take the hit model, this proposes that market success is contingent in large part on the amount invested in creative talent and processes – that higher budgets mean higher audiences. However, this framework shows that creative projects do not benefit from unlimited resources – and may perhaps even be harmed by them. The companies analysed in the case studies here all spent around 30 per cent less than their peers but achieved far greater creative and commercial success. Picking up on a theme raised in Chapter 4, this chapter also provides additional evidence of the importance of autonomy for creative teams, something which can be threatened by moves towards consolidation and cross-platform integration.

This chapter extends this core body of theory to explore the role of creativity in the wider organisation – in structures, processes and systems. This latter stream of work is in its infancy and much more work needs to be done in this field. It is clear, however, that not only do aspects of the creative project environment need to be carefully thought out and integrated, but they need to harmonise with wider systems, strategies, processes and business models. A more intimate understanding of these systems and their interrelationships will contribute fruitful insights into how media firms can improve both creativity and performance.

Notes

1. www.bertelsmann.com/bertelsmann_corp/wms41/bm/index.php?ci=356&language=2, (accessed 30 June 2007).

2. President and COO Peter Chernin speaking at Booz Allen Hamilton Gotham Media Breakfast 2003, www.boozallen.com/capabilities/Industries/industries_article/659265.

3. Cited in *Animation World* Magazine, Issue 3.8, November 1998, www.awm.com/mag/issue3.8.

6 Culture, Mindset and Strategy

'If you want to understand something, try to change it.' (Ed Schein)

This chapter is concerned with the interpretative school of strategy and its application to the media industries. As discussed in Chapter 3, the interpretative school of strategy views organisations from the point of view of those living in them, with a focus on how they construe meaning out of events and phenomena, and the implications this has for organisational outcomes. It looks at the implicit and unconscious aspects of organisational life, mindset, beliefs, values and emotions, which have a tremendous influence on strategic behaviour, but because they are highly subjective, operate outside conscious awareness, are hard to address, and tend to get overlooked in strategic activities.

This chapter explores two interpretative phenomena in particular: cultural assumptions, that is, the collective unconscious beliefs that are present in all organisations; and cognitions, that is, the explicit beliefs and assumptions held by individuals in an organisation. For each it explains the core concept and its origin, explores its role in the strategy process, and discusses with the help of case studies how this plays out in the media industries.

The boundary between cognition and culture is blurred. Many researchers bundle cognitive and cultural phenomena together. Johnson (1987), for example, defines strategy as the product of the ideologies (cognitive maps) held by individuals or groups in an organisation which are preserved in the symbols, rituals and myths of the organisational culture. DiMaggio and Powell (1983) refer to an organisation's cognitive 'pillar', which entails the taken-for-granted beliefs and values that are imposed on, or internalised by, social actors.

However, while both the cognitive and cultural schools draw on the same basic premise – that problem-solving and adaptive behaviour is driven by a set of governing beliefs – there are important differences. In cognitive theory, beliefs and assumptions are accessible at surface level and are therefore far easier to address. Cultural assumptions are deeper, being unconscious beliefs that are much harder to access and change. This point is particularly important for those wishing to research in this field, since the unconscious nature of cultural beliefs precludes research methods that focus on surface phenomena (such as surveys or questionnaires) and implies the use of ethnographic and anthropological approaches, and extensive access to the organisations being researched.

Culture

> Never invest in a tech CEO that wears a suit. (Peter Thiel, in Thiel and Masters, 2014: 160)

The impact of culture on strategic outcomes is now widely acknowledged – culture is an oft-cited culprit when organisations experience difficulties implementing strategies (it is particularly noticeable in newspaper industry accounts of their challenges with respect to digital disruption). But while the existence of organisational culture is widely accepted, the concept itself remains vague; and while cognition is often viewed as a strategic issue, culture falls into a no man's land between organisation and strategy.

There is no shortage of examples of culture's impact on strategic initiatives in the media. The difficulties experienced by the Sony BMG partnership and the AOL Time Warner merger have both been ascribed in part to cultural differences. The strong and complacent culture of newspaper journalism has been blamed for the sector's inability to seize the potential of the internet (Meyer, 2004), and the newspaper sector's culture of prizing consistency has been identified as a factor behind its resistance to change (Picard, 2003).

Management attention turned to the issue of organisational culture particularly noticeably in the 1980s when a number of researchers proposed that if an 'appropriate' culture (a combination of values, norms and behaviours) is compatible with the strategy of an organisation, performance improvements will result (see, for example, Pascale and Athos, 1981; Peters and Waterman, 1982). The assumed relationship between culture and corporate success in these texts at least was straightforward: good performance resulted when culture and strategy were in harmony, and management's task was to ensure that culture was brought into line with strategic initiatives.

As the 1990s progressed, the intricacies and challenges involved in reconciling culture and strategy became evident. Culture was far more than an organisational variable that could be manipulated, engineered or harnessed: indeed, when culture and strategy were in opposition, it appeared that culture normally won out. The term 'culture' came to stand as a metaphor that 'encodes an enormous variety of meanings and messages into economical and emotionally powerful forms' (Bolman and Deal, 1991: 250) that should be the starting place for strategy (Hampden-Turner, 1990).

What is culture?

The essence of an organisation's culture is now commonly agreed to be 'contained' in an underlying paradigm of commonly held unconscious assumptions. These affect how the environment is perceived by members of an organisation, and how they react to the strategies designed in response. The assumptions are a quintessential and often unacknowledged driver of strategic actions. All other things being equal, provided the cultural assumptions and the strategies are appropriate to the environment, the organisation is likely to experience success. That success will reinforce the 'rightness' of cultural assumptions.

But a strong culture forged through success can also become a liability in that it gives rise to a rigidity that impedes the ability to adapt. The mechanism is as follows. Cultural assumptions about the correct responses to the problems of internal integration and external adaptation are formed through organisational success. Continued success validates these further and they are passed on to new members as the 'correct' way to feel and act. In this way an organisation's culture is perpetuated. Yet should the competitive environment change markedly, members of the organisation must change their core assumptions substantially, but such changes are hard to make (Schein, 1992). Revising basic assumptions means altering some of our deepest cognitive structures. This destabilises our cognitive world, releasing large quantities of anxiety (Schein, cited in Coutu, 2002). Many employees would rather hold on to existing cultural beliefs than experience such anxiety.

One of the most precise definitions of this rather ethereal entity comes from Schein, who defines culture as a pattern of basic assumptions shared by a group of organisation members that were learned as it solved problems of external adaptation and internal integration and that are taught to new members of that group as the correct way to respond to such problems (Schein, 1992). Culture is therefore the accumulated learning shared by a group that has been acquired as it deals with its external environment and internal growth. This process gives rise to a set of tacit assumptions about how things do and should function, which determine perceptions, thoughts and feelings and function as short-cuts to decision-making.

The founder of the culture plays a disproportionate role in shaping its subsequent development (Bolman and Deal, 1991; Kotter and Heskett, 1992; Schein, 1992), and building and shaping an organisation's culture is 'the unique and essential function of leadership' (Schein, 1992: 212). Leaders employ a number of 'culture-embedding mechanisms', including what they pay attention to, measure and control, how they react to critical incidents and crises, the criteria by which they allocate resources, rewards and status, and the criteria by which they select, promote and ‘ex-communicate’ members (Schein, 1992: 231).

‘As Heretofore’ – how History Shapes Culture at *The Guardian*[1]

The UK’s *Guardian* is a pioneer in digital reinvention. It moved swiftly on to the internet and into digital technologies and is respected worldwide for its strong international performance. In the process it has redefined itself from a left-leaning British broadsheet into a leading provider of news on digital platforms for liberal readers in English-speaking markets, and has at times outperformed the *New York Times* in terms of monthly uniques (although, unlike the *New York Times*, it does not have a paywall). This is perhaps a surprising position for a newspaper founded in 1821 by a group of liberal manufacturers in Manchester.

The Guardian is part of the Guardian Media Group (GMG), which in turn has a single shareholder, the Scott Trust. The Trust has a single task: to safeguard the journalistic freedom and liberal values of *The Guardian* by securing its financial and editorial independence in perpetuity. Thus *The Guardian* is a hybrid – it must function as a profit-seeking enterprise managed in an efficient and cost-effective way, but profits must be reinvested to ‘sustain journalism that is free from commercial or political interference’.

The Scott Trust, established in 1936, exerts a surprising influence on current culture and digital strategy. One lever is via its ability to select the editor of *The Guardian*. Alan Rusbridger, editor until 2015, describes how this sets the culture (cited in Martinson, 2014):

> Each editor is told – this is literally the only instruction – to carry the Guardian on ‘as heretofore’. That means understanding the spirit, culture and purpose of the paper and interpreting it for the present. All that is only possible because of the unique Scott Trust, set up in 1936 to ensure the Guardian survives in perpetuity.

The Trust’s governance role, coupled with the paper’s liberal beginnings, have given rise to a low-hierarchy and consultative management style (a staff ballot is a key part of the decision-making process for the appointment of the editor in chief), and the daily morning conferences held by the editor in chief and top managers are open to all employees. A staff member (cited in Küng, 2015) explains how these cultural values have influenced innovation:

> The traditions of *The Guardian* have always been to create a bottom-up devolved organization where the editor edits with a very light touch, and I think that does help cultural innovation. Individuals are much more empowered to take individual positions and set up little units to do things. In the early days of the internet, we were on to it much more quickly than anyone else in this country. We went in ambitiously early on, and we weren’t waiting on the view of one publisher or proprietor who didn’t believe in it or hadn’t caught up with it.

The Guardian's governance arrangements have given rise to strong cultural traits, and these have allowed it to innovate while keeping continuity with its past. Today, while print activities are still respected, digital is nonetheless viewed as central to its future.

Culture and creativity

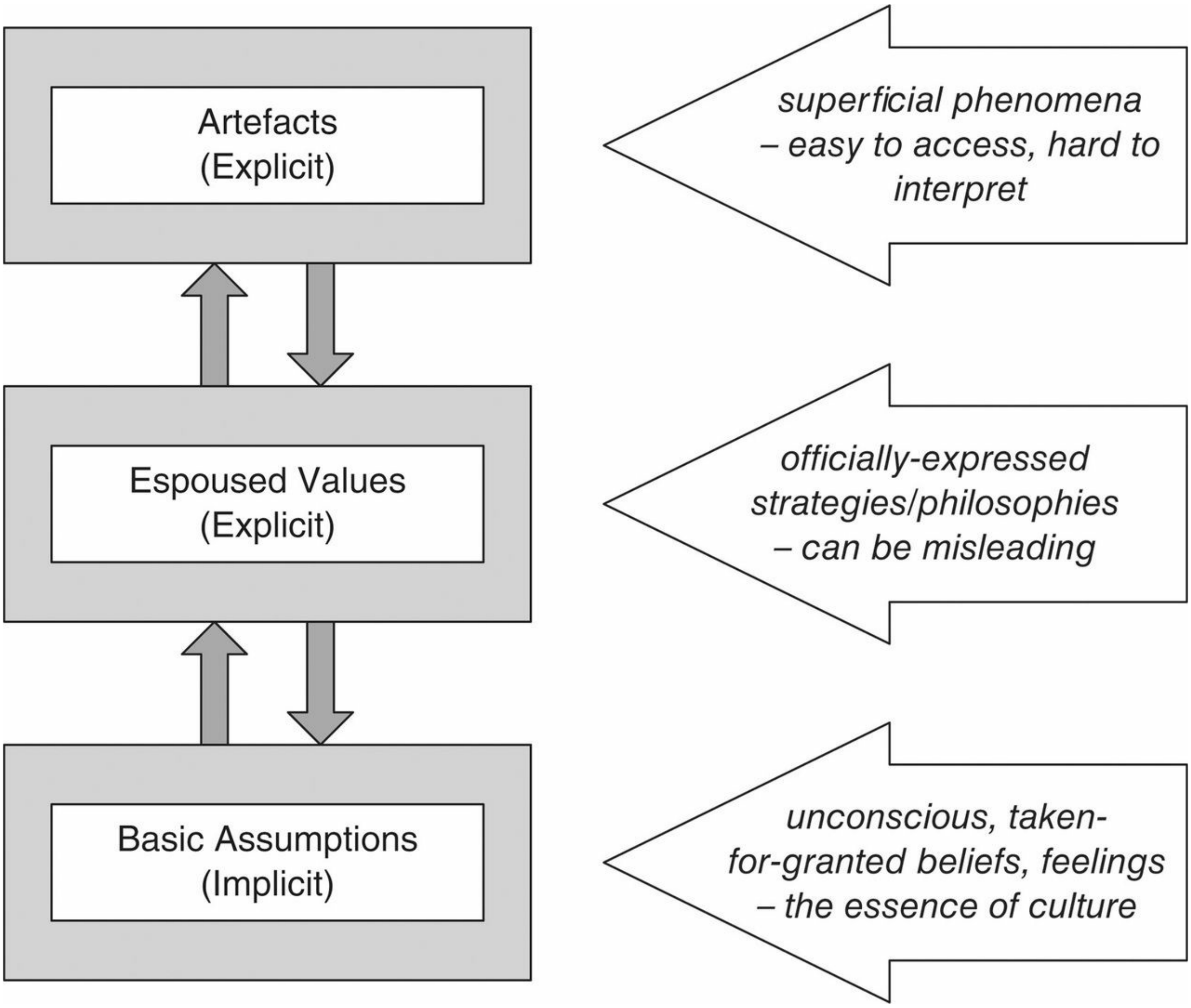
Since both culture and creativity involve internal drivers of action and have roots in the psychology of organisations, it could be expected that they would also be linked in theory. In fact this is not the case, except tangentially via research into the link between culture and overall firm performance. However, the fields' respective theoretical bases do provide clues as to how these elements are linked, with the connection running through intrinsic motivation. Levels of intrinsic motivation are influenced by characteristics of the work setting, but the nature of the work setting is also influenced by the cultural influences present, since at its deepest level culture concerns the underlying belief structures which give purpose to the working life – 'the … expressive social tissue around us that gives … tasks meaning' (Pettigrew, 1979: 574). Thus a shared sense that a task has meaning will be embedded in the culture and will manifest itself in elements such as the positiveness of the work climate, the strength of the team spirit, and the commitment to the task, which in turn contribute to intrinsic motivation and thence to creative achievement.

Layers of culture

For Schein (1992), culture has three distinct but interconnected layers. The top layer comprises ‘artefacts’ – behaviour, dress style, rituals, publications, stories, and so on. These are easy to access but hard to interpret without prior understanding of the deeper levels of culture. The second level comprises ‘espoused values’ – officially expressed strategies, goals and philosophies. This level of culture may appear to reveal a group’s underlying beliefs but in reality represents how that group feels it should present itself publicly or would like to be seen. Espoused values can be used to check hypotheses about underlying assumptions but are not an accurate representation of them. ‘Basic assumptions’ are the third and deepest level of culture, and its essence. These are the unconscious, taken-for-granted beliefs, perceptions and feelings about the organisation and its environment which act as the ultimate source of values and drivers of actions, and which contain the key to a culture, and the tools by which the other levels – espoused values and artefacts – can be interpreted.

Assumptions take the form of an interrelated belief system or paradigm. According to Schein (1992), it is because they are not an assortment of beliefs but an interconnected system that they have so much power. To decipher a culture a researcher must understand not only the assumptions, but the interrelationships between them. Uncovering and deciphering an organisation’s culture is a challenging proposition. Because the underlying assumptions at the heart of a culture operate outside conscious awareness, they are not accessible at the surface attitudinal level – even though many attempts are made to research culture using survey instruments (Schein (1992) classifies such tools as artefacts). This makes researching culture complicated. It requires prolonged access to the organisation to allow opportunities for observation.

Figure 6.1 Layers of organisational culture (based on Schein, 1992)

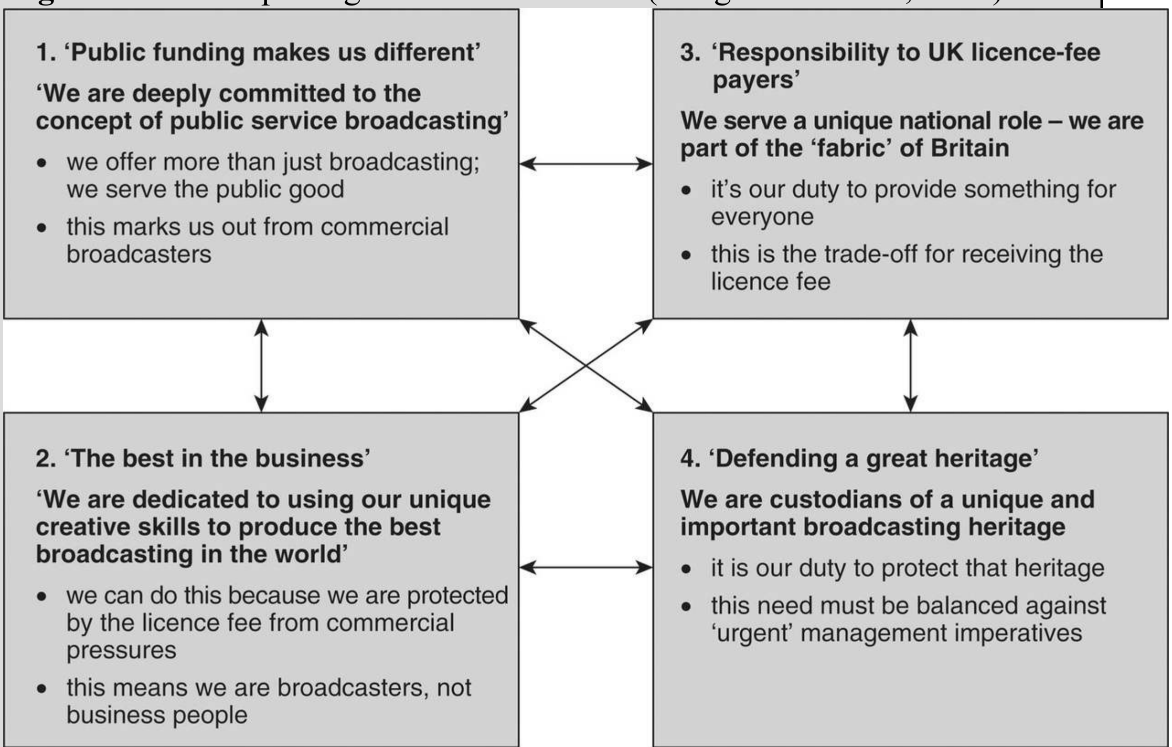

Artefacts
(Explicit)
Espoused Values
(Explicit)
Basic Assumptions
(Implicit)
superficial phenomena – easy to access, hard to interpret
officially-expressed strategies/philosophies – can be misleading
unconscious, taken-for-granted beliefs, feelings – the essence of culture

The BBC's Corporate Culture

Figure 6.2 shows the paradigm of four interrelated unconscious assumptions that lay at the heart of the BBC culture around the turn of the millennium (Küng-Shankleman, 2000). These were:

1. 'Public funding makes us different': This created a sense of higher purpose, a conviction that the BBC makes an important contribution to the nation, exists in the public good and in the service of that public. This was a powerful intrinsic motivator, but also, in placing the BBC apart from its commercial rivals, also served to estrange it from the commercial world.
2. 'The best in the business': This assumption related to the ethos of professionalism, a concern to offer broadcasting of the highest possible quality. Allied to this belief was a sense that its programme-making excellence was intrinsically linked to licence-fee funding: guaranteed funding enabled creativity and professionalism to flourish and a critical creative mass to develop, which enabled the BBC to raise public service broadcasting to the highest standards possible. However, its belief in its creative and professional prowess also created a risk of complacency and insularity, and gave rise to an anti-commercial, anti-managerial bent, a sense that BBC staff should prioritise creative over business-related goals.

