Covert Consolidation?
Media Ownership in the U.S.

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Abstract

The United States is in the middle of a crucial policy debate about media ownership. The lines of demarcation are clear. On the one hand, the media industry claims that regulation is burdensome, unnecessary and, most importantly, disruptive of market mechanisms that should dictate how the media are organized. Alternatively, media reformers argue that a reliance only on the market to produce information has resulted in its treatment as a commodity to the detriment of the public interest. Therefore, fundamental information that the audience needs about public issues to function as citizens is compromised, so much so that we engage in a "politics of illusion".

The flashpoint of this clash of views is starkly evident in the shared service agreements that have occurred in almost one-half of the television markets in the U.S. These agreements are implemented among television stations in the same market in which everything from advertising sales to entire news operations come under the control of one entity. To the media industry these agreements are necessary to achieve economies of scale to secure the survival of stations that face growing competition from other news sources such as the Internet. Media reformers claim that these agreements violate both the spirit and the letter of the laws that limit media ownership---that they are "covert consolidation".

In this research, I examined the effect of these agreements on the content of news. Do the stations achieve economies of scale? If so, how? What does that mean for the nature of news that we see? For the information needs of citizens? For the fundamental questions regarding the structure of the media in a democracy?

Keywords:

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The United States is in the middle of a crucial policy debate about media ownership. The lines of demarcation are clear. On the one hand, the media industry claims that regulation is burdensome, unnecessary and, most importantly, disruptive of market mechanisms that should dictate how the media are organized. On the other hand, media reformers argue that a reliance only on the market to produce information has resulted in its treatment as a commodity to the detriment of the public interest. Therefore, fundamental information that the audience needs about public issues to function as citizens is compromised, so much so that we engage in a "politics of illusion" (Bennett, 2007).

Although there have always been various views on the topic, the issue received intense attention when the Federal Communications Commission (FCC), after completing a mandatory review, adopted rules in 2003 that relaxed broadcast ownership limits. To say that the rules were controversial would state the case mildly.

It was not a routine set of rule changes, but a striking change in the structure of the media system. The decision opened up cross-media ownership in the same market, inviting newspapers and broadcasters to operate under one roof in every major city. It also permitted a substantially increased media concentration in local and national television markets, tilting market conditions to favor larger firms and conglomerates (Scott, 2004, pp. 645-646).

The response to the rules changes was overwhelmingly negative. Not only did the FCC receive over 750,000 messages from citizens, over 99 percent of which opposed the rule changes, the opposition occurred across the political spectrum including the National Organization of Women, the U.S. Conference of Catholic Bishops and the National Rifle Association (Feld, 2007). Arguably, the most important step was taken by the Prometheus Radio Project that sued the FCC in the Third Circuit Court of Appeals. The Court stayed the implementation of the rules finding that they would cause irreparable harm (Prometheus Radio Project, 2003). Since the ruling, the issues of media ownership, regulation and markets have been intensely debated by the media industry, media reform groups, the government and the public through successive reviews of media ownership rules. The required review of the rules in 2006 was postponed until the following year and it only stirred up more controversy by rescinding a 32-year old ban on media cross-ownership. As of March 2012, the 2010 mandatory review is still in the decision-making process.

The flashpoint of this clash of views is starkly evident in the Shared Services Agreements (SSA)¹ that have occurred in almost one-half of the television

¹ Depending on their characteristics, these agreements are variously called Joint Services Agreements (JSA), Local Marketing/Management Agreements (LMA) and Local News Sharing agreements (LNS). In this article I use the term SSA to refer to all such agreements.
markets in the U.S. These agreements are implemented among television stations in the same market in which everything from advertising sales to entire news operations come under the control of one entity. To the media industry these agreements are necessary to achieve economies of scale to secure the survival of stations that face growing competition from other news sources such as the Internet. Media reformers claim that these agreements violate both the spirit and the letter of the laws that limit media ownership—that they are "covert consolidation".

