Coordinating the Production of Television Programs: A Transaction Cost Analysis

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I. Introduction

In the television industry, regardless of the type of signal distribution technology, a main product transacted among the market participants (such as program suppliers, distributors, and audience/consumers), is the program. Consumers buy television service not because of the delivery mechanism, whether it be an over-the-air television, cable television, or a Direct Broadcast Satellite, but because of the programs. Producers make actual programs, and programming networks or syndicators buy and distribute them. As buyers and sellers of the programs, both parties interact with each other to get the most out of the transaction and during the process they influence what kind of programs are produced and under what arrangements they are produced. The range and nature of the programs that are available to the audience are affected by such transaction arrangements.

Owen, Beebe, and Manning (1974) mentioned that "it is quixotic to hope to improve the performance of this or any other industry without first understanding the economic motivations of the people who participate in it" (p.3) Understanding the actual production process is essential in order

for policy makers to devise plans to strengthen the program production sector of the television industry.

Scholars have paid comparatively little attention to the actual production process, the way in which the message is created, and its organization. Researchers of media economics have a tendency to overlook the software-side that makes up the mass media. How the transactions between producers and distributors are organized, under what kind of arrangements, is the subject this paper addresses. Considering that the transaction arrangement affects the creative environment from which programs of certain kinds tend to emerge, the subject is important in understanding the economics of television programs.

Cantor (1971), Ettema (1982), and Turow (1982) examined the production processes and organization of various types of television programs. They were mostly concerned about identifying who, within the production organization, is responsible for the final content. The researches focused on the issue of 'control'. As a social phenomenon, television has been studied rather thoroughly in the recent decades: its content, audience, and the effect. Understanding mass media as an economic institution, as opposed to a social/cultural phenomenon, can be a way to fulfill a well-rounded understanding of mass communication process in general.

For some time in the U.S., there had been only three buyers, big three broadcast networks, in the market of first-run (original) television programs. However, with the growth of cable television, more and more cable networks are buying original programs. In addition, there are more opportunities for first-run syndicated programs with the prosperity of independent stations and declining network control of programming. At this juncture, it would be interesting to see what kind of changes that the increase of the number of program buyers/distributors has brought to the transaction arrangement between producers and program buyers.

This paper draws on the literature of transaction cost (TC) theories and

"information systems" theories to the relationship between program buyers and sellers in order to lay out the analytical framework. This paper examines the case of U.S. television programming industry. It does not intend to suggest that the U.S. industry case applies to other countries with differing conditions and regulations. However, the U.S. which has a relatively elaborated marketplace for television programs may serve as a useful example to lay out an analytical framework.

TC theories focus on the characteristics of the transaction in understanding the economic organization and information systems theories focus on information structure and flow as a key element of transaction cost , thus a key element in the analysis of economic institutions. Stinchcombe (1990) developed a framework for understanding the ways in which organizations deal with uncertainty and information problems prevalent in the marketplace.

Geertz (1992) has observed that information plays a central role in economic transactions. Theoretical insights provided by TC theories and information systems theories suggest some intriguing questions about the market in which information flow is a key element in the transaction. They apply to the market of programs where 'an artistic creation' is transacted and where the product is hard to define or specify.

The ultimate goal of the paper is to develop a rigorous understanding of the processes that make up the 'creative' activity and to explore transaction cost and socioeconomic explanations for the television program production process focusing on the role of information. Then, on the basis of such analytical framework, the question can be extended to the production industry in the multichannel environment. Will we see a different structure of industry emerging in the multichannel environment? What are the differences in the conditions under which programs are produced between broadcasting and narrowcasting? Any difference among various program-types? This analysis seems also useful for the evaluation of certain policies such as now defunct fin/syn rule.

Next section provides a brief overview of the analytical frameworks. Following is a section describing the processes under which buyers and sellers of the program actually interact. The elements are described based on personal interviews of professionals in the industry and the literature on television industry. Next comes a section on how the actual market organizations can be explained through the given framework. The major question is why certain organizations are with us, not merely revealing 'whats'.

II. Coordinating an economic exchange: The transaction cost economics and information-systems theory

TC theories as a way to understand economic institutions are based on two essential human behavioral assumptions: bounded rationality and opportunism. Unlike the neoclassical assumption of perfect information, humans are not capable of processing all the information that is relevant to the decision at hand and not capable of foreseeing the future. The world is full of uncertainties. Whereas neoclassical analysis is preoccupied with production costs, TC theorists contend that a type of economic organization emerges in order to economize the sum of production and transaction costs. Firms (or hierarchy) and markets are two different types of governance structure coordinating economic exchanges. Parties involved in a transaction are under the risk of falling a victim to the other party's opportunistic behavior. A kind of economic organization will eventually emerge that can guard against transacting partner's opportunism.

TC is the cost involved in making market transaction (devising, monitoring, and enforcing a contract) and in gathering information with which to make the transactions while preventing misunderstanding and conflicts resulting in delays, breakdowns, and malfunctions of the market

contract (Williamson, 1981). There is a cost to using a market, a cost to acquiring and processing information, learning what the prices are and contracting for each transaction (Williamson, 1981). By transacting within a firm, TC can be eliminated or reduced. Beyond the existence of firm, the question was extended to the issue of vertical integration, why an entrepreneur would want to organize one more transaction within a firm and how organizational boundaries establish within the industry.