Figure 6.2 BBC's paradigm of cultural beliefs (Küng-Shankleman, 2000)



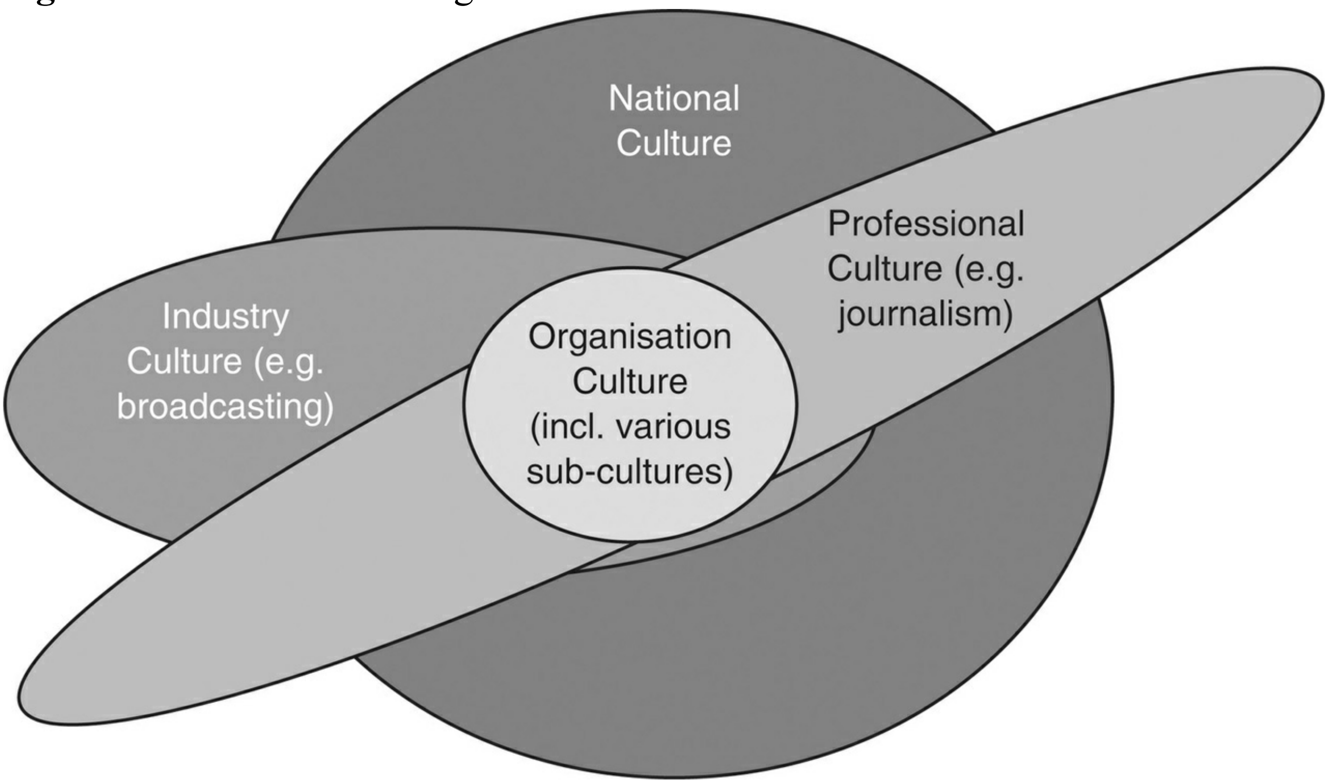
3. 'Responsibility to UK licence-fee payers': Licence-fee funding created a conviction that the BBC had a responsibility to provide something for everyone who paid it. This in turn created a deep sense of respect for audiences and a strong priority on serving its licence-fee payers.
4. 'Defending a great heritage': For BBC staff, the organisation's long tradition, national role and international reputation was a source of great pride. The motivation stemming from this counteracted a frustration that was felt by some about the increasing focus on management and the bureaucratic nature of some

internal processes. However, the BBC's commitment to its heritage also engendered resistance to management initiatives that threatened to damage that heritage.

Dimensions of organisational culture

Although organisations are often reflexively assumed to possess a single corporate culture, in any given organisational setting a range of sub-cultures will also be present. Members of an organisation will share a common culture, but will also share assumptions with individuals who have similar professional or personal circumstances or experiences. These cultural pluralities mean an organisation's culture is multi-faceted and increase the potential for cultural tension. For example, members of staff at a movie studio will share assumptions common to the film industry, assumptions common to their studio, but also assumptions common to their particular profession within the movie industry. These sub-cultural distinctions can give rise to conflict, for example, between the 'technical creatives' – the photographers, lighting engineers and cameramen who are involved with the 'nuts and bolts' aspects of content creation – and the 'talent' – the actors, directors and writers (Wolff, 1998: 127). Some of the most common sub-cultural groupings are:

Figure 6.3 Dimensions of organisational culture



Inter-organisational cultures (sub-cultures)

Inter-organisational cultures arise among groups of individuals who share a particular hierarchical level, gender or ethnic sub-group, or who work in a particular department. In the BBC News Online case discussed below, the BBC News division has a strong inter-organisational sub-culture which exerted a powerful influence on the acceptance of the strategic initiative.

Professional cultures

Professional cultures are shared by individuals with a common profession or industrial background. Computer programmers, say, in Silicon Valley share a number of common cultural assumptions that influence behaviour and motivation, thus: 'for a programmer, worse than owning worthless options is the humiliation of having built great software that still sits in some dark closet, never having been implemented ... "going dark"' (Bronson, 1999: 108).

Much research into culture in the media industry has concentrated on the culture of journalism and its implications for newspaper management. The American Society of Newspaper Editors (cited in Picard, 2006) identified a number of fundamental cultural values shared by newspaper journalists, including fairness and balance, editorial judgement, integrity, diversity, and community leadership and involvement. Georgiou (1998) describes how journalists' culture interacts with strategic change initiatives:

> commitment to the organisation is both an emotional and a calculative one. In the case of journalists, while the calculative one … is important, the emotional attachment ('I believe in what we do') can be very strong. This high level of commitment means that anything that is perceived as diminishing a journalist's ability to 'do the job' is likely to face fierce resistance. Conversely, anything that demonstrably makes the job 'easier' is likely to be adopted quickly. (Georgiou, 1998)

Building Netflix's 'Culture of Performance'

One of the most influential documents to come out of the disrupted media landscape is Netflix's celebrated slidedeck on its strategy for creating a performance culture (Hastings, 2009). Shared over 8 million times, and reputedly described by Sheryl Sandberg, COO of Facebook, as one of the most important documents to come out of Silicon Valley, this was developed by Reed Hastings, Netflix CEO, with his Chief of Talent, Patty McCord, as a tool to explain the over-arching company values to employees and is required reading for all new hires.

The slidedeck is extensive (over 129 slides), and well worth studying as an extreme example of cultural management. Its detailed messages draw on two core principles: (1) only have 'A list' players and, (2) let go of anyone who's skills no longer fit, regardless of their contribution. From this emerge a further five core tenets:

- Hire, reward and tolerate only fully formed adults
- Tell the truth about performance
- Managers own the job of creating great teams
- Leaders own the job of creating company culture
- Good talent managers think like businesspeople and innovators first, and like HR people last

These principles reflect a hiring philosophy that is not unusual for the tech sector, which places a high priority on hiring what it perceives as the smartest and most intelligent individuals to be found. (This creates its own cultural dynamics. As Google's Eric Schmidt admitted, 'You are going to have to deal with the odd people. Not every single one of these incredibly smart people is a team player'.) It also gives rise to extremely long job interviews (reputedly, eight hours for Google and seven for Amazon, for example).

Netflix has been praised for its intense culture of 'freedom and responsibility', for trusting their people's judgement (it's expense policy is simply 'act in Netflix's best interest'), providing unlimited vacation ('take whatever time you feel is appropriate'), avoiding micro-management, eschewing annual performance reviews in favour of informal 360 degree reviews ('what should colleagues start, stop or continue', 'no brilliant jerks'), and high levels of pay.

Yet Netflix's aim for a high-performance, high-pressure culture has drawn criticism too, particularly its practice of letting go of what it views as adequate performers ('Sustained B-level performance, despite an "A for effort", generates a generous severance package, with respect') (and indeed the co-author of the slidedeck was herself 'let go', although for unknown reasons). Similarly, some find the 'Keeper Test' unappealing (posing the question 'Which of my people, if they told me I were leaving for a similar job at a peer company, would I fight hard to keep at Netflix?')

Industry cultures

> The beauty of Silicon Valley is that the culture and the structure reinforce each other. Do not regard it as some sort of economic machine, where various raw materials are poured in at one end and firms such as Apple and Cisco roll out at the other, but rather as a form of ecosystem that breeds companies: without the right soil and the right climate, nothing will grow. (*The Economist*, 1997)

An industry culture is a value orientation common to those working in a certain industry. The success of Silicon Valley has been ascribed to the unique combination of its culture and structure (Saxenian, 1994). This is an industry environment where the speed of technological development mandates high levels of adaptability and flexibility, achieved in part through high levels of collaboration and outsourcing, giving rise to loose network structures (Saxenian, 1994). The sector's structure comprises clusters of highly entrepreneurial organisations which are flatter and more egalitarian than is the norm for US industry. This reflects the fact that many employees are shareholders but is also a means of ensuring that there is cross-functional interaction at all levels. Structure and culture together have created a micro economy that can adapt fast: as existing companies die, new ones emerge, allowing capital, ideas and people to be reallocated, a phenomenon termed 'flexible recycling' (Bahrami and Evans, 1995).

The media industry's shared culture is described in very different terms. Frequently cited are its anti-commercial overtones, reflecting a shared belief that media businesses are 'different' (this cultural strain was present in the BBC's culture, discussed earlier in this chapter):

> the people who work in and own and manage businesses, newspapers, broadcasting stations, etc., are terribly in love with those businesses and have a devotion to reinvestment and to expanding that often doesn't defy economics but has little to do with economics. (Savill and Studley, 1999: 28)

This assumption derives in part from the creative imperative of content creation. But it also reflects a deeply rooted belief that content should not simply entertain, but also fulfil important societal and political functions, ranging from enriching the life of consumers to promoting democracy and furthering social cohesion. This has two strategic implications: first, it creates a sense of 'higher purpose', which can be an important motivator; and second, it can create an antipathy towards strategic change, which can hinder adaptation to a changed strategic environment.

Culture and Strategic Change at BBC News Online

In the case of BBC News Online, cultural elements played a dynamic and positive role in the venture's success (Küng, 2005). This is surprising – the culture of the BBC might have been expected to resist this type of project for a number of reasons, not least its commitment to existing core media platforms, to the UK as its core market, and to traditional broadcast media skills. These cultural elements break down as follows:

Professional cultural assumptions

The professional cultural assumptions shared by the journalists, particularly their mission to provide the best news service possible, provided a surprising match with the internet news and this, in turn, led to high levels of motivation, engagement and creativity.

The intrinsic functionalities of the internet – unlimited space and the possibility to combine text, graphics and video – meant stories could be handled in greater depth and richness. The fact that stories remained accessible for long periods and that readers could respond to them, all fed directly into the core desires of BBC news journalists: to provide the highest quality news possible – where 'quality' encompasses not only speed and accuracy, but depth of analysis, compelling delivery, and so on – and also to influence public opinion and have their voice heard. Therefore, the internet allowed news journalists to do their job better. As a result, rather than the antipathy which might have been expected from traditional news journalists schooled in 'old media', there was a surprisingly high level of enthusiasm for the news potential of the internet. This, in turn, led to the quick and animated adoption of the new technology.

Sub-cultural assumptions inside the BBC News Online team

The venture also developed a strong sub-culture, which, while rooted in the cultures of the BBC, its News division and the occupational sub-culture of journalism, nonetheless displayed a number of independent characteristics.

'Sense of urgency'. The venture had got off to a false start under an inaugural manager who had left relatively quickly. It was also a pet project of the Director General that was running behind schedule. This created a sense of urgency, heightened by the general pressure for speed endemic to the internet era.

'Can-do spirit'. The leader of the venture fought hard to keep the unit free from the cloying tendrils of BBC bureaucracy to ensure that it was free to find its own momentum and respond to a changing environment as necessary. It also gave rise to a proactive approach to problem-solving.

'Frontier mentality'. News Online, a unit working independently from the rest of the organisation on a new technological platform hardly recognised by that organisation, appeared to be fired up by a strong sense of adventure which motivated it to explore and exploit the potential of the new medium and contributed to the creativity present in the unit. This was expressed through metaphors used by the team to describe their operations such as 'wild west' and 'pirates'.

'Counter-cultural tendencies'. There was also a subversive element to the News Online sub-culture. While they were clearly part of the BBC and drew on the organisation's traditional strength in newsgathering, there was also a shared assumption that they were to some extent operating outside the routines and procedures imposed on the rest of the BBC, evident in the use of metaphors such as 'parasites' and 'under the radar'.

The net result was a context with a plethora of intrinsic motivators that was also a psychologically safe environment where staff could experiment, and which was characterised by a strong team spirit and positive feedback. Within this context it is important to consider that this was not only a new project working in a new medium, but also that the majority of staff were also new to the BBC – underlining that it is far easier to achieve a new culture with new populations of people.

Building a pro-digital culture

> The battle now is between people who think this is a problem and people who think this is an exciting opportunity. (Media executive, cited in Küng, 2015)

Cultural rigidity can lead to a systemic inability to seize the potential of emerging digital markets. It is notable that with a few exceptions the foundations of the digital news industry are being laid by new players, some of which did not initially look like news organisations (think of Facebook, Snapchat or Twitter), but are increasingly morphing into such. C.W. Anderson's (2013) investigation into the demise of the US regional newspapers in the face of digital technologies finds culture a leading culprit:

> Local journalism's occupational self-image, its vision of itself as an autonomous workforce conducting original reporting on behalf of a unitary public, blocked the kind of cross-institutional collaboration that might have helped journalism thrive in an era of fractured communication. This failure, in turn, highlights the central normative problem. … Local journalism's vision of itself – as an institutionally grounded profession that empirically informs (and even, perhaps, 'assembles') the public – is a noble vision of tremendous democratic importance. But the unreflexive commitment to a particular and historically contingent version of this self-image now undermines these larger democratic aspirations.

Cultural rigidity can cause digital talent to exit legacy players, as evidenced in Ezra Klein's reasoning for leaving the *Washington Post* to start Vox (Kaufman, 2014): 'We were badly held back not just by the technology, but by the culture of journalism.'

A cultural openness to innovation needs to stem from the top, and a respected leader's vision can accelerate shifts in culture and help dissolve cultural obstacles. Molly Graham (daughter the *Washington Post*'s Don Graham) explains how this played out at Facebook (First Round, undated):

> A founder saying something is like throwing a rock into a pond and watching the ripples. People immediately start repeating it. At Facebook, Mark [Zuckerberg] would say something and the next day it would be on the walls.

If successful players in digital news share a ‘pro-digital culture’ (Küng, 2016), what, then, are the characteristics of such a culture? At its core this involves shared common assumptions concerning the broad trajectory of the industry and the importance of digital technologies and data analytics within this. This in turn feeds an openness concerning what constitutes quality journalism in the digital domain, and further into readiness to employ new formats and digital story-telling tools to create content. A pro-digital culture therefore challenges preconceptions about what constitutes quality news and the format templates for such stories.

This is strategically important because legacy players have struggled with the fact that the format protocols developed over centuries for print news don’t translate well to digital devices, and often fail to take advantage of the potential of the new medium for story-telling. This leaves their content vulnerable to disruption by new players who do exploit the new functionalities. Newer players view content as a fluid entity – a story can take whatever form will best convey its message, or that will ensure the most people read it. While the act and purpose of story-telling remains constant, the default architecture for that story, and the formats with which it is told, change.

Cognition

> Your beliefs are cause maps that you impose on the world, after which you 'see' what you have already imposed. (Karl Weick)

The cognitive school of strategy draws on psychology, particularly cognitive psychology; indeed, Morgan (1986) uses the metaphor 'organisations as brains' as a collective term for work in this field. The role of cognitive elements and interpretative processes within organisations is an area of scholarship that has expanded dramatically over the last decade (Isabella, 1990) but is still emergent (Huff, 1997), diffuse (Mintzberg et al., 1998) and hampered by confused terminology (Milliken, 1990).

Rational and interpretative approaches to strategy are complementary. While the former focus on exogenous changes and the content of the strategies developed to respond to these, the latter focus on the processes by which these changes are perceived and understood, and the outcomes of these processes. So, to link back to the Karl Weick quote that opens this section, culture concerns the 'beliefs' or 'cause maps' that direct what we 'see' – that is, our cognitions.

Cognitive approaches to organisations (an important constituent of post-modern organisation theory) are premised on the assumption that individual behaviour is guided by sets of governing beliefs. These develop through a range of sense-making processes, and affect how we perceive and interpret information about our environment. Cognitive approaches are therefore constructivist in that they assume, as Kant and Hume put it, that what exists is a product of what is thought: there is no objective measurable reality; rather, we each construct our own realities based on our individual interactions, experiences, perceptions, needs, and so on. Organisations, by extension, are open social systems that interpret their environment according to the cognitive frameworks of individuals in the organisation (Abelson, 1995; Fiske and Taylor, 1984).

Weick's (1995) notion of 'sensemaking' is central to cognitive organisational theory. Sensemaking concerns the process by which an organisation takes in ambiguous and complex information from the environment, processes it, and then constructs meaning to guide decision-making. Processing involves activities such as defining, prioritising, constructing frameworks, highlighting significant factors, and interpreting. Thus organisations develop 'abstract representations' of knowledge path-dependently as individuals interact with their environments, build mental models, and use these to interpret future interactions. Thus sensemaking is retrospective (Weick, 1995): 'the past shapes the template for understanding the future’ (Bogner and Barr, 2000).

Simon’s (1955) concept of bounded rationality is another key component of cognition theory as applied to organisations (Gavetti and Levinthal, 2000). This concerns the fact that human information-processing capabilities are too limited to fully comprehend the world in its entirety, or even every facet of ambiguous and complex issues. We therefore reduce uncertainty and complexity by applying inferential heuristics – or rules of thumb – based on analysing previous experience. These simplify decision-making by providing short-cuts, but they also impoverish it, by limiting the amount of information we process and the number of options we consider. Thus our thought processes are rational, but to a limited extent, that is, they are ‘boundedly rational’ (Simon, 1955; March and Simon, 1958).

Cognition and strategic change

> You may be right. … But I think you might be underestimating the degree to which established brick-and-mortar business, or any company that might be used to doing things a certain way, will find it hard to be nimble or to focus attention on a new channel. I guess we'll see. (Jeff Bezos, responding to feedback from a Harvard Business School Class in 1997, in Stone, 2013: 87)

In recent decades, recognition of cognition's influence on strategy has grown (Tversky and Kahneman, 1986; Fiol and Huff, 1992; Walsh, 1995; Mintzberg et al., 2003). Burgelman (1983: 1350) has defined strategy as 'a shared frame of reference for the strategic actors in the organization [providing] the basis for corporate objective setting in terms of business portfolio and resource allocation', and Gioia and Chittipeddi (1991: 433) define strategic change as 'an attempt to change current modes of cognition and action to enable the organisation to take advantage of important opportunities or to cope with consequential environmental threats'.

Thus, while rational models of strategy assume that it is possible to analyse the environment objectively, interpretative approaches suppose that our understanding is driven by governing beliefs that are more likely to be plausible than accurate (Weick, 1995). The data available are often extensive but inevitably incomplete and perhaps also conflicting (Lawrence and Lorsch, 1967; Daft and Weick, 1984; Johnson, 1992). The heuristics we must use to reduce ambiguity and complexity also oversimplify and introduce inaccuracies (Barr et al., 1992) and systematic errors (Tversky and Kahneman, 1986). They encourage us to focus on particular aspects of an issue, overlooking others (Hall, 1984), favour information that supports existing assumptions (Mintzberg et al., 1998), see causal relationships between variables that may simply be correlated (Makridakis, 1990), and limit the range of solutions considered (Cyert and March, 1963).

The greater the environmental instability, the greater the likelihood that cognitive structures will be imperfect and create the likelihood of inflexibility and flawed judgement (Meyer, 1982; Kanter, 1983). Old beliefs die hard and can inhibit an organisation's ability to respond to environmental change (Gersick, 1991; Drucker, 1994). The result can be organisational decline (Hall, 1984).

Cognitive impediments are particularly evident in relation to the responses on the part of senior executives in the media to the challenges of digital disruption and technology transitions. It has been suggested that cognitions developed in a period characterised by a different strategic environment and competitive dynamics, or a ‘legacy mindset’ as the press described it, led the music industry to focus primarily on the threat posed by the internet rather than on the opportunities it created for business growth (Kelly, 1997; Downes and Mui, 1998; Ghosh, 1998; Hamel and Sampler, 1998; Evans and Wurster, 2000). The movie industry also persists with a steadfast belief that big budgets and saturation advertising assure big audiences despite mounting evidence that this assumption is a major cause of the industry’s current difficulties (De Vany and Walls, 1999). The newspaper industry’s ‘institutional memory’ and belief that ‘we have always done it that way and always will’ has been blamed for the industry’s slowness in renovating business models and responding to digitalisation faster (Price, 2006).