It is uncertain what impact these agreements have on the content of local news in markets with stations that have adopted this practice. There are critical questions about these arrangements that must be examined. I have done so in this research by conducting a content analysis of the newscasts in eight television markets in which there is, at least, one of these types of agreements in operation. Do the stations in these arrangements function as separate entities? What might these arrangements mean for the consideration of media ownership regulation? What effect, if any, do these agreements have on the content of news? Do the stations achieve economies of scale? If so, how? What does that mean for the nature of news that we see?

Local TV News Content & Shared Services Agreements

The availability of information about public issues has significant consequences in localities and there is an expectation by the public that information about these issues will be available through their local media. There was a strong relationship between community integration and local media such that the “use of local news in newspapers was a somewhat better predictor of community knowledge and participation but local television news had a decided edge in local political interest” (McLeod, J., et al., 1996, p. 203). Further, when that information is lacking or there are gaps in access to that information, voter turnout may decrease (Filla and Johnson, 2006). In fact, there is substantial evidence that demonstrates the importance of local news content to local political and economic outcomes (George and Waldfogel, 2003; Stromberg, 2004). Gentzkow (2006), however, presents an argument that television has decreased voter turnout over time.

The production of news is subject to a calculus that treats information as a commodity (Hamilton, 2004) and that treatment has an effect on the nature of news and public affairs programming in local places (Yan & Napoli, 2004). Local television news remains the critical information source about their localities for the American public. Even in the age of the Internet, almost eight of ten Americans get their news from a local television station (Waldman, 2011). Further, almost two-thirds of the public identified local television news as their dominant local news source, significantly more than any other source (Pew, 2009). Indeed, the FCC’s seminal study of the information needs of communities concluded that, “In many ways, local TV news is more important than ever” (Waldman, 2011, p. 13). Further, even though local newscasts
comprise about *fifteen* percent of broadcast time, they account for almost *fifty* percent of station profits (Pew, 2010).

According to the FCC, between 1996 and 2010 there was a fifteen percent *increase* in the number commercial television stations in the U.S. and a thirty-three percent *drop* in the number of owners of those stations. (Federal Communications Commission, 2010). In addition, the FCC reported that there were 175 television station duopolies, which include owners with “attributable local marketing agreements” (what I have called SSAs in this paper) in the 210 television markets in the U.S. (Federal Communications Commission, 2010, p. 3). These agreements are arrangements among stations in the same television market in which they share newsgathering resources, video, and/or marketing and management activities. Although these arrangements date as far back as 2000, in the midst of national economic instability, increasing numbers of local television news stations have signed these agreements. Purportedly, these agreements are expected to help relieve some of the economic burdens that are shouldered by local stations in gathering and presenting news content. The implementation of these SSA agreements, whether they involve sharing newsgathering resources or overall management of the station, has implications for each of the fundamental principles on which the FCC regulates the broadcast industry---diversity, competition and localism. That is especially important because the FCC is in the process of making decisions about media ownership that it has postponed since 2010.

One factor that may help explain the movement toward SSAs may be the debt that many television owners face. Despite positive revenue reports, “local television stations remain less than attractive take-over targets”…due to the “enormous debt that many station owners took on when they purchased properties in boom times” (Pew, 2011). Specifically, in 2010, only about six full-power stations were sold as the debt decreased stations’ market value. “Instead of outright sales, more stations entered into joint and/or shared services agreements with former competitors” (Pew, 2011).

Another factor that makes SSAs (rather than purchase) a reasonable economic strategy from the media firms’ perspective is the continuing uncertainty about media ownership rules that have been under review by the FCC. After postponing the 2010 proceeding, on December 22, 2011 the FCC finally released a Notice of Proposed Rulemaking that indicated that it would look more closely at service agreements:

> Instead of focusing on attributing certain named agreements (e.g., JSAs, LMAs, SSAs, LNS agreements) as we have in the past, should we adopt a broader regulatory scheme that encompasses all agreements, however styled, that relate to programming and/or operation of broadcast stations (Federal Communications Commission, 2011a, pp. 81-82)?
The FCC’s intention to examine services agreements is directly attributable, in part, to a decision it rendered in November 2011 in which it allowed an SSA to continue in the Honolulu, Hawai‘i television market. There are five stations in the market that deliver daily news broadcasts and, in August 2009, the owners of three of the stations announced the implementation of a SSA in which the control the stations would come under Raycom Media’s management to “creatively and successfully address the impact of the negative economy and to secure the future of all three television stations in Hawai‘i” (tvnewscheck.com, 2009). The news operations were combined and one-third of the stations’ employees were dismissed (Dateline Media, 2010). The CEO of Raycom articulated the economic reasons for the action:

The purpose of the shared services agreement is to not only secure the future of KHNL, KFIVE and KGMB, but to operate them more efficiently and effectively without diminishing the quality of news and other programming provided to our customers in Hawai‘i….the economic reality is that this market cannot support five traditionally separated television stations, all with duplicated costs. (tvnewscheck.com, 2009).

The SSA was officially challenged by a local non-profit organization, Media Council Hawai‘i (MCH). MCH, represented by the Georgetown University Law Center, filed a complaint and request for relief with the FCC on October 7, 2009. MCH’s filing was the only formal challenge that the FCC has received from a community group in any of the television markets in which SSAs are in effect.

MCH contended that the SSA between Raycom and MCG Capital would result in “an unauthorized transfer of control in contravention of the Communications Act and FCC rules” (Campbell, 2009, p. 1). Further, MCH stated that these actions “would harm the members of Media Council Hawai‘i and the general public by reducing the number of independent voices providing local news from four to three, and by substantially reducing competition in the provision of local news and the sale of advertising time” (Campbell, 2009, p. 2). On November 25, 2011 the Media Bureau of the FCC rejected MCH’s complaint against Raycom (Federal Communications Commission, 2011). However, it made its ruling on the technical question regarding whether Raycom acquired control of a new license and it added the caveat that:

Further action on our part is warranted with respect to this and analogous cases…whether the actions taken by the licensees in this case, or analogous actions by other licensees, are consistent with the public interest (Federal Communications Commission, 2011b, p. 6).

Part of the reason for the Media Bureau’s “technical” ruling in support of the agreement was the fact that I had submitted research examining local news
content before and after the implementation of the Honolulu SSA. It was the first and only research of its kind and I found that the SSA had significant negative effects on local news content. The FCC could not and did not ignore that finding.

Research Question & Methodology

The basic question for this research was to examine the content of the local television newscasts in eight television markets in which SSAs and/or LMAs were implemented. Specifically, the research question focused on: (1) the distribution of stories across the newscasts of the stations and (2) the distribution of anchors, reporters, story scripts and video/graphics across the SSA/LMA stations.

These research questions address the economies of scale that the managers of SSAs cite to justify the agreements. They fall into two categories: (1) the distribution of stories across “platforms” and (2) the use of production resources that affect the bottom line of the cost of presenting news, specifically the use of anchors, reporters, scripts and video.

Methodology: The methodology for this research was content analysis (Riffe, Lacey & Fico, 2005). It is a method that produces a systematic and objective description of information content. The analytical method used in this research was the Chi-square measure of association. Content analysis has been used extensively over time to examine local television news (Alexander & Brown, 2004; Chermak, 1994; Gilliam & Iyengar, 2000; Yanich, 2004).

The Television Markets: I focused on SSAs and/or LMAs in which the stations shared the news function because, by definition, they affected the production of the newscasts. The content of the broadcasts for this research was provided through an agreement with DirecTV. At the time that the sample was drawn, the universe of television markets in which SSAs were operative was 55. The randomly drawn sample comprised eight television markets in which 37 stations regularly produced local newscasts. The markets ranged in size (as measured by the number of television households in the market) from number 17, Denver, CO to number 146, Wichita Falls, TX and collectively comprised over 4 million television households.

The markets represented a variety of ownership and management profiles. For example, Denver, CO, Des Moines, IA, Burlington, VT and Columbus, GA each had only one consolidated management structure in the market. Each of the other four markets had some combination of two SSAs or LMAs or duopoly. That phenomenon was most pronounced in Peoria, IL and Wichita Falls, TX where there was no station in either market that was independent of an SSA or LMA arrangement.

The stations in the sample: The stations in the sample consisted of every station in the television market that regularly delivered a daily local newscast.