According to the TC analysis, make-or-buy (make something within a firm or buy it through a market transaction) decision is made to economize on the TC relative to the production cost. The unit of analysis is a transaction. The attributes of the transaction determine the matching governance structure (market or firm/hierarchy, or hybrids between the two) in such a way that resulting TC can be minimized.

TC theory acknowledges that a task can be accomplished under several alternative governance structures. The identification and analysis of the costs involved in alternative structures will reveal why a particular way of organizing a business emerged in the market.

The key attributes of a transaction that Williamson (1981) identified were asset specificity, uncertainty, and frequency. Asset-specificity is the key factor among the three which makes market transaction difficult when bounded rationality and opportunism are present. Asset specificity stems from durable, non-trivial transaction-specific investment made by the transactor which is not to be redeployable or whose value decreases much across other usage or other user. Asset-specificity poses a potential hold-up problem. For example, when a tool factory builds a machine to make and sell a tool only used by one company, it is subject to the opportunism of the company it deals with. After the factory makes a substantial investment on the machine, the company can bargain for a lower price and the factory has no other choice but to take the terms of the other party in order not to lose on the investment it had already made.

TC theories would predict that transactions involving high asset-

specificity to be organized under a firm rather than a market, because the TC to make it work in a market would be too high.

TC theories also predict the transaction to be organized under a firm when uncertainty is high. When there are so many contingencies to consider, writing and implementing a contract specifying everything can be a daunting task. As specification or observability of performance is more difficult, a firm will integrate the activity in order to reduce the cost of acquiring credible information on the transaction. This is especially relevant in case of TV programs.

For transactions that are repeated frequently, organizing it in a hierarchy can reduce the TC. TC theories expand the boundaries of neoclassical economics by considering problems of information and those of vulnerabilities of economic commitments. When considering the problems of economic organizations, this approach focuses on informational problems that exist in the market.

The analysis of buyer-seller relationship in television programs can also benefit from information systems theories. 'Information systems theory' is a loose umbrella term covering analytical frameworks regarding the role of information in economic organizations. Organizations are viewed as information-processors set up to deal with uncertainties. It focuses on understanding the ways in which organizations and individuals obtain and process information to address uncertainty in the marketplace. Stinchcomb (1990) proposes that organizational structures and market practices reflect the nature of key uncertainties faced by those involved in the transaction. Different kind of uncertainties will give rise to different information-processing systems. He argues that it is critical to describe actual information flows in order to understand the organization. Extending his argument to the economic organization, governance structure will evolve to facilitate the exchange of information that is critical to the survival of the organization.

The insights provided by TC theories and information systems theory

lead us to focus on informational issues in market transactions and organizations. Since each television program is unique and difficult to define or specify, information exchange should be one of the major parts of the transaction, which justifies using these frameworks in examining television program trade. The next section describes the actual exchange process between production companies and distribution companies (distributors or networks), followed by a discussion of how those theoretical insights can explain actual market processes and structures.

III. Interaction between program buyers and sellers

To put a point ahead, personal interviews with professionals involved in program trading indicated that buyers and sellers rely on well-known sources of information to reduce the cost of search and communication, which is amenable to a hierarchical relationship rather than market. This insight can be extended to a prediction that the higher communication costs a program might incur, the transaction will be better organized through hierarchy so that the exchange of credible information can be facilitated. Policy makers need to be reminded of this characteristics of production of television program in order to initiate better policy measures to strengthen program production sector of the industry.

Information in this section is based on literature on TV production and personal interviews with seven industry professionals. Six interviewees were working in the programming and sales divisions of major cable networks and one interviewee was a station rep for independent stations.

1. The buyers and sellers

In the U.S., networks originate and commission the programs they put in their national schedules. They also buy syndicated programs. The

broadcast networks, under the fin/syn regulation, have relied on in-house production only for news, public affairs, sports, and daytime soap operas. Cable networks also originate and commission programs, but the amount of time allotted to original productions varies across the networks(with the exception of 100% original programming network such as CNN and ESPN). Broadcast networks still dominate as the financiers of the most expensive and profitable kind of first-run programs.

Cantor & Cantor (1992) classify television production companies into three types: major film studios, major independent producers, and minor independent producers. Major film studios make theatrical films and television programs, and also own large studios which they lease out to other producers. Major independents are built on the reputations of a few renowned creative individuals and they concentrate mainly on television (that is, no motion pictures). Examples are Aaron Spelling Productions and MTM productions. Film studios and major independents are mostly located in Hollywood area and have been, traditionally, suppliers of broadcast network television programs. Minor independents are mainly suppliers of non-network programs, mostly first-run syndicated programs and programs for local stations, and are located throughout the country. Frequent shift in ownership and personnel is the characteristics of the independents which mostly have one successful show with a few exceptions (Cantor & Cantor, 1992).