Cognition in the form of organisational learning can however aid strategic adaptation. During a long career analysing organisations and their environment, Drucker consistently emphasised that trying to predict the future is pointless in an environment that is uncertain. Rather, companies must mine recent experiences in order to identify opportunities and threats, to establish how much of the existing ‘rule book’ has been rewritten, and translate that learning into action. Learning needs to be routinised to ensure it happens on a continual basis, and in an environment of increasing numbers of joint ventures, learning from new initiatives, internal or with partners, needs to be captured. The Centre for Creative Leadership’s studies of executive derailment (Van Velsor and Brittain Leslie, 1995) judged the ability to learn as the most important single skill required in executives dealing with change and complexity.

Cognitive structures

Reality is an illusion, albeit a very persistent one. (Albert Einstein)

As terminology in this field is confused, is it worthwhile delineating the various types of knowledge structure inside organisations that have been identified by researchers, although it is important to note that many of these concepts overlap (and indeed stray into the field of culture), and that they are frequently used interchangeably.

Cognitive maps – a widely used term for some kind of mental structure by which equivocal information in the environment is organised so that organisation members can make sense of it (Weick, 1995).
Schemas or schemata – as first defined by Bartlett (1932) and Piaget (1952), these are understood as knowledge systems comprising ideas, conclusions and presumptions, etc., which have emerged over time on the basis of experience. They allow information connected to a specific subject to be organised in hierarchical levels, and therefore speed up assessments of events, likely consequences and appropriate responses. They allow disparate information to be organised and ambiguous data to be assessed quickly. However, information which cannot be accommodated into the schema can be ignored, meaning that they can be inaccurate representations of the world. The term 'schema' can be used to denote individual or collective knowledge systems.
Mental models (or causal maps) – are understood as deeply ingrained assumptions, overt and covert, that capture the relationship between different factors and which develop through interacting with a complex environment. They influence how the world is understood and what action is taken.
Paradigms – this concept has achieved common management currency to denote an over-arching set of beliefs, or 'conventional wisdom' about the nature of the world, usually in the context of an industry. A classic use in this sense is Kuhn's (1970) theory that 'shared beliefs' and 'conventional wisdom' constitute a dominant paradigm that governs any particular science at any particular point in time by serving as a means of defining and managing the world and providing a basis for action.
Frames – are understood as 'underlying structures of belief, perception and appreciation through which subsequent interpretation is filtered' (Schön and Rein, 1994: 23).

Cognitions and digital disruption

For the established media industries, the dramatic growth of the internet gave rise to an entirely new environment for strategising and organising, and an accompanying ‘set’ of industry cognitions, some of which have since proved constructive, some less so. During the ‘irrational exuberance’ (as described by Alan Greenspan, Chairman of the Federal Reserve of the US) of the dotcom era it was widely held that the internet represented the future of the mass media and that traditional media firms must enter the field or risk marginalisation. An associated conviction concerned the primacy of first-mover advantages. This, coupled with a sense that incumbency brought inherent disadvantages, meant organisations must not only change, but change fast – the keyword was ‘velocity’.

The belief in first-mover advantages stemmed in part from an assumption that ‘market share now means profits later’. This led to an internet ‘land-grab’: frenetic investments in internet businesses and in building online brands. This, in turn, reflected an assumption that, in a confused media environment, brands would be heuristics that guided consumers, and in a further incarnation of the first-mover advantage belief, it was also assumed that there was only space for one brand online in each category.

These cognitions cumulatively resulted in some painfully unsuccessful strategic initiatives. Bertelsmann developed or acquired a range of internet businesses (primarily in e-commerce) and even rescued the controversial downloading service Napster from bankruptcy, intending to restart it as an online music subscription service. Overall, these moves were not successful. The Direct Group, where these businesses were housed, sustained $123 million in internet start-up losses in the second half of 2001, and lost a further $125 million in the first half of 2002. Internet activities were folded back into the core businesses, and CEO Middelhof left in July 2002.

Disney was an early believer in the internet, launching consumer websites ESPN.com and Disney.com in 1995 and establishing ABC.com in 1999. In 1998 it took a majority stake in Infoseek.com, which was followed by outright purchase in 1999. All these internet properties were then consolidated into a single portal, the umbrella-site Go.com. Go.com failed to meet its potential and was closed in 2001 at a cost of $862 million.

Time Warner was also an internet pioneer. In 1994 it created Pathfinder.com, an umbrella-site designed to consolidate all its content sides. This was never successful and closed in 2001. The lack of internet presence, and the corresponding pressure from the financial markets, drove it into the arms of AOL in 2000, with the goal of creating a hybrid old and new media firm that could sell media products across as many platforms as possible. This also did not succeed. In 2002 a $45 billion goodwill write-down led to the then largest corporate loss ever of $98.7 billion.

Cognition and innovation

> If you don’t try to uncover what is unseen and understand its nature, you will be unprepared to lead. (Ed Catmull, co-founder Pixar, 2014: 169)

Innovation, almost by definition, requires an organisation to challenge existing assumptions. Much attention has been focused on this relationship, particularly on the mechanisms by which organisational cognitions hinder new ideas. In their research into ‘architectural innovations’ (apparently minor improvements in technological products that do not concern the components of a product but rather its ‘architecture’, that is, the knowledge embedded in the structure and information-processing procedures), Henderson and Clark (1990) describe how ‘old [mental] frameworks’ hinder such innovations because:

> incumbents may not realise that an innovation is architectural because the information is screened out by the information channels and communication channels that embody old architectural knowledge … the effect is analogous to the tendency of individuals to continue to rely on beliefs about the world that a rational evaluation of new information should lead them to discard … organizations facing threats may continue to rely on their old frameworks. (Henderson and Clark, 1990: 17)

Christensen and Overdorf (2000) contend that the failure of many incumbents to seize the potential of disruptive innovation stems in large part from shared cognitions:

> The larger and more complex a company becomes, the more important it is for senior managers to train employees throughout the organization to make independent decisions about priorities that are consistent with the strategic direction and the business model of the company. A key metric of good management, in fact, is whether such clear, consistent values have permeated the organization. But consistent, broadly understood values also define what an organization cannot do. (cited in Day and Schoemaker, 2000: 69)

However, the case of CNN shows that an ability to ‘unthink’ received industry wisdom in the face of changing technologies can provide a powerful basis for strategic differentiation (as discussed in Chapter 5). An additional dimension of these was its shared cognitions about how news organisations should operate, and what constitutes quality news, as shown in the Figure 6.4.

Figure 6.4 CNN's cognitions about broadcast news versus traditional industry cognitions

Traditional broadcast news cognitions	**CNN's cognitions**
News organisations need to be based in Washington/New York and belong to broadcast network	News organisations can be based anywhere in the US, and can broadcast on cable
News is something that has happened	News is something that is happening
Presentation needs to be polished and professional	Keep the 'ragged edges on display', use open newsrooms to create immediacy, authenticity and stories evolving
Quality is about analysis, background	Quality is about speed, immediacy, currency, and can be generated by a one-man band (VJ)
Quality means produce everything ourselves	We are part of a reciprocal network of news organisations so we can cover news when it breaks

Cognitions and BBC News Online[2]

One of the most clearly observable cases of a positive contribution made by cognitive elements during technology-driven organisational change is the establishment and subsequent success of BBC News Online: on the one hand, cognitions ensured that the initiative was positively received and, on the other hand, they meant low levels of interference from the rest of the organisation. These were present at a number of different levels inside the organisation.

The Director General's cognitions

To start at the very top of the organisation, the Director General of the BBC, John Birt, initiated and drove (from a distance) the development of News Online in response to a very specific cognitive frame. During the planning phase, Birt had visited both Silicon Valley and CNN. His pre-existing conviction about the important national role played by public service broadcasting in general and the BBC in particular, coupled with his own background as newsman and head of BBC News and Current Affairs, led him to conclude, first, that the internet would develop into a third mass broadcasting medium, after radio and television, second, that in order to maintain its rightful position as the national media leader the BBC must ensure it not only masters the medium, but guides the British public to gain mastery also, and third, that a news service should be a prominent aspect of the BBC's internet activities.

Birt's construction was not self-evident. The majority of his peers running large media organisations (particularly those in the US) had far more alarmist views, seeing the internet as a replacement rather than a complementary media platform, one that would, on the one hand, destroy existing revenue-generating media products (the 'cannibalisation' threat) and, on the other hand, allow new-to-the-world products and markets to emerge, ones which incumbent media firms would be badly positioned to develop by virtue of the inertial elements they were riddled with. Further, the BBC's mandate from the government ruled out investments in risky new areas, which in 1996 the internet certainly was. Birt, however, framed the internet as a step forward into a digital future which was necessary in order to preserve and extend the BBC's historic role. This framing of the internet as a threat (to the BBC's global position) and an opportunity (to expand and cement its international role) harmonised with the BBC's sense of identity and shared commitment to preserving the Reithian heritage and the dominance of its news services. This ensured a bedrock of passive support for the venture, despite the BBC's historically anchored and somewhat technophobic culture. Without Birt's cognitions it is unlikely that BBC News Online would ever have come into existence.

News Division cognitions

Cognitions also influenced how the new venture was perceived by the BBC's News Division, which had one of the strongest occupational cultures at the BBC. First was a shared conviction that new platforms are dangerous because they can allow new competitors into the field. This belief was a product of history. The two most recent new mass media platforms – cable TV in the US and satellite TV in Europe – had each provided an entry opportunity for new players who were to develop into strong competitors: CNN had developed a dominant position in 24-hour news due to its early recognition of the potential of cable, and BskyB had created a monopoly in satellite television, and through it a strong international news presence, through a series of bold strategic moves in the 1980s and 1990s. Thus when the internet emerged, BBC News was clear that it needed to launch a convincing response.

A further theory in use was, in the words of a member of the team: 'If you wanted to be a hero, you did great television … in an organisation like the BBC, the stars were people who were stars on television … [News Online] was a nerdy thing that didn't really matter.' This meant that while the News Division accepted that a credible internet presence was necessary, it was also not particularly interested in how this was achieved. News Online was therefore left free to 'get on with it', unhindered by interference from the rest of the organisation. This belief was buttressed by another one, a belief that 'piratical' new ventures operating outside the system were a model that could bring success and prestige for the News Division, a conclusion derived from memories of a successful programme *Newsnight*, which had been developed in such a way 10 years earlier.

Conclusions

This chapter focuses on issues central to the adaptive school of strategy, cognition and culture. Both concern the influence of shared assumptions on organisational outcomes, and both have common roots in psychology and an acknowledged impact on strategic issues. But interpretative approaches to strategy represent a relatively recent wing of strategic theory – one that has expanded rapidly in recent years, but which still lacks the cohesion and clarity of, say, the rationalist field. This chapter has tried to build understanding of interpretative approaches by discussing the underlying theories and analysing the role of interpretative phenomena in the media industry. A central argument of this book is that this body of theory is highly relevant to the media industry – as evidenced by the very many cases of leading industry actors ascribing their current strategic challenges to cultural and cognitive inflexibility. Understanding of interpretative phenomena inside media organisations can both complement the insights gained through the application of positivist models of strategy, but contribute to the successful implementation of adaptive strategic initiatives.

Notes

1. Fuller discussion can be found in Küng (2015).

2. For full discussion see Küng (2003).

7 Organisation Structure and Strategy

The structure of an organisation is both an expression of and extension to its strategy. Miles et al. (1997) describe an organisation's form as 'the logic shaping a firm's strategy, structure and management processes into an effective whole'. Strategy involves responding to changes in the environment. As the environment changes, strategies alter and existing organisational forms become less capable of meeting the demands placed on them, forcing organisations to experiment with new ways of orchestrating processes and coordinating resources.

This is certainly true for the media industry, where profound changes in the strategic environment have simultaneously eroded the rationale for existing organisational structures and encouraged the development of alternative ones. The result is a complex picture in which a number of distinct trends, including mergers, acquisitions, alliances and joint ventures, spin-offs, start-ups, and internal and external networks are all evident. These trends are far from mutually exclusive, with some of the largest media organisations combining a number of them simultaneously. The goal of this chapter is to explore these developments and analyse how they relate both to each other and to the wider topic of strategy, as well as to understand their implications for the management task.

From ‘industrial age’ to ‘information age’ organisations

> The problem is, most companies today are run to minimise risk, not maximise freedom and speed. Information and data is hoarded, not shared. Their design is a vestige of an era when failure was expensive and deliberation was a virtue. Decision-making power lies in the hands of the few. In other words, most companies are slow by design! This doesn’t work in the Internet Century. (Eric Schmidt, founder of Google, cited in Schmidt, Rosenberg and Eagle, 2014)

Social and organisational theorists have suggested that since the 1970s traditional vertically integrated large corporations are ceasing to be the default structural model for organisations, with looser structures of inter-firm alliances emerging as the alternative (Miles and Snow, 1986; Hesmondhalgh, 2002).

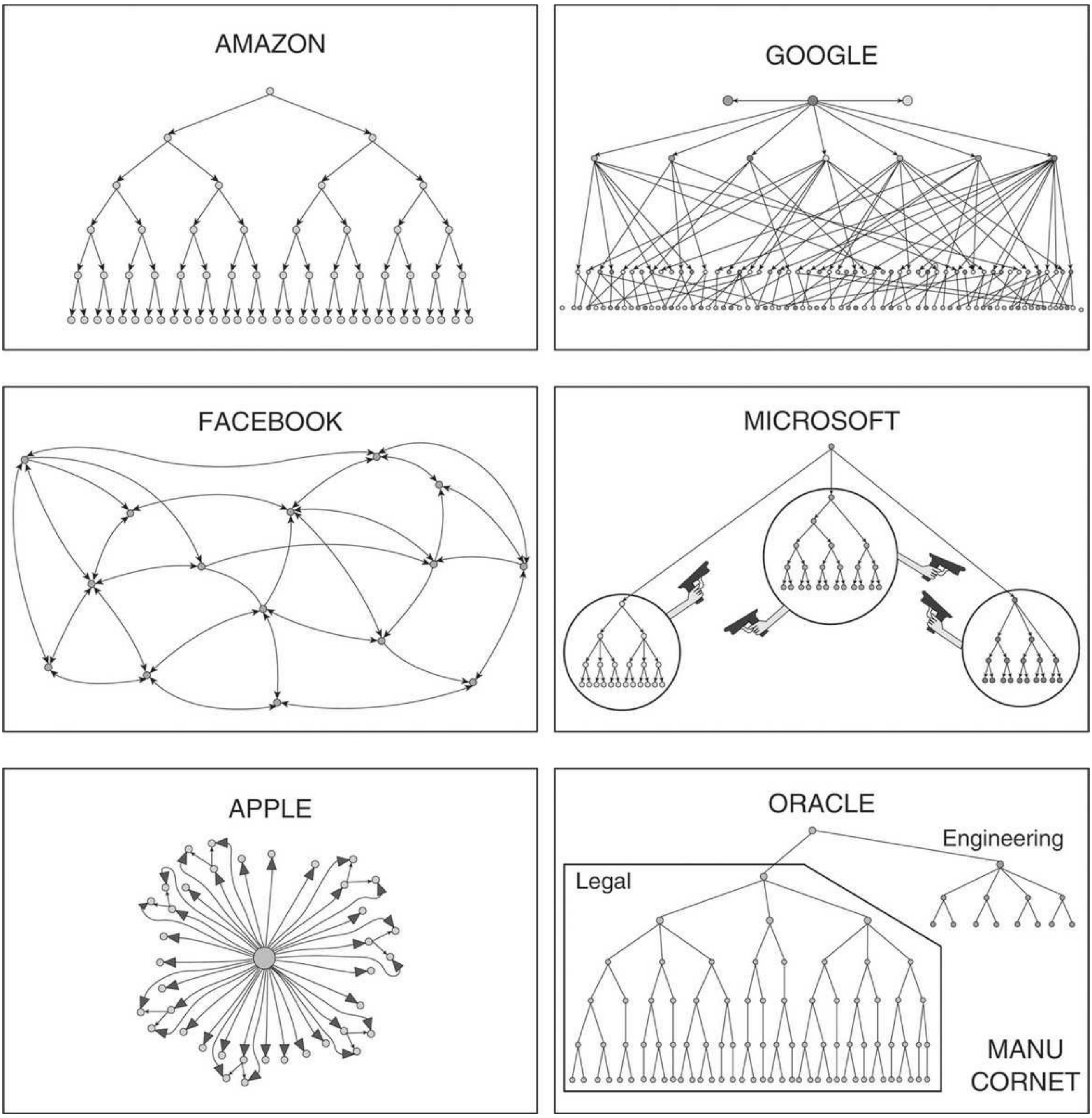
A key driver of this change was identified by a Nobel Prize-winning economist, Ronald Coase, whose work predated the internet by over 50 years, but is still employed today to explain its dramatic effect on the firm structure. Coase (1937) identified the concept of transaction costs and suggested that one underlying objective of an organisation is to reduce these. ‘Coase’s Law’ dictates that an organisation will expand to the point where the costs of organising an extra transaction within the firm become equal to the costs of carrying out the same transaction through exchange in the open market. Thus, when it is cheaper to conduct transactions internally, organisations carry out more activities in-house, and firms grow larger. When it is cheaper to conduct transactions externally in the open market, firms will outsource more to external suppliers, thus stay small or shrink. Disruptive organisations, such as airbnb and Uber, which have outsourced service delivery to private individuals employing private assets (their homes and their cars), are extreme applications of this principle (although these organisations also have substantial corporate headquarters and regional offices).

For much of the industrial age, the communication and coordination technologies available – the train, the car, the telephone and the mainframe computer – meant that communication was far slower and more cumbersome than it is today. It made sense to conduct transactions internally, thereby improving scale and scope economies. The structure of ‘industrial age’ organisations reflects this situation: they were large, stable, hierarchical entities with centralised common functions coordinated by an administrative bureaucracy (Malone, 2004).

New information and coordination technologies, such as the internet, wide-scale broadband, mobile devices, cloud storage, and so on, have speeded communication and improved the efficiency of firms and markets, and therefore reduced transaction costs inside and outside firms. In this context, external transactions become more advantageous and there is less value in centralised bureaucracy and decision-making. Thus the benefits of large, complex, hierarchical organisations decrease and in fast-moving sectors become strategically disadvantageous.

Technological advances spurred a number of predictions concerning the future shape of organisations. Some concluded that the internet would cause organisations to reduce in size, with an accompanying shift from hierarchical governance structures to market exchange – the 'Law of Diminishing Firms' (see, for example, Evans and Wurster, 2000). Others predicted a parallel phenomenon, the rise of the 'knowledge worker' (Drucker, 1985), who would use intellectual rather than physical skills and produce conceptual rather than the concrete output. Such individuals would not be well-suited to hierarchical organisations, partly because knowledge creation requires wide-scale interaction and knowledge exchange, something that formalised or rigid structures often preclude, and also because they tend to value self-direction. The confluence of the knowledge worker and digitalised networked organisations were expected together to spur the emergence of 'information age' organisations (Malone, 2004). These institutions would allow information to be shared instantly and inexpensively among small geographically dispersed units.

Figure 7.1 Technology organisation structures, © Manu Cornet, www.bonkersworld.net/organizational-charts/



As we shall see, things did not play out entirely according to this scenario. Large organisations are still with us, and they are still organised hierarchically. However, leading organisations in the media technology space display a wide variety of organisational structure (as shown in Figure 7.1, a somewhat tongue-in-cheek depiction). Small teams combining diverse expertise with relatively high levels of autonomy are a default building block. Here is Google's Eric Schmidt (Schmidt, Rosenberg and Eagle, 2014) on the underlying rationale:

> First, thanks to the internet and Web, all the world's media and information is now available online. Second, mobile devices mean that anyone can reach anyone, anywhere and anytime. Third, cloud computing allows these pocket devices to be as powerful as a supercomputer. As a result, barriers to entry

are weakening, in the market power has shifted from companies to consumers, and within companies power has shifted to individuals and small teams, who can have a massive impact.

Evolution in broadcasting organisation structures

The changing shape of broadcasting organisations over past decades clearly shows the link between a changing environment and changing organisational forms. Historically, the emergence of mass media products saw the parallel emergence of a typical type of organisational structure to house their production. This was similar to the organisations that orchestrated the production of most industrialised products, where high fixed costs (for the media this included printing presses, delivery vans, newsprint, studios, transmission infrastructure, and so on) meant it was only through producing products in large quantities or for large audiences that the scale economies could be achieved to sell them at mass market prices.

