Chapter 23
Fostering Innovation in Converging Audiovisual Media Services:
Do Mergers and Acquisitions Really Help?

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ABSTRACT

The digitalization of media content and communication processes has been used as the main justification for an important turn in the design of regulations affecting various audiovisual media services and information industries, more in general. A brief case study presented in this chapter will testify that from the 1950s until the 1990s the United States' regulator facilitated the introduction of fundamental innovations by preventing vertical mergers between different audiovisual media services. On the contrary, nowadays regulators in different parts of the world seems to agree that differentiating between different technological platforms can hinder the emergence of new multimedia services based on technology convergence as well as the establishment of inter-platform competition. Alternative economic principles and the rationale of the old regulatory regime are used here to challenge these mainstream arguments, which justify the raise of the new and 'converged' information conglomerates.

INTRODUCTION

This chapter focuses on the benefits and shortcomings of mergers and acquisitions (M&As) in audiovisual media services, defined as all activities participating in the creation, distribution and delivery of audiovisual media content to end-users. In particular, this chapter describes the viewpoints of two types of stakeholders: the companies and the regulator. As the examples used to illustrate the relevance of different theories and claims regard the information sector of the United States, the regulator featuring in this account is the Federal Communication Commission (FCC).

In order to describe the current socio-economic climate and to define and explain the relationship between digitalization, convergence and the emergence of information conglomerates, this writing starts with the relevant literature review. Then the evolution of the audiovisual media services,

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described through the most important technical and regulatory changes, is used as a case study of the 'old' regulatory regime dominating the information sector. From the history of this sector it emerges that, from the 1950s until the 1990s, the FCC and the large companies that dominated cinema box offices (i.e. the 'majors') had different viewpoints concerning the consequences of M&As. While many new activities emerged as a consequence of new ideas, new technologies and other innovations, the majors tried to own and/or control companies carrying out different types of activities within the sector in order to secure the distribution and exhibition of their products. The FCC, on the other hand, introduced many regulations aimed at avoiding the dominance of large companies and aimed at favoring the multiplication of independent media outlets.

The convergence of media and communication technologies seems to have also created a convergence of opinions between the FCC and the information conglomerates. While some communications scholars suggest that the recent wave of regulatory changes is determined by many factors, including the dominant ideology (see Dal Yong, 2008) or the pressure exerted by key corporations (e.g. McChesney, 1999, 2001), this chapter focuses on describing and challenging the rationale provided by the FCC to explain the benefits that society (and not just the corporations involved) draws from the emergence of larger and more powerful information conglomerates. This paper will argue that the FCC uses arguments underpinned by mainstream economic theories to justify M&As, and as a result, it implicitly compares information conglomerates to Fordist organization and manufacturing industries, which become more capable of introducing important innovations as they become larger. As explained in the closing sections of this paper, alternative economic principles can provide new and different arguments explaining that, on the contrary, fragmentation and interdependence between activities can foster the rate of innovation in the information sector. Furthermore, these arguments can bring to light new solutions to what has been considered so far a trade-off between favoring innovation in the information sector and preserving or expanding the range of diverse sources of information that users-citizens have access to.

BACKGROUND

The digitalization of media and communication technologies is radically transforming information industries and the way in which they affect the life of users-citizens. The swarm of changes that has involved digital communication technologies can be divided into four clusters of innovation. The first of these clusters concerns the digitalization of media and relates to the creation, storage, delivery and use of media products and services. Thanks to this cluster of innovations, media content is now de-materialized, separated from its physical form so that it can be manipulated far more easily than analogue forms. Moreover, the data generating content can be compressed in very small spaces and accessed at very high speeds and in non-linear ways (Lister, Dovey, Giddings, Grant, & Kelly, 2003; Flew 2007). The innovations responsible for the digitalization of media (i.e. the improvements in semiconductor technologies) are also at the origin of the much-debated information, communication and media industries' convergence, as communications and media content can now be routed and delivered using different combinations of tools and networks.

In the literature, there are at least three main strands of convergence studies and each one of them has a particular focus (Küng, Picard & Towse 2008). A first approach focuses on computers and their increasing role as versatile communication tools, while a second approach focuses on the rise of new networks and their capacity to offer different communication services. A third approach looks at the consequences of digitalization on the organization of the communication sector and the

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