The sample of broadcasts: The sample of programs comprised a constructed week of broadcasts, consisting of the newscasts of a particular day gathered
over an extended period of time. For example, the Monday of the first week was included in the sample. The Tuesday broadcast of the second week was included, and so on until the broadcast week was constructed. The broadcast week was limited to Monday through Friday to eliminate the possibility of weekend sporting events that might have pre-empted newscasts. The dates to begin the capture of newscasts were randomly drawn.

**Unit of observation:** The unit of observation for this research was the individual stories that appeared on the broadcasts. Coding revealed a total of 2,555 stories.

The broadcast content was coded by five communications students who were trained to use the coding protocol. A test for inter-coder reliability revealed that agreement among the major content variables had a range from 69 percent (story type) to 98 percent for the appearance variable with an average of 84 percent. As expected, given the assumptions inherent in these indices, the Cohen’s kappa scores for the same variables were generally lower than the agreement scores, averaging .77. The kappa scores for each of the variables met the generally accepted criteria of, at least, “fair to good agreement beyond chance” (.40-.75) and several of the kappa statistics above .75 reveal “excellent agreement” (Banerjee, 1999, p. 6). Importantly, the very high kappa scores were achieved for the most crucial variables regarding whether or not the same story appeared across the stations.

**Findings**

The FCC’s Notice of Inquiry regarding media ownership that it issued in May 2010 specifically addressed the question of ownership structures within television markets. An increasing number of those structures now involve agreements among stations that are not ownership arrangements, but they stipulate a set of conditions in which the parties share fundamental aspects of the operation of the station.

The stated purpose of the agreements was to achieve economies of scale in the production and distribution of news. That was to be accomplished by using two approaches. First, the production of news was consolidated as previously competitor news operations were combined into one entity. Second, the news that was produced by that entity was presented on the newscasts of the combined stations. The crucial question was how those practices affected the newscasts in the television market.

What were the results of the analysis? The short answer is that the implementation of SSAs and LMAs had a profound effect on the local newscasts in the markets. The effect was evident in the distribution of stories across the stations and in the use of shared resources, such as the anchor, the reporter, the script and video/graphics for the story. There was a statistically significant difference between the SSA/LMA and non-SSA/LMA stations (p<.05). That said, the effect on both of these characteristics was varied across the markets.
To wit: in most of the markets, the SSA or LMA stations broadcast a sizable proportion of stories on a combination of their stations:

In Denver the proportion of combination stories was 71%;
In Jacksonville, the SSA proportion of combination stories was 64%; but the duopoly in the market produced a simulcast so the proportion of combination stories for that arrangement was 100%;
In Dayton, one LMA’s proportion of combination stories was 98%, however, it was only 35% for the second LMA in the market;
In Peoria, where there were no independent stations, the SSA proportion of combination stories was 78%; the LMA’s proportion was 59%;
In Burlington the SSA’s proportion of combination stories was 58%;
In Des Moines and Columbus, the proportion of combination stories was below half;
In Wichita Falls, where there were no independent stations, the proportion of combination stories for one SSA was only 30%, while the second SSA broadcast very few stories in combination.

From these findings we know that, for the most part, SSA and LMA stations took advantage of the arrangement to present stories on a combination of their stations. Given the nature of the agreements, we could expect that result.

The use of various “platforms” to present the stories was one aspect to consider. However, perhaps the most important factor to gauge the economies of scale achieved by the agreements was the use of particular resources that affect the bottom line—the personnel used to convey the content of the story (anchors and reporters) and the content used to describe the story (script and video/graphics). Both factors represented a cost to the station. The SSA and LMA stations took full advantage of the access to these resources, particularly scripts and video/graphics:

In Denver, the LMA combination stories shared the same script and the same video/graphics about two-thirds of the time;
In Jacksonville, the sharing of script (21%) and video/graphics (47%) for the SSA was less prominent, but, by definition, the duopoly’s simulcast in the market produced shared resources 100% of the time;
In Dayton, the two LMAs handled the resources differently; 97% for both script and video/graphics for LMA1 (the same LMA whose proportion of combination stories was 98%) and 52% (script) and 80% (video/graphics) for LMA2;
In Peoria, both the SSA and LMA stations used the same script for over nine out of ten stories and the same video/graphics for about the same proportion of stories;
In Columbus and Wichita Falls the proportion of combination stories in both markets was well below fifty percent, but when the stories were broadcast on the combination of stations, they used the same script most of the time (90% and 80% for Columbus and Wichita Falls, respectively) and the same video/graphics (86% and 89%, respectively);
In Burlington about three-fourths of the combination stories used the same script and four out of five stories used the same video/graphics;

In Des Moines the SSA had the least effect on the use of these resources, just over one-third of combination stories shared the same script and over half shared the same video/graphics.

By these measures, we see that the SSAs and LMAs had their intended effects regarding the achievement of economies of scale. These measures focus on the specific aspects of the agreements that their managers said would underpin the combined news operations—the use of multiple platforms and the shared use of resources. These findings confirm that the SSAs and LMAs functioned as planned—they used the multiple platforms and they shared the resources necessary to convey the stories. As I said previously, we could expect those actions, otherwise, the stated economic purposes of entering into the agreements would be moot. The obvious and unambiguous result was a reduction in the number of separate news voices in the markets.

Conclusion

The movement toward service agreements undoubtedly will continue. There are economic incentives for such endeavors. In fact, the Coalition of Smaller-Market Television Stations filed an ex parte comment with the FCC and met with FCC staffers in December 2011 to press the case for the need for shared services agreements (Eggerton, 2011). The record shows that these arrangements have invariably resulted in a loss of jobs in, at least, one of the stations involved in the agreement. In addition to the losses Honolulu, the SSA in Idaho Falls, ID resulted in the loss of 27 jobs (Ariens, 2011). In Providence, RI, fifteen jobs were lost when Citadel Communications began a LMA with ABC affiliate (Derderian, 2011). Such is the nature of mergers.

Media firms are trying to create new economic models. E.W. Scripps President/CEO Rich Boehne makes the case forcefully when he states that the model of free content offered by local newscasts and newspapers is unsustainable. Scripps will aggressively experiment with and create models that will take that “high-value premium content and derive much more revenue from it than we do today” (Malone, 2010). He continues that, “we very much believe that local broadcast markets over time will consolidate” (Malone 2010). He is confident enough in that assessment that he makes the offer to media firms to take over their news stations’ operations saying that, “It is time to build brands and take market share, mind share, audience share under a local brand when we have the opportunity” (Malone, 2010).

In large measure, the SSAs and LMAs that I examined in this research created the very type of local brands that Boehne envisions. The SSA and LMA managers assiduously advanced the news brand, most often with the same slogan and on the same website. It is interesting to note, however, that the stations do not readily indicate the existence of the services agreements, except by inference. On their websites the “about us” sections do not typically
offer any information about the arrangement. The inference comes from the claim of the same news brand and the same slogan.

Local television stations are private firms and they have a fiduciary responsibility to provide a return on investment for their owners. However, they conduct their business using a public good—the electromagnetic spectrum. And that imposes public interest responsibilities on the stations as well. Their newscasts are the most profitable portions of their programming. Therefore, there has been the perennial balancing act between what information the stations believe will “sell” and what information the public needs for informed citizenship, although the types of information may not be mutually exclusive. The examination of these television markets was prompted by an interest in a particular approach to those fiduciary and public interest responsibilities.

The Federal Communications Commission will make decisions later in 2012 regarding media ownership as part of the Quadrennial Review. However, none of the studies that the FCC commissioned to support that decision-making process examined the types of services agreements that, by their stated intent, affect the structure of markets.

There is no doubt that the information landscape of the United States has changed in the last twenty years. There are many sources of information. But, local television news still holds a pre-eminent position as a news source for the public. The managers of the SSA and LMA stations recognize that fact, most often through an economic prism. That is understandable—media firms are businesses, first and foremost. The SSAs and LMAs were implemented to increase the bottom line—to create economies of scale in which the costs of the production and the dissemination of news were structured to increase profit. The question was, and will remain, what do we get, as a public, from these endeavors.

References


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