These organisations were centrally coordinated and vertically integrated with a high degree of functional specialism. They controlled all stages in the media value chain from origination to delivery to the consumers. This so-called 'integrated factory' structure became the default model for European public service broadcasters and the networks in the US. They made the bulk of their programmes themselves in their own studios, assembled these into a schedule and transmitted this over a national network over which they had control.

Technological advances in distribution and production, coupled with the end-of-spectrum scarcity and market liberalisation, led to an explosion of new channels and competing media offers that eroded the economic and market rationales for this model. The mass broadcasting paradigm became progressively more fragmented from the 1970s onwards, with the introduction of personal video recorders, cable and satellite transmission, digital television, on-demand television, HD TV, streaming services, and so on (this is discussed in detail in Chapter 2).

In a digital context, with more platforms for distributing content, more devices to consume it on, and more producers of content, vertical integration makes less economic sense. The potential returns are lower and the complexity of running the traditional business and building out additional new ones greatly increases costs. Partly for this reason, the entry opportunities arising from the expansion and disintermediation of value chains in the broadcasting sector have been largely seized by new players, ranging from international format producers and niche content providers to OTT providers and streaming services. These have the speed and flexibility needed to capture first mover advantages, the 'spare' resources to invest in new competencies and are more dynamic. The result is that new breeds of organisation have emerged with different structures, processes and business models, and over the years many such start-ups have matured into established players.

The beginnings of this shift took place in the 1980s, which saw the emergence of cable television broadcasters, companies such as MTV, CNN and HBO. The 'publisher-broadcaster' model emerged at around the same time. These organisations (the UK's Channel Four is an example) package and transmit broadcasting commissioned from outside suppliers. The model is popular because it allows organisations to offer a broad span of programming and respond quickly to consumer tastes at a much lower fixed cost base than integrated factory producers. Similarly, BskyB, now Sky, originally emerged in response to the emergence of satellite broadcasting in Europe.

In his review of the growth of the television format industry, Moran (with Malbon, 2006) notes that the intersection of new technologies for transmission and reception, new forms of financing, and new forms of content in the 1990s accelerated the shift from oligopolistic television systems based on scarcity to one of abundance or even saturation in terms of new technologies, channels and programming. A direct consequence has been declines in audience numbers, so much so that hit shows, no matter how successful, can seldom attain the reach common in previous decades. Falling audiences have both intensified the search for hits (accelerating the shift to the hit model) and meant lower budgets for programmes expected to cater for smaller market niches (especially since broadcasters have also had to invest increasing amounts in new technologies). These changes have, however, increased demand for other types of content – particularly content involving the adaptation, transfer and recycling of narratives from one type of platform or geographic market to another – and thus in the multi-channel television system there is an abundance of particular genres of content at the expense of others.

The rise of the format producers

Within this highly competitive environment, broadcasters need to ensure a steady supply of strong content. As audience choice increases, great content becomes the scare resource in the system, and as new players enter the field, the value of content with proven audience appeal is growing.

This context has led to the emergence of the relatively recent category of media organisations, the international independent format producers. These are hugely specialised organisations with a business model that is extremely profitable when well executed: they sit on top of traditional broadcasters' legacy assets (studios, playout and broadcasting systems, for example), focus and therefore gain expertise in particular content categories, and have a huge through-put of trial concepts which are gradually sifted, refined and made more compelling through an intensive process of marketing internationally to broadcasting organisations. Because successful formats are sold and produced many times around the world, the format producers can through pattern recognition develop over-arching principles to inform future projects.

The appeal of such formats for broadcasters is straightforward. Adapting materials that have succeeded in other markets or formats offers a degree of security in a highly competitive market, and when they work these formats can deliver unmatched audiences in a competitive digital environment. In addition to bringing large audiences, formats also confer other advantages, particularly for public service broadcasters, in that purchasers can produce programming that qualifies as 'local', but which has been tested and refined in other markets.

The format producers are responsible for many of the hits seen on screens around the world (and branded under the logos of local broadcasters). Key players include Endemol, discussed in depth in Chapter 2 (the Dutch originator and producer of *Big Brother*), Freemantle, which is owned by Germany's RTL (creator of *The X Factor* and *The Apprentice*), and Talpa (the Dutch creator of *The Voice*).

The success of organisations in the independent format sector also shows that media firms in smaller national markets are not always at a strategic disadvantage in comparison to competitors with large domestic home markets. Many of the most successful players stem from smaller nations (notably the Netherlands and Sweden). Here inter-organisation structure plays a role, since these markets comprise many small companies organised into larger networks, which are themselves plugged into international markets. This, coupled with the high volume of new product ideas and fast feedback on those ideas that comes from the market, boosts both creativity and the quality of that creativity.

Mergers, acquisitions and the rise of the conglomerates

> Media firms have been joining forces at a faster pace than ever before. They have been involved in takeovers, mergers, and other strategic deals and alliances, not only with rivals in the same business sector, but also with firms involved in other areas now seen as complementary. (Doyle, 2002a: 4)

In the closing decades of the last millennium, while some were predicting an internet-induced end of the hierarchically organised conglomerate, an opposing trend could be observed in the largest organisations in the media sector – a wave of mergers and acquisitions that gave rise to one of the most newsworthy structural changes in the media industry in the previous millennium, the growth of the global media conglomerate.

The vogue for mergers grew in strength during the 1980s and peaked around 1998 when the media sector took third place in the US mergers and acquisitions league tables. The first merger wave meant that by the mid-1990s a 'super-league' of media industry giants had been established, plus a second tier of several dozen large players (Picard, 1996; Albarran and Moellinger, 2002). Thus Disney was created from a merger between Disney, Capital Cities and ABC (1996). Viacom emerged from a coming together of Paramount Communications (1994), Blockbuster Entertainment Group (1995) and CBS (1999). Bertelsmann grew significantly when it acquired Doubleday (1986) and Random House (1998). News Corporation took control of Metromedia (Fox TV) (1986), then 20th Century Fox Film Studios (1995). Vivendi was created when it merged with Seagram in 2000 creating Vivendi Universal. Time Warner was created from a merger between Time Inc. and Warner Communications (1989) and the acquisition of Turner Broadcasting System (1996). It was acquired itself by AOL (2000).

These developments drew intense media attention and regulatory scrutiny. They created a cadre of large complex integrated multidivisional global conglomerates with activities spanning several areas of converging industries which represented a profound restructuring of the sector (Eisenmann and Bower, 2000). By 2000, nearly all ranked among the largest 200 non-financial firms in the world (McChesney, 2004), and all exhibited strong similarities in terms of revenues, market capitalisation (with the exception of AOL Time Warner), strategic goals and corporate objectives (Albarran and Moellinger, 2002). The 'urge to merge' arose in part from the prosaic fact that for large companies, organic growth alone can seldom meet the growth expectations of the financial markets or maintain strategic advantage. But a range of other factors also contributed:

1. Globalisation allowed the integration of previously national markets into larger transnational ones (Doyle, 2002a; McChesney, 2004). This was partly a reflection of a broader trend for organisations to develop, source and market products to exploit competitive advantages internationally, but also the result of market liberalisation arising from the relaxation of regulatory barriers concerning the commercial exploitation of media.
2. Technological change created opportunities for media firms to move into new fields and compensate for actual or anticipated decline in core businesses. The internet and digitalisation together allow different forms of media to be converted into a common format and to be moved rapidly around the globe. In conjunction with globalisation, these developments increased the opportunities for, and attractions of, consolidation: there were more platforms for media content, formats for content to be 'repurposed' into, and markets in which products could be sold. This in turn increased the potential for economies of scale and scope and made global media organisations both feasible and financially attractive for the first time (McChesney, 2004).
3. The development of global capital infrastructures and the internationalisation of financial institutions provided a source of finance for large media firms to both expand and become more global (Picard, 2004). The market liberalisation and advances in communications technology, which had enlarged potential markets and allowed the provision of media content in a faster, more efficient manner, meant media industries became more attractive for capital investment (Chan-Olmsted, in Picard, 2004).
4. Sizable consolidated firms offered increased potential for economies of scale and scope, leverage and synergy. Economies of scale are a fundamental characteristic of mass media products: because they have high first copy costs and low marginal costs they are expensive to produce but cheap to reproduce and distribute. This means once a product has been created and a distribution system established it makes sense to push as many copies of that product as possible through that system. Consolidation also increases economies of scope because concentrated media organisations can spread their costs over larger audiences, with cost per consumer falling as the audience grows (Doyle, 2002a). The new conglomerates were global and they could make better use of their resources by straddling wider product and geographic markets. This was important to US media firms, as demand in the US for media products such as broadcast and cable television became saturated (McChesney, in Cottle, 2003) and lifestyle differences between different national markets became less significant (Chan-Olmsted, in Picard, 2004). Consolidation also increases the potential for leverage and synergy, creating more opportunities for content repurposing, promotional synergies and cross-media advertising packages.
5. Large diversified media firms benefit from increased control and reduced

exposure to risk. Not only are they more cushioned against problems in particular sectors (Doyle, 2002a), but as the media industry consolidated, relying on other players to supply activities in the value chain became a risk (McChesney, 2004). Vertical expansion ensured access to essential and scarce resources and inputs (content) or outlets (distribution platforms), preventing upstream or downstream players from extracting excessive profits. Conglomerates can also establish monopoly access to either of these, and in terms of content, access to exclusive content assets was a significant driver of merger activity.

6. Having accepted the widely held assumption that in a converged media world ‘content will be king’, media companies needed to find new sources of attractive content with which to expand their range of products or markets. Media organisations that were strong in content assets sought to diversify by acquiring organisations that offered additional distribution capacity – for example, cinema chains and television stations.

Convergence as Merger Driver – Time Warner, AOL and Verizon

Convergence was the spur to many mergers. One of the clearest examples concerns AOL (an internet services provider), Time Warner (a classic media organisation) and, subsequently, Verizon (a telecoms provider). AOL acquired Time Warner in 2000 (having acquired Netscape, owner of the web browser, in 1998). It needed quality branded media content to meet its broadband aspirations (and Time Warner had this in the form of Warner Bros music, TBC, HBO, CNN and Time Inc. magazines). AOL would also benefit from the global promotion platform Time Warner's products would provide, which in turn would allow it to reduce advertising spending. Time Warner needed a strong internet presence, not least to satisfy shareholders and the financial markets because its own internet strategy had failed. In 2015 AOL (including the Time Warner properties, which by then also included *The Huffington Post* and *TechCrunch*, but not its magazines unit, including Time Inc., which had been sold off in the interim) was acquired by Verizon. This deal provided Verizon with an opportunity to expand beyond the telecoms sector (this was important as further consolidation between national US telecoms providers had been blocked by regulators), and allowed it to increase its revenues from existing customers, in part through a move into internet TV. AOL had large amounts of content and online reach but no mobile presence, and through this deal it would gain a foothold in the mobile world and an opportunity to catch up with Google and Facebook. AOL also had a valuable resource in its ad-tech stack which allowed it to target and measure ads and personalise content. This, combined with Verizon's anonymised customer data, would provide an excellent foundation for new revenues from ad sales from its access network.

Impact of the conglomerates

> The single most consistent reason for underperformance in media companies is bad acquisitions. (Knee, Greenwald and Seave, 2009: 205)

Many were concerned about the potential impact of these massive media organisations. It was feared they would create a global oligopoly and block new players from entering the sector (see, for example, McChesney, 2004), and that their appetite for dependable ratings and advertising revenues would create pressures to homogenise products with a concentration on those appealing either to the largest markets or those segments with the highest disposable income.

In terms of the homogenisation of products, the result of concentration appears to be neither clear-cut nor wholly negative. It has been suggested that large media organisations are better placed than smaller ones to innovate and therefore media concentration may well increase pluralism (Doyle, 2002a). Scholars found evidence that the unpredictability and hit-driven nature of the sector were stimulating creativity and diversity, despite consolidated ownership (Davis and Scase, 2000). (This may also reflect the largest conglomerates' grasp of the importance of autonomy in creative organisations, discussed in Chapter 5.) This, coupled with the need to serve fragmenting audiences, would appear to be countering the risk of mass standardised products.

Mergers are however notoriously difficult to make work. The AOL Time Warner merger, now more or less universally viewed as a fiasco, had led, by 2002, to the largest corporate debt in US history, $98 billion. A wide range of problems prevented the fusion from bringing its anticipated benefits, with poor post-merger integration cited as a central cause. In general, the improvements to economies of scale and scope envisaged for these mergers often failed to materialise due to the many-faceted erosion of long-standing mass media business models, for example falling newspaper sales, the shift of advertising on to digital platforms, the shrinking of network television audiences, and the growth in movie and music piracy. Indeed, these developments were ultimately to call into question the assumption that consolidation and increased size bring strategic advantage (Gershon, in Albarran et al., 2006).

Overall the global media conglomerates have struggled to realise their potential advantages, leading to questions about whether the conglomerates were becoming too large and complex to operate effectively. In recent years, however, the broad trend has been for media industry conglomerates to shrink in size, reflecting a growing recognition that some 'classic' sectors of the media limited prospects, and that the synergistic benefits of straddling many sectors had been overestimated. Thus Viacom split into two companies – Viacom and the CBS Corporation – in January 2006. Pearson has progressively sold its media properties, including Penguin Books, its stake in *The Economist* and the entire *Financial Times* group, to focus on its education businesses. Thus the recent broad trajectory for conglomerates has been one of streamlining operations, focusing businesses and shedding non-core and legacy media assets.

While media mergers have become rarer and conglomerates leaner, at the same time, media businesses have been building out their digital operations, and often via acquisitions (Sutcliffe, 2015). The motivation can be to speed up the attainment of existing strategic goals (for example, the *Daily Mail*'s acquisition of Elite Daily in 2015 sought to increase its penetration in younger markets (18–34 year-olds) and AOL, subsequent to its purchase by Verizon, acquired Millennial Media in 2015 to increase its footprint in mobile ads. Acquisitions can also be gambles on innovative products from tech start-ups that the acquirer believes have the potential to be market leaders. Facebook is a serial acquirer. Key purchases include Instagram (2012), WhatsApp (2014) and Oculus VR (2014).

News Corporation: Buy, Sell, Split, Partner, Invest

News Corporation's corporate history since 2005 has included a cocktail of structural changes. In 2005 it acquired the 18 per cent stake of Fox Entertainment that it did not own and bought MySpace for $580 million (which it sold again in 2011 for $35 million, with Murdoch describing the purchase as a 'huge mistake'). In 2007 it bought Dow Jones & Company and with it the prestigious *Wall Street Journal*, expanding its newspaper assets. In 2011 it made a significant investment in digital media, when it launched the first tablet only news app, *The Daily* (publication ceased in 2012 at which point losses were reputedly $30 million annually). In 2012 News Corporation's assets were split into two companies, one focused on media (21st Century Fox, which houses its television and film assets, including film studio, the Fox TV network, Star TV and Sky TV) and one on publishing (News Corporation, which contains its newspaper, educational and other assets). (This restructuring was in response to a scandal concerning phone-hacking at one of its UK newspapers, *The News of the World*, and also provided a way to insulate the profitable businesses from the threatened ones.) In 2013 it acquired a small stake (5 per cent) of Vice Media, a digital video publisher with a strong presence in young markets, for $70 million. In 2014 it made a bid for Time Warner which was rejected by the Time Warner board. In 2015 it sold Sky Italia and Sky Deutschland to BskyB for $9 billion (at that time wanting to make a renewed bid for Time Warner). In 2015 it expanded a for-profit partnership with National Geographic to join their joint venture US and international TV channels.

Integrate or separate?

A specific structural dilemma that surfaced with the advent of digital is where established media organisations should situate their new digital businesses – should they be integrated into the parent or separated as a stand-alone business? The intrinsic tension between entrepreneurial new activities and mature old ones is discussed in detail in Chapter 4 (on technological change) and the positive impact of autonomy on innovation in Chapter 5 (on creativity and innovation). Here we will explore the various structural options employed by the media industry in response to this dilemma, which became pressing when the internet started to establish itself as a new mass medium.

Many legacy media firms experimented with both options, following a three-stage cycle of integration, autonomy and reintegration. Thus early experiments with the internet were in the main conducted within existing 'old' media divisions. This was because at that point the new media products were seen as experimental extensions of existing old media ones. However, early success with these products and the explosive growth of the internet sector as a whole (this was the era of the dotcom boom) led to the establishment of independent new media divisions. It was assumed these would increase the number and diversity of new media activities, allow expertise to flourish in 'hothouse' environments, and, because they stood outside the parent's legacy systems and bureaucracy, the new companies would be able to respond to market opportunities more quickly. Stand-alone units would also be much easier to spin-off, creating 'web currency' to fund further internet-related acquisitions. The final stage in the cycle occurred after the implosion of the dotcom sector. This saw new media divisions reintegrated into the parent organisations, for example News International disbanded its News Networks division, and Bertelsmann integrated its internet activities back into the corporate centre. The collapse of the internet economy meant spin-offs were no longer financially attractive, and it was necessary to rein in costs, especially since revenues were still largely absent. In addition, there were tensions between the core and the new media divisions over shared customers, resources and revenues. These were costing management time and causing delays in market entry.

A short-lived alternative third stage for the new internet business (very popular during the dotcom boom) was the spin-off (at that time the IPO was said to be the business model of the internet). This involved the divestiture of high-growth units to benefit both the parent and the spun-off organisation. The parent capitalised on the higher valuations for the internet businesses and also reduced risk, since the internet companies consumed significant amounts of capital and often incurred large losses. The parent also gained capital and if the spin-off succeeded it reflected positively on the parent's stock. For the spin-off it provided the freedom to operate entrepreneurially and allowed it to offer stock options which were then essential to attract and retain talent. Bertelsmann employed this strategy twice, spinning off Pixelpark in 1999 and Lycos in 2000.

BBC News Online – Separate then Integrate[1]

The BBC experimented with both approaches with its news online unit. BBC News Online was initially independent, and benefited from having a small, compact and cohesive organisation, a strong culture (even if this did have touches of ‘us versus them’), high levels of intrinsic motivation (and therefore creativity) and it was able to respond quickly to market opportunities and strengthen its leadership position. On the downside, during the time it functioned as a separate unit it did represent a case of ‘uncoordinated learning’, whereby important insights into digital products and markets were not transferred to the larger organisation, plus there were confusing inconsistencies in the BBC’s online presence between News Online and BBC Online. When the unit was integrated into BBC News, its learning was transferred to the rest of organisation and there were increased opportunities for content repurposing throughout the BBC. However, and perhaps inevitably, decision-making was slowed, there was less scope for creativity and initiative, more time needed to be spent on internal coordination and less on content development, and the unit was exposed to ‘demotivators’ present in the wider BBC culture, such as a tendency towards a negative evaluation of ideas and constraints on how work should be approached.

Alliances

Consolidation does not preclude the need to develop additionally a wide range of relationships with other organisations. Even the largest players found that partnerships in local markets and adjoining sectors are inevitable. In a comparative analysis of the strategic style and orientation of the six largest media conglomerates, Sjurts (2005) found that the simultaneous presence of diversification strategies and cooperation between conglomerates has led to complex competition arrangements where partners in one setting are competitors in another. Strategies for market dominance are also diluted by the need for glocalisation. The strategic imperative of a broad span of national markets means conglomerates cannot afford to neglect local tastes, thus contradictory trends can be observed where activities are simultaneously generic and customised for local tastes (Castells, in Castells and Cardoso, 2006).

Strategic alliances are normally understood as cooperative arrangements between two or more potentially competitive firms, but the term can encompass a variety of inter-organisational arrangements ranging from strategic link-ups between major players (for example, the Pixar–Disney deal discussed in Chapter 5) to short-term partnerships (such as the BBC's fleeting link-up with Yahoo! to supply internet news content for mobile devices) and cross-border alliances.

The motivations behind such partnerships are equally diverse. They include gaining access to specific competencies, talent or technologies, the desire to speed up entry to new markets, the need to reduce the risks of new products or services, and to reduce entry barriers by acquiring strong brands or improving scale economies, or to defray the cost of content investments. Alliances can also serve as a precursor to a full-blown acquisition or merger (as with the Pixar–Disney joint venture).

Alliances have long been a tool for strategic growth in the media industry (Chan-Olmsted, 2006). The globalisation of the television industry since the mid-1980s has been achieved largely through a multitude of small-scale cross-border collaborations involving financing, production, distribution and programme format deals. Convergence has increased levels of alliance activity (Chan-Olmsted and Chang, 2003). As value chains have expanded, fragmented and unbundled, and as distribution options and end-devices multiplied, it has become increasingly difficult for media firms to cover all stages and keep all strategic options open. Some of the largest players responded to these uncertainties through acquisition, but the majority also became active in alliances and joint ventures (Chan-Olmsted, in Picard, 2004). These were particularly favoured as a method of entering the internet, broadband or wireless markets (Chan-Olmsted and Chang, 2003). Many alliances are between actors in the media industry but there are also numerous examples of inter-organisational ventures between players in converging sectors (for example, Viacom's exclusive arrangement to sell advertising against Snapchat's content). Thus the trend towards alliances in the media sector arising from the emergence of the internet can be viewed as furthering the process of convergence between this and the neighbouring industries of telecoms, information technology and consumer electronics.

While the logic behind an alliance may be straightforward, implementation is often fraught with difficulties. The 50/50 joint venture between Sony's recorded music business and that of Bertelsmann was conceived as a response to falling sales and the growth of digital downloading. The alliance did yield cost savings but these were counterbalanced by legal costs and accounting charges associated with the deal, as well as disagreements over leadership, cultural tensions, and partners' differing performance.

From alliances to networks

Where many alliances are created, network structures emerge. Notionally, networks are open, adaptive structures of 'interconnected nodes' that evolve as new nodes are added and existing ones disappear in response to the requirements of the environment.

Interest in networks from a number of perspectives has grown in recent decades. As discussed earlier in this chapter, information scientists predicted that the impact of global digital networks on firm transaction costs would cause large, complex, hierarchically governed structures that would give way to constellations of smaller, flexible ones operating on principles of market exchange. Economists and political scientists became interested in the superior performance and competitiveness of economies characterised by networked clusters of organisations, especially those in the information and communication technologies (Castells, in Castells and Cardoso, 2006), often citing the Silicon Valley model, discussed in the previous chapter, as an example.

Networks became a dominant topic in the study of organisational structure during the 1980s (Fenton and Pettigrew, in Pettigrew and Fenton, 2000). They were viewed as bringing benefits in complex, uncertain environments, in terms of flexibility, increased scope, access to resources, capabilities, technologies and markets, and a safety net for uncertain exploratory projects. Castells (Castells and Cardoso, 2006: 8) predicted that the increasing importance of information technology and knowledge, and the opportunities for increased effectiveness and cost efficiency provided by network structures, would mean that while the firm might persist as the legal entity and unit for the accumulation of capital, the business network would emerge as the operational unit. This would benefit small and mid-sized organisations which could maintain autonomy and flexibility while having access to the critical mass necessary to compete. A wholesale shift to network structures failed to materialise (Nohria and Ghoshal, 1997), although the topic of networks – in the shape of social media networks – did indeed become a burning theme and highly strategic issue.

Networks in the media industry

> [News Corporation] has shown a unique appreciation for the dynamics of local markets, running the business as a multilocal network of franchises rather than a single global operation. (Knee, Greenwald and Seave, 2009: 246)

That is not to say that networks do not exist in the media industry. Indeed, they are a recurrent phenomenon. Hollywood has displayed network features since the 1950s when, as a result of the launch of television, the large-scale industrial film ‘factories’ that had dominated the industry between the 1920s and 1940s, and which had controlled the entire value chain from actors to projectionists, broke up. In their place came relatively stable networks made up of producers, directors, actors, screenwriters and other industry specialists who were involved in persistent patterns of contracting (Christopherson and Storper, 1989). Theorists have argued that cultural products require a network of relationships between many diverse professionals, some freelance, to be mobilised (Burt, 1992; Nohria and Eccles, 1992). This requires an underlying network of formal and informal contracts that cross organisational boundaries (Hirsch, 2000).

Networks have long been a feature of the UK television sector. In the ‘integrated factory era’, the industry comprised a handful of large vertically integrated organisations that produced programmes in-house for terrestrial broadcast channels. Between the 1980s and 1990s this structure changed fundamentally, largely as a result of the 1990 Broadcasting Act, which imposed quotas on the BBC and ITV to source at least 25 per cent of their programming from independent producers by 1993, coupled with an increasing global trade in television programming and programme formats. This led to the emergence of the ‘publisher-broadcaster’ model discussed earlier in this chapter. Thus the architecture of the sector shifted from a handful of monolithic ‘integrated factory’ producers controlling all stages of a traditionally organised value chain, to a ‘multi-network value chain’, where a ‘primary network’ of freelance creative labour and facilities joins with a ‘secondary programme production network’ of independent producers who work on a project basis. The output of their efforts is bought by publisher-broadcasters who are at the centre of these organisational networks (Starkey et al., 2000).

Hesmondhalgh (2002) noted that the launch of digital television in Europe required various difficult and complex technologies to be combined, plus significant resources to subsidise installation to a point of achieving a critical mass of subscribers large enough to attract advertisers and to support the necessary infrastructure. This in turn mandated a complex network of companies working together, spanning the telecoms, cable, computer and media sectors.

Disney in the 1990s, although normally described as a media conglomerate with a high level of synergy between its constituent parts (Slywotsky et al., 1997), could also be described as the hub of a complex network structure involving a major partnership with Pixar and associated alliances with a wide range of strategic partners, ranging from consumer goods organisations such as Mattel, Nestlé, IBM, Coke and McDonald's to industry specialists such as Industrial Light & Magic. News Corporation in the 1990s has also been described as a loose global network (Coleridge, 1993; Louw, 2001) with Murdoch at the centre, the various regional and sectoral businesses operating autonomously in their markets, and resources flowing as necessary between these nodes. As can be seen in the News Corporation case earlier in this chapter, this description still holds true.

Project-based organisations

Ad hoc organisational structures based on inter-organisational and interpersonal relationships that revolve around one-off projects (although these can also evolve into serial project relationships) are a further structural option in the media sector.

In the media industries, such project-based structures are primarily a response to the individual nature of many media products and growing challenges in financing creative projects, arising in part from the fragmentation of mass markets, just as the conglomerate structure is a response to the economies of scale that characterise mass media products and the continual need for short-run or unique products (Manning, 2005). While they sound transitory in the extreme, they can paradoxically constitute stable sectors of the economy. Temporary enterprises have been central to the US film industry for decades (DeFillippi and Arthur, 1998), and the UK film industry has been described as entirely project-based (Davenport, 2006). Such structures provide flexibility and stability, specialisation and innovation (Christopherson and Storper, 1989), allow a continual adaptation of activities, a constant reconstitution of creative elements and integrate different types of knowledge and skills, while at the same time reducing the risks and uncertainties intrinsic to novel products (Davenport, 2006). A hybrid form spanning the project organisation and the network is the 'latent organization' (Starkey et al., 2000: 229), 'groupings of individuals that persist through time and are periodically drawn together for recurrent projects by network brokers who either buy in programmes for publisher-broadcasters or draw together those artists and technicians who actually produce them'.

Strategically, flexible organisation forms like these bring potential benefits in terms of increased creativity and improved performance. Davis and Scase (2000) argue that their popularity also stems from the particular requirements of creative individuals in the media, which can preclude traditional hierarchical management structures. Media professionals have specialised skills, high levels of general education, and use sophisticated, developed social processes to interact and achieve project goals. They therefore require the freedom to exercise independent judgement in how they solve problems, undertake tasks and achieve strategic goals.

Start-ups

> Small companies – the reason it's important to pay attention to them – is because they do everything they can not to go out of business; they'll endlessly pivot. (Hearst CEO David Carey, cited in Wallis, 2015)

Innovation in the media sector traditionally comes from smaller players who are assumed to be more creative (Davis and Scase, 2000). Certainly the organisations that master technological advance tend to be new players who may lack the advantages of brand, content assets and financial reserves, but are also unencumbered by the legacy hindrances of mindset. Some of the most creative new media organisations of the past decades – MTV, CNN, Endemol, YouTube – emerged from under-funded beginnings to create new categories of media businesses. Arguably their newness and outsider situation allowed them to frame change in terms of a business opportunity rather than in terms of potential damage to existing businesses. It is also noteworthy that the organisation that found a commercially successful answer to digital downloading in the music business was Apple. Far from a start-up, it was still an outsider to the music industry, and therefore approached the problem with a different mindset.

New firms are favoured by policy makers for their positive impact on innovation and job creation, economic growth and competitiveness (Baumol, 1993; Turner, 1997). Start-ups have a long tradition in the media, partly due to the fragmentation of value chains, and partly because of the scope for surprise hits from 'unknowns' to achieve significant market success. It was feared that consolidation in the media industry would deter new entrants because they could not match the economies of scale and market penetration of the largest players. Ironically, however, mergers to some extent prompted the formation of new business as employees who had been let go and had fewer job options in a consolidating sector chose to start up independently rather than abandon their specialist field.

Conclusions

The changes to organisational forms in the media industry over past decades underline the link between the environment, strategy and structure. Indeed, the sector's recent history can be traced through these developments: the decline of the centralised integrated factory model in response to a multi-channel digital environment and deregulation; the wave of mergers in response to the opportunities and threats of convergence and the need to recycle and maximise the returns from increasing investment in content; the start-ups and spin-offs in response to the emergence of the internet and subsequent technological advances such as social and mobile media; the growth of fluid and temporary forms in response to globalisation, glocalisation and ever more complex value chain constellations. The painful results of some of these organisational transitions and adaptations suggest that in deciding strategic courses of actions, managers might need to reflect carefully on the structural ramifications of their chosen course of action, and pay heed to the importance of organisational factors, particularly culture, in deciding their outcomes.

While a chronological development can be traced, this picture is muddied because the various new structural changes taking place are not mutually exclusive. Apparently conflicting trends – each bringing different strategic benefits – are observable. These include consolidation and integration, divestiture, alliance and partnership activity, and a growth in fluid and temporary structures. The challenge for media organisation is to accommodate these equally compelling organisational imperatives and continue to function as cohesive and coherent organisations.

Convergence creates opportunities for growth, and for improved economies of scale and scope, despite the fragmentation of audiences and the increased complexity of distribution options. Thus while the attraction of conglomerates has lessened, mergers and acquisitions (M&A) activity is still robust, as this chapter shows. Partnership activity allows for increased speed and agility and faster adaptation to environmental opportunities, especially for less well-resourced players, and therefore joint venture and alliances are also likely to continue. Challenges in financing creative products, especially for creatives and artists at the start of their career, mean that the popularity of flexible and fluid organisational forms will continue to grow.

Alliance- and project-based organisational forms are characterised by weak corporate boundaries, high levels of autonomous decision-making and a need for good communication. Strategically important competencies and knowledge may be located at the periphery of the organisation or outside it (that is, with a partner), and by extension decision-making may be devolved to the fringes of the organisation, beyond the direct authority of the corporate centre. Power is more broadly distributed throughout the organisation and formal structures and hierarchies are weakened. Such contexts place specific demands on the leaders of media organisations, and these are explored in the next chapter.

Note

1. For a full case study see Küng (2003).

8 Leadership

> Either lead, follow or get out of the way. (Sign on Ted Turner's desk, pictured in *Fortune*, 5 January 1987)

The leaders of media organisations have always commanded intense scrutiny from regulators, policy makers and the press. This is due in part to the potential of the medium: control of media content confers considerable opportunities to influence public opinion, build personal profile, gain access to politicians and, by extension, influence regulation and trade terms. The media industry has a long tradition of flamboyant leaders that tend to attract public attention, from the press barons of the early twentieth century such as Hearst, Beaverbrook, Northcliffe and Rothermere, to contemporary leaders like Murdoch and Redstone. And high levels of public attention are also given to today's less flamboyant but equally influential tech-media moguls like Zuckerberg, Jobs or Bezos. But while the media devotes much attention to the individuals shaping the industry, the subject of leadership in the media industry has received far less attention from media management scholars, and it has even been described as 'arguably the single most neglected area of research and theory development in the field of media management' (Mierzjewska and Hollifield, in Albarran et al., 2006).

This chapter explores leadership in the media industry and its influence on strategy. It reviews theoretical approaches to the subject of leadership and the strands within this body of research that are most frequently applied to the media sector. A number of cases are brought into this discussion which both contextualise the theory, and provide insights into the specific requirements of leadership in the media sector. This chapter is therefore grounded in adaptive approaches to strategy – in that it reviews leaders' role in shaping and implementing strategy from the perspective of reviewing how leaders employ the organisation's social architecture to implement strategy.

What is leadership?

The study of leadership can be traced back to the ancient Greeks. Research from a management rather than an historical perspective began in earnest in the 1920s and in the ensuing years leadership has been investigated from many different theoretical standpoints using an enormous variety of different methodological approaches.

As research has progressed, perspectives have shifted. Universal recipes that assume there is ‘one best way’ to lead have been buttressed by contingent orientations that stress the context-dependent nature of the leadership task. A tight instrumental focus on traits, skills and styles has been broadened to involve the interactive processes between leaders and those led. A narrow leader-centric focus on the leader’s abilities and attributes has evolved into integrated conceptual frameworks encompassing relationships and the strategic context. Objectivist approaches that see leadership as an absolute and measurable entity have been challenged by subjectivist ones that view leadership as something constructed through social interaction.

The result is an extensive body of theory, but one lacking commonly-accepted definitions and riven by methodological divisions. Debate persists concerning fundamental issues, such as what leadership is (Bass, 1990; Yukl, 2002; Northouse, 2004). For example, does leadership reside in a set of qualities or characteristics belonging to those acting as leaders (Jago, 1982), or in a social influence process which seeks to get a group of individuals to move towards a specific objective (Jago, 1982; Kotter, 1988; Northouse, 2004)? Consensus is also lacking on where leadership is to be found. Some researchers view the terms of manager and leader as interchangeable (Conger, 1999), the assumption being that authority inevitably involves a degree of leadership. Others, for example transformational theorists, assume leaders are senior figures involved in strategic decision-taking. Trait theories classify anyone with responsibility for achieving a given task that involves a group of individuals as a leader, especially if that individual has the specific competencies required or an influence over the situation.

Trait approaches – born to be a leader

Also known as ‘great person approaches’, trait approaches represent some of the earliest systematic research into leadership. In vogue from the early 1900s to the 1940s, trait approaches view leadership as residing in a set of definable, measurable inborn traits that are possessed by ‘natural leaders’ (Jago, 1982), which range from physical characteristics such as height, to aspects of personality and temperament, motivation, needs and values. Researchers sought to identify the traits that were linked positively with successful leaders and often turned to historical figures such as Napoleon or Gandhi for their data. The assumption was that once the ‘right’ traits had been identified, potential leaders could be identified by screening for these (Jago, 1982). Trait approaches held great intuitive appeal but, despite extensive research, a definitive list of leadership traits never emerged (Jago, 1982).

Risk-taking and media leadership

> He gambled. [Jobs] put $50 or $60 million into Pixar. The gamble paid off. (Young and Simon, 2005: 247)

The business press tends to highlight media leaders' entrepreneurial abilities and propensity for risky bets. This was as true in previous eras as it is today – coverage of Joseph Pulitzer, William Randolph Hearst, Ted Turner, Rupert Murdoch and Steve Jobs has all highlighted these aspects of their approach to leadership. This is not surprising, since building businesses and making big bets make for compelling media headlines.

From the perspective of leadership theory, an entrepreneurial leader is understood as one who is closely attuned to environmental change, who employs a visceral mixture of intuition and experience to interpret this, and whose strategic behaviour involves hunting out opportunities in the environment and making bold resource commitments in response to that change (Mintzberg et al., 1998). This definition is close to that of the media mogul. Thus Tunstall and Palmer define such an individual as someone who:

> owns and operates major media companies, who takes entrepreneurial risks … who largely built up his own media empire: … [the] entrepreneurial element can include the launching of new media enterprises, … but often consists of largely buying up, and taking over, existing media companies. (1998: 105)

A facility with risk is common to both the concept of the entrepreneurial leader and of the media mogul. McClelland (1961) introduces a valuable distinction between 'gambling' and 'calculating', suggesting that successful entrepreneurial leaders take highly calculated risks rather than make gambles. Strategic risk-taking also features in biographical accounts of many media leaders. For example, Murdoch and Turner are both credited with a facility for risk, and in both cases it is implied that this is an inborn trait rather than acquired skill. Both individuals have reportedly gambled since childhood (Bibb, 1993; Shawcross, 1994; Auletta, 2004) and continued with risk-taking strategies as they built their empires. Thus it has been said that 'no one else bets the farm quite like Murdoch' (Gibson, 2007), who is 'the most gifted opportunist in the media' (Pooley, 2007). Murdoch has a propensity for placing large bets on particular categories of content that stretches back at least three decades. For example, in the 1960s he broke a gentleman's agreement among

Australian television executives not to pay more than $6,000 an hour for acquired programming and agreed to pay $1 million a year for everything that ABC produced or distributed for the next five years (Shawcross, 1994: 89–90).

In the digital media-technology sector, leaders' risk-taking can stem from their personal, perhaps transgressive, vision for how the strategic environment will develop in the long term. Michael Moritz of Sequoia Capital, the Silicon Valley venture capital firm that has invested in new media firms, including Instagram, reddit, Tumblr, WhatsApp and YouTube, suggests that 'the ability to resist [doing what others expect of them] is the difference between being a manager and a leader'. Bezos reputedly shares this ability to develop a vision and act on it. In 1998, after meeting Larry Page and Sergey Brin, who were looking for seed capital for their new internet search company, he insisted on investing personally, even though the funding round was closed. A colleague who helped make the transaction happen described how Bezos was 'so prescient. It's like he can peer into the future. … He's also extremely shrewd and self-aware and knows just how far he can push something' (Stone, 2013: 110).

Skills approaches – leadership can be learned

Trait approaches are absolute: they assume there is one best way to lead and that depends on a set of immutable predispositions. Skills approaches are more egalitarian, seeing leadership as residing in a combination of skills which can be acquired through experiences such as training programmes, career progression, mentoring, and so on (Northouse, 2004). Thus leadership is within the gift of many, rather than a few.

Research in this field seeks to identify the learnable skills, knowledge, behaviours and competencies that underlie effective leadership (Jago, 1982; Mumford et al., 2000; Northouse, 2004). Katz, who carried out much initial work in the field, identified three core categories (Katz, 1955). The first is technical skills. This is the ability 'to work with things' and includes analytical skills as well as expertise in domain-appropriate tools and techniques (although these are judged to be more important for lower-level leadership). The second is human skill. This is the ability to work effectively with colleagues at all levels, being sensitive to their perspectives, needs and motivations, and being able to create a climate of trust. The third is conceptual skill – the ability to work with abstract ideas and hypothetical notions (Northouse, 2004).

During the 1990s the concept of skills was broadened into 'capabilities', understood as the 'knowledge and skills that make effective leadership possible' (Mumford et al., 2000: 12). As research progressed, the cognitive skills of solving problems and constructing solutions became a focus. These require a facility with abstract and hypothetical ideas that allows a leader to identify complex relationships and predict future events from current trends (Yukl, 2002), and find solutions to new, unusual and ill-defined problems (Mumford et al., 2000; Northouse, 2004).

Finding appropriate solutions to such problems becomes more difficult as environments become turbulent. The risk of cognitive rigidity and erroneous conclusions increases in step with environmental instability. Leaders must not only become more structured and vigilant in environmental scanning and problem-solving (Ancona, 1990), but also capable of challenging and updating their operating assumptions. Schein (1992) terms this learning leadership. Learning can take place in two 'modes'. In first-order, or single-loop, learning. This arises through repeated exposure to similar types of problem. The type of knowledge that arises is advantageous in stable contexts, especially if other players are new to an issue and do not possess it, but it can be a liability in turbulent ones since it reduces the likelihood of recognising a need for change (Weick, 1979). In unstable contexts double-loop, or second-order, learning can be required. This involves questioning the governing norms, unlearning prior assumptions and developing new heuristics (Tushman and Anderson, 1986) and is central to improving the organisation's ability to adapt (Virany et al., 1992). This mindset is central to theories of disruption, and unsurprisingly shared by many leaders in tech and Silicon Valley, Jeff Bezos for example.

It can be argued that single-loop learning aided Michael Eisner during his first decade at Disney, and that weaknesses in double-loop learning contributed to his downfall in the second. During his first decade, when the media industry was relatively stable, he applied the formula that had brought him success in his previous role at Paramount (and indeed the position of CEO at Disney): keep budgets low, eschew expensive stars, control all aspects of the organisation closely, grow internally where possible, and stick to the areas you know well (Stewart, 2005: 80). However, 10 years on the context had changed. Digitalisation and the internet had taken hold, convergence was under way and blockbuster strategies were entrenched. The assumptions that had served Eisner so well previously were no longer appropriate. Big budgets were unavoidable if Disney movies were to compete with other major studios. The new business areas that were emerging as a result of convergence were far outside the traditional media realm and made alliance or acquisition a smarter strategy than internal growth. Eisner was not comfortable with this, and, for example, rejected a proposal to buy a minority interest in Yahoo!, choosing instead to merge its own internet assets into a new portal, Go!, a decision that ultimately cost over $1 billion on paper (Stewart, 2005). The Pixar joint venture is a notable exception to the 'grow businesses internally' rule, and this came to account for 45 per cent of the Disney film studio's operating income between 1998 and 2001.

Leadership skills in the media

There is a slim body of research into leadership skills required in the media sector. Sanchez-Tabernero (in Küng, 2006) identifies the ability to 'build great teams'. This involves a long-term orientation, an ability to motivate, strong beliefs, and an understanding of consumer tastes. While not addressing the media industry specifically, Burns and Stalkers' (1961/1994: 102) research into environments that further innovation identifies two leadership skills: to grasp the changing dynamics of the strategic environment, particularly technological ones, and recalibrate the internal organisation in step; and to 'define the work situation, displaying … the commitments, effort, and self-involvement … the individual … should attempt to meet'.

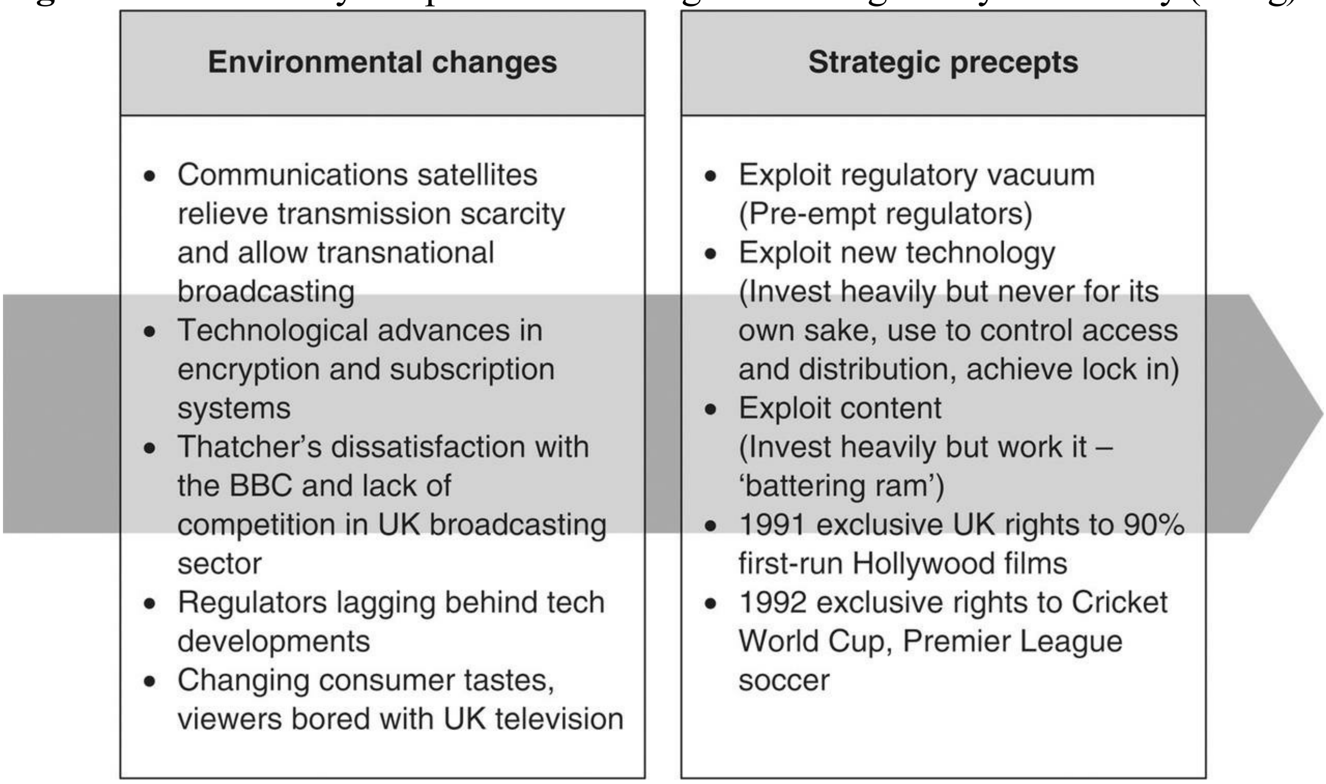
The ability to see business opportunities in turbulent environments surfaces frequently in analyses of successful media leaders. In her research into the establishment of the UK pay television platform BSkyB, Spar (2001) highlights Murdoch's skill at designing business models that exploit multiple uncertainties – in that case advances in satellite and encryption technologies, a regulatory vacuum arising from the confluence of domestic and EU broadcasting regulation, and the UK government desire to increase competition in UK broadcasting:

> Again and again, the same pattern unfolded: Sky would recognise how some emerging technology could enable the firm either to leap through a regulatory barrier or consolidate a competitive foothold. Then Sky's managers would move to grasp this technology, develop it, create whatever standard might be necessary, and thus control its usage by any other parties. This was how Murdoch had first used satellite technologies to circumvent the otherwise solid net of British regulation: this was how Sky operated throughout the next decade. (Spar, 2001: 156)
>
> When Sky Broadcasting first burst onto the British scene, it simultaneously circumvented one set of rules and established another. Officially … Sky was not transmitting under British jurisdiction: it was beaming from Luxembourg and subject only to that country's minimal set of rules. And even on the ground, where Sky was subject to British law, the novelty of Sky's practices made it very difficult to lodge legal complaints against it. Was Sky a monopolist? It's hard to say. Did it behave anti-competitively? Hard again. It was a classic case of creative anarchy, with technology opening spaces and creating markets that defied existing regulation. (Spar, 2001: 183–4)

Today, we see similar leadership strategies that are designed to exploit ambiguities and vacuums in regulatory environments arising from differences in the pace of development in technology markets and the slowness at which regulatory regimes change, particularly on the part of technology giants such as Google and Amazon.

Ted Turner, the path-breaking founder of cable news provider CNN, has also been described as someone who 'sees the obvious before most people do. … And after he sees it, it becomes obvious to everyone' (Wallace and Marer, 1991). In Turner's case 'the obvious' was the potential created by combining a number of technological advances – satellite distribution, cable television, handicams, small satellite up-links – with a government agenda to boost cable television and the broadcast networks' scaling back of news coverage. CNN started when he created the world's first satellite superstation by placing the signal of his small local Atlanta station on the newly launched RCE satellite which distributed the signal to cable systems around the country, thus acquiring a domestic audience of millions and viewers in Canada and Mexico.

Figure 8.1 How BSkyB exploited technological and regulatory uncertainty (Küng)



Style approaches

In the late 1940s, 1950s and 1960s dissatisfaction with trait approaches led researchers to focus on leadership style, that is, on leadership behaviour and its impact on others (Stogdill, 1974; Jago, 1982; Yukl, 2002). The first empirical studies were conducted at Ohio State University in the late 1940s. Two dimensions of leadership were identified: consideration – the degree of two-way communication and consultation, mutual trust, respect and warmth a leader exhibits towards his followers; and 'initiating structure' – the degree to which a leader organises relationships between group members and establishes channels of communication and methods of establishing the group's task. These dimensions were used to identify the optimal leadership style. Research suggested that an effective leader developed good rapport and two-way communication, and took an active role in planning and directing group activities. Subsequent research by the University of Michigan identified two critical dimensions of leadership style – employee-centred (concern for people) and job-centred (concern for production). In the mid-1980s Blake and Mouton used these dimensions as the basis for a diagnostic tool for managers, the 'managerial grid', which identified five different leadership archetypes.

Leadership styles in the media

Research into leadership skills in the media makes some prescriptive recommendations concerning leadership style. These follow a general line that consensus-based approaches are more appropriate than hierarchical authoritarian ones because creative employees resent being told what to do (Davis and Scase, 2000), will not accept unquestioningly directions from above (Lavine and Wackman, 1988), and when working as news journalists need editorial freedom and protection from managerial or owner influence (Curran and Seaton, 1981). Aris and Bughin (2005) propose two leadership styles for media organisations: an inspirational, charismatic, hands-on style; and a performance-orientated, structured style, involving systematic setting of strategic corporate and individual goals.

Transformational leadership

A major recent concept in leadership theory is 'transformational leadership'. The origins of this are credited to political sociologist Burns (1978), who identified a leader who changes organisations elementally – transforms them – by evoking followers' intrinsic motivation and harnessing this to realise performance outcomes that exceed expectations. The focus on intrinsic motivation distinguishes transformational from 'transactional' leadership, where followers act in a certain way in return for specified extrinsic rewards (Conger, 1989).

The transformational leader's levers to achieve wide-scale change in an organisation are elements in the social architecture of the organisation (Conger, 1989; Senge, 1990; Bass and Avolio, 1994; Bass and Steidlmeier, 1999). A key lever is the leader's vision for how the organisation should look post-transformation. This should be compelling enough to encourage individuals to question assumptions that might hold back the change process, find new solutions to existing problems, and select new courses of action (Senge, 1990). The leader's charisma, termed idealised influence in this body of theory, builds emotional commitment to the vision by engaging followers' higher order needs and encouraging them to transcend self-interest in order to reach new goals (Bass, 1985; Kotter, 1996; Hitt et al., 1998). The transformational leader also changes the cultural assumptions (Morgan, 1986; Sackmann, 1991; Schein, 1992), employing a number of mechanisms to embed new ones. Critical are coaching and mentoring key 'change agents', providing growth opportunities to followers, which issues a leader pays attention to, decisions about who is promoted or who 'gets sent to Siberia' (Schein, 1992), reactions to critical events and how resources are allocated. Mintzberg and Westley (1992) note that transformational leaders often have a strong facility for language, particularly symbolism and metaphor. This process of changing a group's shared cultural assumptions also means changing that group's social identity, since leadership and identity are interdependent.

In his exploration of how incumbent businesses threatened by digitalisation should adapt their organisations, Waldman (2010) proposes a leadership approach that echoes many tenets of transformational leadership. He views the ability to 'bring people with you in challenging times' (2010: 130–1) as the essence of the leadership task. This requires clarity ('people need to know what is happening: why, how and when'), consistency ('don't just present a plan once; present it time and time again … you are leading people on a journey, not a set of random dance moves'), and collaboration ('getting people working with people from different parts of the business, tackling business problems collectively, is energising and constructive. It makes people feel they are part of something bigger').

Greg Dyke – Transformational Leadership at the BBC

Greg Dyke's tenure as Director General of the BBC (2000–2003) carries the hallmarks of transformational leadership. In 2002 he launched an ambitious initiative, 'Making it Happen', which was designed to make the BBC hugely more creative, and to redress the damage to the social fabric of the organisation that had resulted from a change initiative introduced by his predecessor. Called 'Producer Choice', this project had established an internal market between producers and broadcasters and involved a complete restructuring of the entire organisation. Both concept and execution were complex, the project was resented as the brainchild of consultants and never 'penetrated the heartland editorial areas of the BBC' (Spindler and van den Brul, 2006–7).

Dyke's change initiative was anchored in his belief that greater creativity and better service to audiences would ensure the BBC's survival as a publicly funded broadcaster in a multi-channel environment. 'Making it Happen' was his answer. Rather than driven by consultants, it should be a 'do-it-yourself' intervention designed to harness the energy, commitment and ideas of the BBC's thousands of staff (Spindler and van den Brul, 2006–7).

Dyke employed a number of strategies to build commitment for his initiative. First were the 'Just Imagine' brainstorming workshops where 10,000 staff contributed over 25,000 ideas about the BBC's challenges and how these might be overcome. A handful of the best ideas were implemented very publicly within weeks to demonstrate that staff involvement was valued. Dyke also abandoned the formal communication style of his predecessor. All staff were on first name terms, meeting documentation was reduced to a minimum and yellow cards stating 'Cut the Crap, Make it Happen' were distributed for staff to use if they saw good ideas being rejected or bureaucracy surfacing.

Next, Dyke published a new set of BBC values which he stressed should become the bedrock of the new culture. Staff teams were asked to propose how the BBC could realise its new goals, and from these emerged a BBC-wide change plan with five main sections: Providing Great Leadership; Making the BBC a Great Place to Work; Getting Closer to our Audiences; Inspiring Creativity Everywhere; and Working as One BBC (in total over 40 separate initiatives). These were presented to staff through televised, interactive BBC-wide 'conversations' involving 17,000 staff at over 400 meetings.

The project succeeded. Internal research two years in showed that 62 per cent of staff felt 'Making it Happen' was making a real difference, 22 per cent were actively championing change, 58 per cent felt valued, and 50 per cent felt management behaviour was consistent with BBC values.

This project conforms to transformational leadership theory (Kanter, 2004). Dyke harnessed staff members' intrinsic motivation and altered the BBC's social fabric to achieve fundamental change. He encouraged staff to rethink their assumptions, find new solutions to the BBC's problems, and change day-to-day behaviour. He succeeded in shifting the culture, making it more creative and open to change, and through his personal style – approachability, informality, directness, communicativeness – modelled the behaviours he wanted staff to emulate.

Despite the project's success, Dyke ran into problems when in 2003 a BBC radio reporter claimed that the UK Government had made a false claim in an intelligence dossier. The government was outraged, Dyke underestimated the seriousness of the situation, and a crisis ensued which escalated when a weapons expert who had briefed the BBC committed suicide. In 2004 the Hutton Inquiry was tasked with investigating these events and found fault with the BBC's management and editorial systems – and by implication with Dyke's delegated leadership style – and both Dyke and the BBC Chairman resigned. Dyke's resignation brought thousands of employees into the street in protest and a full-page newspaper advert was taken in his support – evidence of the strong emotional bond he had forged with BBC staff.

Kotter's Eight-Stage Process for Transformational Change

> When I went to the Harvard Business School back in 1989 I luckily came across a brilliant professor called John Kotter, who was the first person who I had come across who talked about the difference between management and leadership.
> (Greg Dyke, Speaking to Senior Executives at Ashridge Management College, 16 March 2009)

It is rare for academic leadership theory to penetrate day-to-day leadership in media organisations. An exception is Kotter's eight-stage process for leading strategic change (Kotter, 1996), which provided the conceptual basis for Dyke's transformation of the BBC (key steps in this are outlined in Figure 8.2 below). Kotter's approach starts by drawing a central distinction between the role of the leader and that of the manager: leadership is about change while management is about maintenance. Thus the leader's job is to 'do the right things', which means set the vision and design strategies to achieve it, empower others to make vision happen, and motivate and inspire people to move out of their comfort zone. The manager's role is to 'do things right'. This means turn strategies into action steps, plans and budgets, ensure the organisation can realise the vision, and check progress and trouble shoot.

Kotter believes that the leader must not only recognise when fundamental change is needed, but also ensure that this happens. More often than not, change efforts fail. They fail not because the strategy or vision is wrong, but because things like culture, bureaucracy, politics, lack of trust, lack of teamwork, arrogance, fear of the unknown, block the change efforts. Kotter's prescription for change seeks to eliminate these barriers. It has eight steps, which need to be followed sequentially, with no skipping ahead. These are:

1. Establish a sense of urgency

This means alarming people enough to get them to let go of the status quo. Pay special attention to key people who may end up much worse off, or they will become 'change critics'. Work really hard on this – building urgency will pay off later.

2. Create a guiding coalition

A change project needs a strong change team behind it. Check all the 'true leaders' are on board and visibly committed and make sure it's diverse. All departments, all levels. Invest in team building so that it really works together.

3. Create a vision

The vision has to provide a compelling reason why people should abandon self-interests and buy into uncomfortable changes. Craft the language – the entire change team needs to be able to describe the vision in five minutes or less. Everyone needs to practise the 'vision speech' often.

4. Communicate the vision

This new vision will have to compete with hundreds of other messages. Communicate it directly as much as you can – also indirectly via what you pay attention to, who is promoted and rewarded (and who is side-lined).

5. Empower others to act on the vision

Get rid of barriers to change fast, including people who are resisting change. Anything that undermines the vision – job descriptions, bonus criteria, internal rules – must go. Ensure those who take risks, break with tradition and make change happen are rewarded.

6. Create short-term wins

Ensure there are some visible successes early on. Transformation takes time, and quick wins ensure the urgency doesn't fade. Leaders need to choose things that are fast, feasible and failsafe, avoid anything expensive or involving 'change critics'. It is important to analyse the pros and cons before starting – failure with an early goal can hurt the entire initiative.

7. Build on change

Leaders must be careful not to declare victory too soon. They must keep reinvigorating the change process with new projects and change agents, and after each success, analyse what went right and what could be done better. They need to keep checking systems and policies to see if they fit the vision, and hire and promote people who get the vision and will take it further.

8. Anchor new approaches in the culture

The final stage is to ensure changes are consolidated and organisation doesn't slip back. The leader must make it evident that the changes are bringing success, which means taking every opportunity to demonstrate their benefits until they become an accepted part of 'the way we do things around here'.

Figure 8.2 Greg Dyke's implementation of Kotter's 8-Stage Change Process at the BBC

Stage	Dyke's application at the BBC
Establish a sense of urgency	Dyke's key messages: young people are abandoning the BBC, ethnic minorities feel 'the BBC is not for us', BBC content is less frequently viewed in digital homes, and the BBC is viewed as 'stuffy, arrogant, out of touch'.
Create a vision	Dyke's vision: 'Over the next five years we want the BBC to become the most creative organisation in the world'.
Communicate the vision	'I used a whole range of ways ... I sent regular e-mails always signed Greg, did frequent internal broadcasts, used our in-house magazine and made a series of videos all with the aim of creating a one to one relationship with nearly 30,000 people.'
Empower others to act on the vision	Every day I got my sandwiches or salad from the canteen and I talked to the people I met in the queue. It would have been easier and quicker to have sent someone from my office to get my lunch but my going sent an important and symbolic message to everyone: I was both accessible and I was one of them and that's what I wanted my managers to be.'
Create short term wins	'Good ideas which were popular at the sessions and easy to do were implemented almost immediately. Simple things like putting a cash machine in the reception at BBC Cardiff or allowing staff to busk in the foyer of Bush House in London at lunchtime.'
Anchor new approaches in the culture	'The real point about "Making it Happen" was that I engaged people's emotions, not just their brains. Culture change is above all an emotional experience, not an intellectual one' (Dyke, 2004: 215).

Charismatic leadership

> His remarkable charisma … that drew people to him even when they knew he might attack at any moment, created a degree of loyalty few executives ever match. (A colleague describing Steve Jobs, cited in Young and Simon, 2005: 201)

Charismatic leadership is a close cousin of transformational leadership (Hunt and Conger, 1999). This form of leadership occurs when a leader employs personal magnetism to evoke followers' trust and to influence them to act in certain ways in the pursuit of specific goals (Bass, 1985; Conger, 1989, 1999; Conger and Kanungo, 1998; Yukl, 2002). Like transformational approaches, charismatic leadership is understood as collective, processual and also as attributional – that is, it exists in the perceptions of others – and has been found to improve employee satisfaction, motivation and performance (Yukl, 1999).

As with transformational approaches, vision is a central tool of charismatic leadership. A definition of a visionary is someone with an inner vision that is not supported by external facts. Steve Jobs' vision to build 'insanely great' machines that will 'make a dent in the world' swept away rational objections. An Apple employee describes how: 'We really believed in what we were doing. The key thing is that we weren't in it for the money. We were out to change the world' (Trip Hawkins, cited in Young and Simon, 2005: 62).

Jeff Bezos is another leader with a vision that for many years seemed untethered from business realities. Here is Eric Schmidt, founder of Google, on Bezos' vision (Stone, 2013: 17):

> To me Amazon is a story of a brilliant founder who personally drove the vision. … There are almost no better examples. Perhaps Apple, but people forget that most people believed Amazon was doomed because it would not scale at a cost structure that would work. It kept piling up losses. It lost hundreds of millions of dollars.

A vision should appeal to followers' higher-order needs and link with their own values and ideals. As evident in the quote above, this engenders emotional commitment and encourages group members to cooperate to achieve their collective task (House, 1977; Conger, 1999; Yukl, 2002). The vision will often represent a marked departure from what has gone before, but not be so dramatic that followers might reject it, and it should resonate with follower disenchantment with current conditions. To embed their vision, the charismatic leader models the behaviours, norms and values followers should adopt. He or she may also act unconventionally – making self-sacrifices or taking personal risks, for example – to underline the importance of the changes that need to be made.

The distinction between transformational and charismatic leadership is not easy to establish. The fields certainly overlap. Conger (1999) sees charismatic leadership as an offshoot of transformational leadership, now of almost equal stature. Certainly, charisma is central to transformational leadership. However, Bass (in Yukl, 1999) argues that a leader can be charismatic without being transformational. It is suggested that the emotional component on the part of leaders and followers distinguishes charismatic leadership as particularly concerning the compelling nature of the vision and the way it is communicated (Conger and Kanungo, 1998).

Further, while transformational leadership is normally understood as a positive concept, charismatic leadership has a shadow side – as can be inferred from the quote about Steve Jobs above. Similarly, Stone's (2013: 222) account of the rise of Amazon includes a fascinating list of Bezos' insults to staff compiled by company veterans. These include 'Are you lazy or just incompetent?', 'We need to apply some human intelligence to this problem' and 'This document was clearly written by the B team. Can someone get me the A team document?'

Howell (in Conger, 1999) sees leadership as running a spectrum from leaders who empower and develop their followers, to authoritarian and narcissistic ones who use their power for personal gains. Conger (1999) argues that a charismatic leader may well possess elements of both poles. The success of charismatic leadership is affected by context (Bryman et al., 1996). While charismatic leaders improve employee satisfaction, motivation and performance, they can also underestimate threats in the organisational environment, screen out negative information, be overly self-confident and have an inflated sense of their own importance (Yukl, 1999). A charismatic leader's strategy may fail if implemented either too early or too late in a strategic initiative (Conger and Kanungo, 1998).

Jonah Peretti – Buzzfeed's Charismatic Founder[1]

'The Web's king of viral content' (Dixon, 2012), Jonah Peretti founded BuzzFeed in 2006 as a side project to his role at the *Huffington Post*, which he had co-founded a year earlier. Peretti was a parallel entrepreneur until 2011, when AOL bought the *Huffington Post* and he switched to focus on BuzzFeed alone. Peretti's initial vision for BuzzFeed was an experimental 'viral-content skunkworks' (Oremus, 2014) that would track viral memes and explore, using data analysis techniques, which characteristics made users want to send a piece of content on to others. BuzzFeed's timing was excellent – it was perfectly placed to exploit the convergence between social and mobile (social users tend to be mobile users) and the spread of mobile devices and consumption. When Peretti founded BuzzFeed Twitter did not exist and Facebook was in its infancy. By the time he left HuffPo to concentrate on BuzzFeed full-time, Twitter and Facebook had reached critical mass and the social/mobile era had arrived. BuzzFeed could rise naturally with the social media tide. Although privately held at time of writing, BuzzFeed's reputed valuation is around $1.5 billion and investments in news content alone for the first half of 2014 were around $10 million.

Peretti ticks all the boxes for a classic charismatic leader and his conceptual approach is stamped on all aspects of his organisation. A visionary, he saw an opportunity in an emergent field and built an organisation capable of grasping it. He is a natural communicator who constructed a compelling narrative to explain the BuzzFeed concept. He is also an intuitive strategist who has helped create two of the world's leading digital media organisations, who seems able to distil the salient learnings out of history, theory and personal experience and turn these into a business plan.

Leading for creativity

An important aspect of strategic leadership in the media relates to the connection between leadership and creativity. This is another under-explored issue, although general suggestions have been made for organisations that need creativity, for example that hierarchical, paternalistic management styles limit creativity, and inclusive ones that distribute creative decision-making throughout the organisation promote sustained creativity (Mauzy and Harriman, 2003).

For insights into how leadership intersects with levels of creativity inside organisations we can refer back to theories of organisational creativity. These identify three obvious links. The first is intrinsic motivation. This is central to transformational and charismatic leadership theories, and also to creativity theories, although it confers different advantages: in creativity theory, intrinsic motivation catalyses expertise and creative-thinking skills in the pursuit of novel solutions; in leadership theories, intrinsic motivation promotes followers' receptivity to higher-order goals and suppresses self-interest.

The second link is vision. A leader's vision drives strategic action, especially when seeking to achieve transformational change. Vision is central to creativity also, since no new product or service can be created without a clear vision that is simple, achievable, but also stretching and inspiring. The 'right' vision will resonate with pre-existing intrinsic motivation and lay the seed for ultimate success by sparking both a creative response to the core concept and a deeper-lying sense of commitment to its fundamental goals.

The third link involves establishing an environmental context conducive to creativity. This is addressed, albeit tangentially, in the 'initiating structure' dimension of leadership discussed in style approaches, where the leader is viewed as the architect of the work environment, dictating the nature of creative challenges, how resources are allocated, and establishing wider contextual elements such as structure, coordination mechanisms, culture, business processes and management. The provision of autonomy for teams required to be creative also features. At Pixar, Ed Catmull's leadership approach explicitly seeks to build an environment where creativity flourishes, and many components of this correlate closely with theories of organisational creativity. A fascinating dimension of this concerns his focus on failure and extracting learning from this. For example, he seeks to ensure that teams feel safe to fail: 'Part of our job is to protect the new from people who don't understand that in order for greatness to emerge, there must be phases of not-so-greatness' (Catmull, 2014: 132). Indeed, failure itself is not a problem, although, as creative director Andrew Stanton puts it, 'People need to be wrong as fast as they can' (cited in Catmull, 2014: 97). There are not only post-mortems after movies are complete but mid-mortems half way through the process. During these sessions participants are asked to list the top five things they would do again, and the top five they wouldn't. Performance data is used to stimulate discussion and challenge assumptions based on subjective impressions. This focus on and reframing of failure as an opportunity for growth and creativity has an emotional dimension in that he requires leaders to be honest about their mistakes to make it safe for others to do the same, reflecting the belief that 'being open about problems is the first step toward learning from them' (Catmull, 2014: 111).

Indeed, a fourth point of connection concerns emotions. Emotional commitment by the leader and emotional engagement on the part of followers are fundamental to transformational and charismatic leadership. Emotions – desire, enjoyment, interest – are also present in the intrinsically motivated state, which is central to organisational creativity. The role of emotions in leadership has been acknowledged – Burns (1978), for example, argued that the genius of Mao Tse Tung was his understanding of others' emotions – but is as yet an emerging branch of leadership theory.

Michael Eisner at Walt Disney

Eisner's two-decade tenure as Disney's CEO provides valuable insights into the interrelationships between a leader, his strategy and creative outcomes. In 1984 Disney was an 'all but dead duck', struggling to maintain its independence and no longer even classified by the industry as a studio. 'Team Disney', comprising Michael Eisner, as Chairman and CEO, Frank Wells as President and COO, and Jeffrey Katzenberg as head of the film studio, was brought in to rescue the organisation. Between the mid-1980s and mid-1990s the Walt Disney Company (it was renamed in 1986) underwent a remarkable turnaround. In four years it became the number one ranked studio as existing areas such as animation were revitalised (*The Lion King*, released in 1994 had by 1995 become the second largest grossing film ever) and new businesses were developed (including publishing, retailing and baseball). By 1987 Disney was a vertically integrated conglomerate with an operating income that had jumped from $300 million to nearly $800 million.[2] It was one of the most valuable brands in the world and a case study on its tight internal management and aggressive exploitation of synergies was taught in MBA schools worldwide.[3]

Eisner ascribes much of the success to his formula for creative leadership (Wetlaufer, 2000). A central building block was the Monday staff meetings

> where people are not afraid to speak their minds and be irreverent … an environment in which people feel safe to fail [and where] criticism for submitting a foolish idea is abolished. … We like to think we have fun here – we're looseygoosey' [with a] 'freewheeling, spontaneous exchange of ideas', [but at the same time discussion is] 'brutally honest', which was 'confidence building'. (Eisner, cited in Wetlaufer, 2000)

In terms of resources, creative staff had time to incubate ideas because green-light decisions were deliberately delayed. Autonomy was furthered because the long creative meetings were 'non-hierarchical – everybody becomes equal'. Eisner describes himself as 'a great believer in initiative and responsibility at every level'. He also supported diversity in creative teams because this was 'a great force towards creativity … the more diverse the organisation, the more diverse the ideas that get expressed' (Stewart, 2005).

However, in 1994 things started to go wrong. Wells was killed in a helicopter crash, Eisner underwent quadruple heart bypass surgery, and Katzenberg, having been denied Well's job, left to found Dreamworks SKG. In the ensuing years Dreamworks' and Pixar's animated films started to outperform Disney's. Live action films started to do poorly, and video and merchandising income fell, as did earnings and stock price. Disney's internet portal, Go.com, was closed in 2001 with an $800 million charge. Unsurprisingly, Eisner's reputation soured. In 2003 Roy Disney and Stanley Gold started a campaign to oust him, charging him with 'cultural decay'. A year later, Comcast launched a hostile bid, and negotiations concerning the renewal of the Pixar joint venture that had contributed so handsomely to Disney's profits fell apart. In March of that year 45 per cent of shareholders voted to withhold support for Eisner's re-election. Eisner subsequently announced his resignation.

Disney's poor financial performance was attributed in large part to Eisner's creative leadership and criticism became widespread. For example, 'Eisner', it was said, 'managed creative ventures, Steve [Jobs] created' (Young and Simon, 2005: 305). Eisner was accused of being 'such an oppressive force that creative talents felt muzzled' (Young and Simon, 2005: 311), and of 'extinguishing the company's creative spark'. Politics inside the Disney organisation were said to be 'cut-throat' (Stewart, 2005) and the focus on synergy led to 'endless iterations of existing properties'.[4] If these criticisms are correct (and they stem primarily from business journalists who conceivably sympathised with Disney's beleaguered creatives and were perhaps envious of Eisner's compensation package), they suggest that although Eisner did institute mechanisms to further creativity, other aspects of his management priorities undermined these.

A large part of Disney's financial turnaround between 1984 and 1989 was due to more than doubling the revenues and margins at the theme parks, rather than aspects of Eisner's creative leadership (Knee, Greenwald and Seave, 2009: 255). Yet application of theories of organisation creativity would suggest that his vaunted creative leadership approach may well actually have undermined the creativity he was seeking to foster. In terms of the creative challenge, the profit-multiplier business model that was the engine behind Disney's stellar financial performance (Slywotsky et al., 1997) had the unintended effect of limiting the creative challenge and with encouraging a concentration on consumer characters that fit existing merchandising categories. Further, since compensation levels were tied to synergies, there was contingent extrinsic motivation which theory suggests would have crowded out intrinsic motivation (Frey and Jegen, 2000).

The Monday staff meetings were described as follows by Michael Ovitz, a leading Hollywood agent and one-time friend, who was brought in as Eisner's second in command but sacked acrimoniously soon after:

> Although the focal point of [Eisner's] management of the company [was] extolling the freewheeling, spontaneous exchange of ideas and the 'synergy' that he was so proud of, there was actually very little exchange of ideas. Most of the lunch was a stream of consciousness monologue by Eisner. No one disagreed with anything he said. (Stewart, 2005: 219)

Financial control was tight. For Eisner, 'discipline is also part of creativity', but he was perceived as 'rapacious, soul-less, and always looking for a quick buck'.[5] According to theory, a tight limit on financial resources restricts intrinsic motivation and circumscribes experimentation. Autonomy was compromised by Eisner's: 'centralised and controlling management style [which led] … managers [to] feel second guessed; [and] artists [were afraid of] surrendering creative freedom' as well as Eisner's propensity to 'sweat the details'.[6]

Collaborative leadership in the media

> One of the advantages we had at Pixar, from the beginning, was that technology, art, and business were integrated into the leadership, with each of the company's leaders – me, John, and Steve, paying a fair amount of attention to the areas where we weren't considered expert. We have worked assiduously, ever since, to maintain a balance between all three legs of this stool. (Ed Catmull, 2014: 204)

Leadership is often reflexively assumed to be a singular activity. In fact, this is seldom the case. In practice, while one leader may hold ultimate authority, frequently leadership is distributed between individuals, classically in the traditional combinations of CEO and COO, or of Chairman and CEO. The issue of collaborative leadership, of course, is addressed in the corporate governance literature, and within leadership theory there is an emerging stream of research into collaborative leadership structures. It has been acknowledged that the role of leader is not restricted to a formally-designated individual, that leaders and followers can swap positions, and that multiple leadership roles may exist in a single group, with each serving a different leadership function (Jago, 1982). Change initiatives that involve a number of leaders operating at different levels of a firm have been found to be more effective (Pettigrew and Whipp, 1991), and multiple leaders are often required to change the culture of organisations failing to adapt to a changed environment (Schein, 1992).

Distributed leadership (Ancona et al., 2007) is a hybrid model combining concepts from skills and transformational/charismatic approaches. This involves four capabilities: sensemaking (understanding the context); relating (listening actively, advocating a point of view, and connecting with others); visioning (the collaborative creation of a common vision); and inventing (transforming a vision into a present-day reality). Since few individuals possess all four capabilities, most leaders will need to find others with whom they can work. As a result, the leadership task will be dispersed. There is an interesting correlation between this model and the findings of research into leadership derailment discussed below. Both highlight the importance of a leader's ability to relate to others and use this as a basis for a leadership team, and be able to lead in dynamic and complex environments.

In the media industry collaborative leadership arrangements are common and there is anecdotal evidence that such models have a positive impact on performance. This makes intuitive sense for all industries, not just the media ones. The increasing complexity of the business environment and the leadership task makes it unlikely that a single individual will encompass all the competencies necessary to master both external and internal environments. Pixar has always had collaborative leadership. In the early days Roy and Walt Disney shared the running of their studio: ‘Roy was the guardian, the protector who allowed genius to flourish … not only freeing Walt to make creative decisions, but running the business side of Disney with great skill’ (Bennis and Biederman, 1997: 45).

Eisner’s most successful period at Disney also featured collaborative leadership. He was Chairman and CEO, but was supported by Frank Wells, who handled the administrative and financial tasks, and was the ‘filter and interpreter who turned Eisner’s ideas into practical reality’ (Young and Simon, 2005: 204) leaving Eisner to run the creative side (Stewart, 2005), and also by Jeffrey Katzenberg, who possessed great skills in crafting creative concepts (Young and Simon, 2005). Despite the fact that Eisner never sought to recreate this structure, once he lost his two co-leaders, he acknowledged the importance of shared leadership: ‘the most successful movie studios and television networks have had at least two strong executives at the top, supporting and counterbalancing one another’ (Eisner, cited in Stewart, 2005: 142).

The case of BBC News Online provides insights into how collaborative leadership brings positive results in creative contexts. This venture had a dual leadership structure whereby the two leaders contributed to creating an environment conducive to creativity in different but complementary ways. John Birt, the BBC’s Director General, established preconditions by setting a creative goal that resonated with the BBC’s self-perceptions, providing the resources and ensuring autonomy, and then stepped back and allowed the venture to operate autonomously. He never actually visited the operation, but followed its progress closely at second hand. Bob Eggington, project manager, realised Birt’s vision on the ground and on a day-to-day basis, providing strategic clarity by shielding the venture from the bureaucracy of the parent and establishing a positive culture.

Strategic leadership in the digital media era

The turmoil of the digital era has created substantial challenges for leaders in the media sector. The velocity and scope of change, the uncertainty about its ramifications, the ascendancy of technology, and the emergence of entirely new content categories mean that leaders must master a far wider range of issues than was necessary before. Research into this strategic leadership challenge (Küng, 2016) identified four separate dimensions of the leadership task in legacy media organisations:

Role 1: The strategist

This role is about ensuring the organisation can navigate the 'valley of death', that is, can successfully master the technological turmoil affecting the sector. The relevant body of knowledge is strategic management, but the leader will need to choose concepts cleverly, since as we have seen in Chapter 3, many tools and techniques in the field are predicated on a stable environment. This dimension of the leadership task is directed at both internal and external constituencies: a strategy needs to meet owners' and shareholders' expectations about financial and market performance, and set priorities that provide a guide to action for those inside the organisation.

Role 2: Creative hero

At the heart of this dimension of the leadership task is the need to build a robust pipeline of successful creative products. It is probably the most natural role for media leaders, many of whom have come up through the creative or journalistic ranks. It is also the role least likely to encounter resistance from the organisation: creative workers usually want to be creative and support leaders who encourage this. This dimension of leadership involves focusing organisational energy on boosting creativity and building a pipeline of competitively successful products, and thus squarely on the internal organisation, on creating an organisational environment that allows new ideas to bubble up and be nurtured into successful products. As we saw in Chapter 5, this makes strategic sense: if the products the organisation creates are not compelling, performance will suffer. Conversely, if the organisation can generate a consistent stream of compelling and engaging products, the foundations of sustainability and performance have been laid: consumers, staff and financial stakeholders will be happy. So the higher the levels of product creativity, the greater the likelihood of market success and competitive advantage.

But creativity, which can anyway never be summoned on demand, gets even trickier when products, platforms and consumption devices are evolving as rapidly as they currently are. And the digital 'disruptors' such as Google, Amazon and Apple have further amplified the urgency for creativity in the classic mass media: while they may have developed powerful positions in distribution and sales to consumers, these organisations are still dependent on media organisations to produce professional content. Content is the last bastion of traditional media's expertise, and the stage in the value chain that the digital disruptors are finding it hardest to crack, thus content creativity is the legacy media's ace in the hand *vis-à-vis* the new competitors.

Role 3: Geek

This leadership dimension revolves around an ability to understand digital technologies and put them at the heart of the organisation, to insert technological awareness and expertise into its very DNA. It sits between the roles of strategist and creative hero, and leaders that master it bring enormous strategic advantage to their organisations: technology is shaping strategy, and technology is shaping products. But the geek role is perhaps the trickiest media leadership dimension of all. It involves understanding the basic trajectory of technology developments and how they may impact the media industry. For many, this involves an uncomfortable prioritisation – of science over art, of numbers over words. Media leaders are often not 'numbers people'. They prefer to leave technology to the specialists and concentrate instead on content, creativity and strategy.

Role 4: Corporate steward

This dimension of the leadership role differs from the others in that elements of it are officially prescribed, and clearly delineated in governance structures. It is also unique in that its focus is external, on owners, regulators, politicians and society. As 'steward', a leader carries the legal and moral responsibility for the organisation's activities with respect to the needs of society. These considerations are central to the leadership function but can be overshadowed by competitive pressures and strategic initiatives. This can have serious consequences for leaders' reputations, as Rupert and James Murdoch found out to their cost in the phone-hacking scandal in the UK in the summer of 2012.

This dimension of leadership has a number of unique characteristics. First, it has elements that are prescribed by regulation. A leader can decide to what extent he or she will be a strategist, geek or creative hero. But the role of steward is not optional. All leaders must ensure their organisation meets regulations concerning corporate governance, such as establishing transparent and accountable management reporting, procedures and processes. Media organisations must also conform to an additional set of industry-specific regulations. These concern characteristics of the content they produce and requirements to protect consumers, particularly children, from harm and offence. Although media regulation is extensive, there is also a grey area surrounding the boundaries of public taste and what constitutes ethical practice that can cause problems for leaders. When does coverage of celebrities' public lives cross the line from serving public interest to press intrusion? Which investigative journalism practices are acceptable? For media companies, the boundaries of public taste are sometimes evident only when they have been over-stepped.

BBC Director Generals and their Leadership Priorities

It is self-evident that a single individual is unlikely to master all of these roles. In the absence of collaborative leadership structures, one pragmatic and probably instinctive strategy for reducing role overload is to concentrate on one or two dimensions of the role, and pay less attention to the others. The history of recent BBC Director Generals shows how this can play out.

Sir John Birt (1992–2000)

Birt mastered three aspects of the leadership role: strategist, geek and corporate steward. He was a prescient early advocate of digital technologies, and his foresighted internet strategy means that the BBC is still a strong global player in digital media. Birt was also skilful in building relationships with politicians, to the extent that, despite hostile attitudes towards the BBC, he nevertheless secured a generous licence fee settlement in response to a rigorous internal programme of cost-cutting and reorganisation, which demonstrated to politicians that the BBC had shed its over-managed wasteful ways. However, in ‘delivering’ as strategist, steward and geek, Birt was perceived as harming the creative fabric of the BBC, and even today he is blamed by some in the organisation for damaging its unique culture.

Greg Dyke (2000–2004)

Dyke focused on one leadership role, the creative hero, and, as discussed earlier in this chapter, did this so successfully that he made it into management textbooks as an exemplary transformational leader. He sought to make the BBC the most creative media organisation in the world (and he was able to do this thanks to the generous licence fee settlement negotiated by his predecessor, John Birt). In addition, he was a clever strategist, combining his knowledge of media and of digital technology to launch a successful digital terrestrial television venture, Freeview. Overall, Dyke put proportionately less emphasis on the corporate steward role. He was impatient with complex management procedures and favoured a delegated leadership style. As discussed earlier in this chapter, a serious conflict with the government over the BBC's coverage of the government's case-building for UK involvement in the Iraq war eventually led to Dyke's resignation, and the subsequent Hutton Inquiry found fault with the BBC's management and editorial systems.

Mark Thompson (2004–2012)

Thompson appears unusually to have mastered all dimensions of the leadership role. As a strategist and as a geek, he showed that he understood the digital imperative, building on Birt's and Dyke's digital legacies, while at the same time fostering and emphasising creativity inside the corporation. Since his departure, however, controversies about written-off spending on technology projects and generous senior staff pay-outs suggest that he may either have given too little attention to the role of corporate steward, or have failed to emphasise enough publicly his understanding of the importance of this dimension of the role.

George Entwistle 2012

Entwistle was BBC Director General for just 55 days in 2012. During this time he looked set to focus on the role of creative hero. However, just weeks into the role, a chain of scandals arose from a dropped BBC investigation into a former BBC presenter who was subsequently exposed as a child abuser. Entwistle's wrong-footed response to these crises and unconvincing explanations of his decisions to Parliament led to an early resignation, and suggest a failure to perceive not only the centrality of the corporate steward role, but also the centrality of demonstrating publicly a priority placed on this.

The art of the elegant exit – knowing when to go

> The curse of the mogul is that while moguls' careers invariably begin with a great insight that creates value for shareholders, they somehow lose the thread of what the actual source of that initial value creation was. (Knee, Greenwald and Seave, 2009: 267)

George Entwistle did not manage an elegant exit from the BBC. The ability to make a graceful exit might be described as the ultimate leadership skill. The issue of leadership departure has been exhaustively studied, but diversity in terms of research contexts, methodologies, basic definitions and research fields make it hard to draw general conclusions from this work for strategy in the media sector.

Some of the most insightful findings come from derailment studies conducted by the Centre for Creative Leadership in the 1970s and 1980s. These identified four main causes for general managers' exits (Van Velsor and Brittain Leslie, 1995). The first is problems with interpersonal relationships, often arising from a failure to transition from the task-based leadership approach required in previous roles to a relationship-based one needed for general management. Failure to meet business objectives because environmental conditions have become more dynamic and complex is the second reason. Again, this stems from failing to transition from one leadership context to another. Failure to build and lead a team is the third issue. This arises from difficulties in shifting from a task-orientated, assertive approach to a participative and relational one. The final hurdle concerns an inability to adapt to changes in the marketplace or the organisational culture.

Leaving a good successor is part of the exit task. The findings of research into leadership succession are contradictory (Virany et al., 1992), perhaps due to methodological problems concerned with measuring leader effects (Yukl, 2002). Executive succession is a powerful means of correcting misalignments between an organisation and its environment (Virany et al., 1992), and a change of leadership is often required in mature and potentially declining organisations (Schein, 1992). Failing firms have lower rates of succession than non-failing firms (Schwartz and Menon, 1985). Such failures can stem from incumbent leaders' difficulties in changing established patterns (Bettman and Weitz, 1983).

Entrepreneurs and founders (both are prevalent in the media sector) have particular difficulty in giving up what they have created: they may be consciously grooming successors, but unconsciously seeking to prevent powerful and competent people from taking over, or they may designate successors but prevent them from having enough responsibility to learn how to do the job (Schein, 1992). Recent events at News Corporation and Viacom suggest that Rupert Murdoch and Sumner Redstone may be experiencing conflicts in these areas.

Conclusions

Leadership in the media is an under-researched field. Leadership theory is extensive but, because it is disjointed, it is hard to apply systematically to the sector. This chapter therefore needs to be viewed in the spirit of seeking to capture the current state of knowledge and giving impulses for further research.

It does, however, underline the close link that inevitably exists between leadership and strategy, and the relevance of this interrelationship for the media industry. It suggests that the media leadership role encompasses three different spheres: the outer, strategic environment which provides a starting point for strategy; the inner environment, the organisational eco-system comprising the many different organisational phenomena – particularly the interpretative ones – which must be brought into alignment if a strategy is to be implemented; and the internal relationship with the self – the ability to reflect and learn and to connect with others. It also highlights the range of 'sub-roles' contained in the media leadership task (or the number of leadership hats that must be worn at once) and the strategies that can be employed to pull off this extremely challenging requirement.

The examples in this chapter also underline the context-dependent nature of the leadership task in the media. Eisner offers perhaps the cruellest example since he was in many ways a victim of his own success. During the first 10 years of his tenure his entrepreneurial, detail-driven leadership fitted excellently to the nature of the management challenge and harmonised with the abilities of his leadership colleagues, and allowed him to transform a failing collection of media assets into a highly successful and complex media conglomerate. However, his success in this changed the leadership challenge at the same time that he lost his co-leaders. The organisation he created was too complex to be micro-managed, too diverse for a single management approach. His risk aversion and preference for internal growth were disadvantages in a converging industry where the blockbuster model was becoming the norm. The tight divisional coordination he championed maximised efficiency and return on investments but depressed creativity.

Finally, the chapter also shows that the task of leadership in the media sector contains many inherent paradoxes: the span of competencies and talents required is best served by multi-leader structures, yet these clearly complicate the decision-making process; the intricacies of the environment mandates that leaders develop heuristics to reduce complexity, but these can also limit strategic options when that environment changes too dramatically; the power, influence and responsibility make huge requirements in terms of self-knowledge and emotional maturity, yet individuals possessing such characteristics are unlikely to be able to stomach the temperamental, ego-driven, hard-nosed, power-hungry individuals that populate the sector. Paradoxes such as these are one of the subjects covered in the next chapter, which seeks to identify common themes and issues from the ideas presented in the book so far for researchers, students and practitioners.

Notes

1. This is based on a more substantial case in Küng (2015).

2. Increased profits stemmed from three main sources: raising admission prices at theme parks; greatly expanding the number of company-owned hotels; and distributing the animated classics on home video (Stewart, 2005).

3. Reavis, C., Knopp, C.-I. and Rapport, J. F., *Disney's 'The Lion King' (A): The $2 Billion Movie*, Harvard Business School Case 9-899-041.

4. *Fortune*, 6 September 1999.

5. Roy Disney's Letter of Resignation from the Board (www.usatoday.com/money/media/2003-12-01-disney-letter_x.htm).

6. *Fortune*, 6 September 1999.

9 Conclusions – The End of the Digital Beginning

The subtitle of this book is 'Theory to Practice', but it could just as easily be 'From Concepts to Cases'. This final chapter seeks to move from the theory, concepts and cases that have formed the core substance of this book so far to look at the implications of its contents for practice. It therefore shifts from descriptive to prescriptive, and highlights a number of key issues that the analysis here raises for managers in the media and those researching the field.

Eight years on since the first edition of this book, how has the task of strategy in the media changed? The task of this concluding chapter is pattern recognition, one of sifting through the analysis of concepts and cases in the previous pages, of triangulating theory and practice, to identify the core common themes concerning strategic management in the media. Many of the central themes identified in the last volume are still relevant, but a number of important new ones have emerged to top the agenda.

Digital and converged are the new normal

When the first edition was written, there was a clear distinction between 'mass' and 'new' media. The majority of media were 'mass', and while the shape of things to come was becoming clear, new media activities were still often an extension of standard business. Today, convergence as predicted a decade ago has come to pass, digital technologies are central to content creation, distribution and consumption. What was once an add-on to the core business is now part of the core business. Certain media products and performers can still command mass media attention (*Game of Thrones*, Adele, FIFA world cup finals), but mass audiences are increasingly to be found on the social networks rather than in front of the television, indeed in some senses the social networks are the new mass media.

Ascendency of tech

The fact that digital and converged are the new normal reflects the commanding role technology now plays in the media industries. The sector is now firmly linked to the technology industry, to the social media platforms, and to telecoms providers. These industries will continue to drive innovation, and shape the models for content and its delivery, and for how organisations are built and run.

A central challenge for the media now is to ‘re-view’ technology, to accept it has moved from a facilitating factor to the motor of change, and that is integral to content, creativity and strategy. It lies at the heart of performance-defining core competencies. Technological awareness and capabilities need to be infused throughout the organisation, from the newsroom to the boardroom, and the skills required range from digital story-telling and data analytics to building relationships with digital distribution platforms and creating the right technology infrastructure. And, as discussed in the pages of this book, the ascendency of technology will have knock-on effects on the shape of organisations, on content creation processes, on cultural values and on leadership roles.

Strategic leverage from autonomy

Autonomy is another recurring theme. There is a reason why tech giants like Google and Facebook, and also some of the newer successful creative organisations, like BuzzFeed and Pixar, have small autonomous groups as a basic organisational building block. Autonomy is first among equals of all the organisational elements that further creativity, as discussed in Chapter 5. The ability to synthesise autonomous small group creativity with the marketing and distribution capability of a large sophisticated organisation is a consistent trait that distinguishes strong performers in the field – companies like Home Box Office, BBC News, *The Economist*, Schibsted, and Axel Springer. This means cutting bureaucratic sinews. As Jeremy Isaacs, Founding Chairman of Channel Four, once put it, creative people need the space to be creative. But as discussed in Chapter 5, that autonomy needs to be carefully calibrated, and small groups operating autonomously still need to be well linked to the rest of the organisation to ensure knowledge and learning can be transferred and creative potential fully exploited.

Change is still a constant, and becoming faster and more complex

When the first edition of this book was written, the first common element affecting strategic management in the media industry was the permanent presence of change, and this is still an important theme. Indeed, change is one of the key themes in this entire book. The contours, sectors and boundaries of the media industry are increasingly hard to disentangle due to the extraordinary level of change that has taken place over the last 20 years. The industry is in a state of permanent and speedy evolution as technology innovations create new platforms, formats and consumption methods, and consumer behaviour evolves in response. These shifts are fundamental and irreversible.

The scope of the challenge this presents is significant. Toffler's (1970) change typology provides insights into why. First, the pace of change is accelerating – developments are following another with increasing rapidity. This can be seen in all sectors but television illustrates it particularly well. For decades major shifts occurred every decade or so: black and white television developed in the 1950s, colour television in the 1960s, the VCR and cable television in the 1970s and 1980s. However, since the 1990s the industry has had to contend with a series of rapid innovations – digital television, HD television, on-demand and catch-up services, and streaming services such as Amazon Prime and Netflix. Second, the 'novelty ratio' is rising, meaning that the change brings new elements into the television eco-system – the convergence of social media services with broadcast television, the entry of tech giants such as Apple, Google and Amazon into sector business models and value chains. These products and services are new, hard to classify and therefore hard for established organisations with established competencies and assumptions to respond to. Third, the change is diverse in that changes of different types are occurring simultaneously and therefore the range of possible outcomes is very wide, which complicates strategic decision-making, especially since responses inevitable require expensive bets on emerging technologies. The result is upheaval and uncertainty, an environment rife with developments that theorists would term discontinuous or transformational: existing structures are being destabilised and business models undermined, and a new industry ecology is emerging which is populated by new actors from outside the traditional industry.

This sounds bleakly challenging but, when viewed historically, the media industries are surprisingly resilient. In the 1920s the music industry was almost destroyed by the advent of radio. The film industry hit crisis in the 1940s when television became a mass consumer product. The music industry was rocked by digital downloading and internet file-sharing. But these sectors are still in business, although they have adjusted their business models and broadened the scope of revenue streams.

The scope, velocity and convoluted nature of environmental change have had a massive impact on content strategies. Content has always been supremely unpredictable. Demand is uncertain, success is random, and there are no guarantees about what products will capture the public's imagination. The traditional response, as discussed in this book, was the 'mud against the wall' formula: invest in high volumes of new products hoping some will spark random interest. Essentially, a portfolio of products – books, CDs, films, etc. – are made available on the market, and the media company would wait to see what sells. An amalgamation of the factors, including digitalisation, globalisation, new distribution platforms, increasingly powerful agents and consolidation, resulted in an alternative approach, the blockbuster or hit model, which was an aggressive focus on the few products judged to have the best likelihood of success. It has had widespread ramifications. The classic media industry became increasingly hit- and star-driven, and costs for talent and marketing escalated as a result. Now, while both these strategies are still in place, new models are emerging that combine the wide variety of content typical of a 'mud against the wall' formula with a huge concentration of audience attention characteristic of the hit model. This is made possible by another combination, the ceaseless innovation in digital media formats paired with the potential for viral distribution offered by social media networks.

Reconciling dualities

As discussed above, in current media markets, an apparently random piece of content (say BuzzFeed's Watermelon video) can suddenly 'go viral', and thus the hit model and the 'mud against the wall' approaches are in some cases combining. In management theory terms this is known as reconciling a duality. Dualities arise when opposing priorities exist that need to be balanced because even if they appear contradictory they are in fact complementary (Bahrami, 1992; Sanchez-Runde and Pettigrew, 2003). Reconciling these opposing forces represents a huge management challenge because as priorities they are equally valid.

Dualities comprise a recurring theme in this review of strategic management in the media. An obvious duality concerning media products, one that has been mentioned in this book but is also cited often by practitioners and scholars, is the tension between creative and business imperatives. Hirsch (1972) sees this as the fundamental driver of all strategic choices in the cultural industries. Lampel et al. (2000) identify a sub-facet of this 'ur-dilemma': that is, in addition to reconciling artistic expression with business imperatives, media organisations need to create products that are novel but still recognisably belong to a specific category, which means they are therefore likely to find a market.

The tension between artistic and commercial imperatives is a central force in many media organisations. But in the current environment, arguments can be made for a second 'core dilemma'. This relates to issues of strategy and organisation rather than content, and concerns reconciling the need to innovate *and* optimise, which is expressed in the need for diversity *and* harmonisation, for autonomy *and* centralisation.

Because audiences are fragmenting, demand is fickle and attention spans are shrinking, media firms need to be able to depart from standard product formats and experiment with new content concepts, addressing new market niches or using emerging technologies. As we have seen, this type of creative output flourishes in environments that offer autonomy, flexibility, creative freedom and the opportunity to develop independent sub-cultures, and where roles are loosely defined, reporting mechanisms are relaxed and there is scope for experimentation.

However, generating great content requires more than a steady stream of great ideas. In a highly competitive industry, great content also requires high levels of investment and expertise, particularly in terms of technology and marketing to reach its potential. This in turn mandates critical mass and mastery of the complexities of cross-media product management.

Creating an organisation that combines the free space for small groups to be creative, unencumbered by bureaucracy, with the resources and infrastructure needed to finance and support successful products represents a tremendous challenge. Failure to master this duality is implicated in some high-profile leadership failures. Greg Dyke, as Director General of the BBC, made one pole of the spectrum his priority. He sought to make the BBC less bureaucratic and to reduce the hierarchical and rigid processes that had been introduced by his predecessor and which Dyke believed were limiting creativity and depressing morale. He strove to make the BBC more flexible, open and innovative, and emphasised the importance of imagination, involvement and personal empowerment. He was successful in this task – creativity and audience responsiveness increased and the workforce became markedly more enthused and committed. However, the internal control processes that are necessary in a publicly funded organisation with strong social interest obligations were weakened. The furore over the broadcaster's handling of the Iraq dossier affair highlighted how the BBC's internal management processes had loosened in the Dyke era and led to his resignation.

Conversely, while CEO of Disney, Michael Eisner laid an operational emphasis on the other end of the spectrum. He favoured tight internal coordination and process optimisation, and indeed was lauded for his synergistic management of Disney's content assets. But these systems squeezed out creativity, leading to an unremitting series of box office failures. Disney was left an organisation that could exploit creativity but not engender it.

A further duality is particularly apparent in Chapter 6 on culture and mindset. It concerns the tension that arises from needing to distil a set of operating precepts that allow the members of an organisation to meet strategic goals in a complex environment, and which will simplify decision-making, reduce ambiguity and introduce stability, against the fact that the ongoing nature of that organisation change means that even as they are learned they need to be challenged, revised and updated.

Implications for media management research

As discussed in Chapter 1, the unusual way in which the discipline of media management has developed, and the range of researchers in it with theoretical knowledge from outside management, means that research has applied a wide range of theories from economics, political science, media studies and mass communications and journalism, but fewer from the disciplines of management and organisation. Much attention has been focused on exogenous changes (technology, regulation and consumption, for example) and relatively little on internal firm dynamics and how these impinge on performance outcomes.

The research that does exist into strategy tends to employ models from the rational school. This has increased understanding, for example, of the structure and dynamics of firms and their changing environment and of the strategic resources that will lead to strategic advantage. A research priority for the future is to complement insights from the application of rationalist approaches with those applying models from the adaptive school (relevant for unstable environments), and from interpretative schools (which concern how the higher-order aspects of firms influence performance).

In addition, there are streams of management research that are relevant but seldom applied to the media but should perhaps be – business history, for example, because of the opportunities it offers for capturing learning from the past and seeing retrospective patterns. Theories on the management of professional service firms might also be pertinent since they centre on the challenges of working with intellectual capital and a highly educated, independently minded workforce.

Research methods

With these conclusions in mind, recommendations can be made for research methods. All stem from a central premise that researchers need to get ‘inside the black box’ of media firms and gain deeper insights into the phenomena that guide behaviour and strategic outcomes in the media industries.

First, a contextualist orientation, that is one that places research within a broader frame that includes the organisation’s internal and external environments in the widest sense, and particularly social, political, technological and historical influences, is important. Further, because environments, organisations and strategies are constructed rather than being natural objects, research needs to capture the perspective of the actors involved: we need to supplement studies on how structures and systems are materially changing with studies that provide insights into how these developments are perceived by those involved.

Processual approaches, which do not assume a linear relationship between formulation and implementation, but rather seek to understand the multiplicity of non-rational elements that are called into play, would provide deeper understanding of how these changes take place. They can accommodate the intangible covert organisational elements that are so important to the performance of media firms.

Finally, pluralism is necessary because both the industry and the changes taking place in it are complex phenomena. Time and again, the examples in this book show that performance arises from constellations of factors – cognitions, unique strategic assets, creative insights, collaborative leadership and other idiosyncratic combinations of phenomena. Thus, the issues that influence strategy and performance in media firms are many and interwoven, and to investigate these we need integrative methodologies that incorporate different perspectives, that allow entities to be understood in their context, and the relationship between variables to be teased out and analysed. Multi-lens analysis, which involves applying a series of theoretical lenses to data, is an option since it allows cross-disciplinary and cross-paradigm interpretation and can accommodate the untidy, idiosyncratic and dynamic interrelatedness of organisations and their strategic activities.

Conclusions to the conclusions

These are interesting times for the media industry, and interesting times in which to be writing a book on strategic management in the sector. This volume has tried to keep two goals in mind: to present a meaningful analysis of strategic concepts that are significant for the media industries, bearing in mind the enormous range of potential candidates, and to apply these using examples from the media industry in such a way that their relevance is evident.

The media industry is at an extraordinary point of transition. Things that were happening slowly are now happening fast. We are at the end of the digital beginning: convergence is a reality, the mass paradigm is eroding, and the media industry is inexorably drawing closer to the technology sector.

This is a context that presents both enormous challenges and fascinating opportunities, for researchers and students in the media field as well as for those engaged in strategic activities in media organisations. The strategic concepts and examples covered in this book have been selected with this context in mind, and I hope they provide assistance and enlightenment to anyone involved with strategic management in the media, whether from a theoretical or a practical standpoint.

Writing this second edition of *Strategic Management in the Media* has allowed me to review anew the nature of the media industry and to reflect on the very profound changes that have taken place in just eight years. It has shown how prescient industry observers were a decade ago, and also how hard it is for humans and organisations to change, even when the need to adapt is evident and pressing. In the adapted words of David Bowie, it is indeed time to turn, to face, and embrace the change.

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