Independent production companies are built on one or more creative individuals. Dependency on these individuals suggests the limits to their growth and their short lives. Over the years, major studios have been dominating the higher rankings of broadcast network program supplier list. The names of the independent production companies that appear in the lower ranks frequently change from a season to another. Few of the current major independents were even in existence ten years ago. The difference between major and minor independents is the ability of the major ones to sustain their initial success, for at least short period of time (Cantor &

Cantor, 1992).

Independent companies rarely produce dramatic series partly due to the financial reason, deficit financing and long wait for a pay-off. However, they often produce TV-movies and mini-series. Minor independent companies sometimes form a partnership among themselves.

2. The process: Information-processing and interactions

Whether the network has some preconceived idea of a program or a project is 'pitched' by a producer who approached with his/her own idea, production starts with a producer convincing the network of a program idea to get the initial funding. At this stage and throughout, 'salesmanship' is an important skill of a producer. Major studios and networks' programming offices are always inundated with producers pitching in program ideas. Unable to review all the ideas coming in, they tend to rely on established credits of a producer. Television program production is a tough system for a newcomer to crack into.

Once approved of initial funding, the producer controls the project including hiring, casting, budgeting, and supervising the script rewriting. However, producer has to get an approval from the network at certain intervals during the process such as casting, final script, and pilot (these are the stages crucial for the network as a buyer to reduce uncertainty of the quality of the product it already has paid in partial and is planning to buy) and the network frequently feeds inputs to the project. In fact, during the whole process whether certain decision a producer makes would get a favorable approval by the network or not is constantly checked. Networks are notorious to the creative community for sending confusing orders and mixed signals.

Networks are not sure exactly what they want and also there is no established principles to evaluate the product by. A new and untried television program is by nature difficult to specify. The source of frequent

conflict between a producer (seller) and a network (buyer) is that the network emphasizes commercial value of the program while the producer, the artistic/creative value — often characterized as a conflict between bureaucracy and professionalism (Cantor, 1988). An executive at a major cable network mentioned that sometimes program ideas and suggestions can come from the sales department, which implies that a 'creative inspiration' is not everything in TV program production. It is the responsibility and required skill of the producer to maintain the balance between the commercial aspect of the program and an artistic persona.

As the project proceeds, the network makes incremental financial investment, funding final script, then pilot production, then initial order of 13 or some episodes, and so on. At the same time, it continually renews the assessment on the potential of a project (incrementally reducing the uncertainties about the final performance of the project). The process is commonly referred as a 'step-deal' (a set of short-term contracts). Technically a program can be sold to other media outlets. However, if cancelled along the way, it becomes such a hard sell to others. In this sense, a program (the ones commissioned by a network) can be regarded as a 'dedicated asset' in Williamson's term. It becomes important, for both parties, to continue on the project which is transaction-specific. However, since the network manages a larger portfolio, the risk is larger for the producer.

This is why persuading a network assuring the quality of the program and compromising are important for the producers. A producer must be skilled at 'reading' network (processing tacit information). As a program is tailored with network inputs and approvals on key decisions, the specificity increases. And this specificity can be higher in case of programs produced for more narrowcasting kind of cable network because of the fact that the program is tailored to a specific group of audience.

Lindheim & Blum (1991) add to the advantage of being a producer in the studio system that studio is an effective ally in selling and maintaining

programs on the networks' schedules. Studio executives have close working relationship with each network and are aware of programming needs and desires and studios can provide pragmatic feedback. They have the experience to "read" the networks, and know who's got what in development. They'll know the best place to take [a specific project]. These remarks directly show that the two functions a studio can serve. One is as a 'match-maker' to reduce the search cost and the other is as a 'communication facilitator' during the production process.

Producers and independent production companies come and go. But major studios have existed ever since television was around. It seems that the studio system processes the information coming from the buyers (networks) and transfers them to the producers who organize and execute the project in a condensed form, as in 'guideline' or 'feedback'. The amount of information to be transfered from the network to the producer is reduced during the course (see Casson, 1994).

Often networks rely on the major studios' expertise to identify a potential project (they also rely heavily on the producer's on-screen credit to evaluate the potential performance. The cost would be too high to investigate the commercial and artistic caliber of each producer) and producers, rely on studios' experience to read the buyer. Without this intermediary, networks have to review all the potential projects and producers all the potential sellers. It is rare that networks have clearly preconceived product specification. They are not sure what will earn good audience ratings and what not. What studios do is to process this tacit information of network's wants and desires for the product and to pass it on as guidelines to the producers. The amount of information can be condensed over the process. The studios are selling their assessment of producers and projects. Therefore they have an incentive to maintain quality of information they offer. Quality can be controlled (assured) since they have to maintain the reputation to keep the business.

Once the actual production begins, the whole process is full of decision

changes, adaptation, unforeseen accident, etc. Decisions about details such as casting, script, production design, and so on are changed almost everyday until the final pilot approval and first-round order of episodes by the given network. Every component is equally important and every decision is equally decisive for the success of the program. The frequency of the decisions that have to be made anew is relatively high (these are uncertainties responding to the shorter period of time). The production organization can be described as 'organismic' information processing system rather than mechanistic (Tushman & Nadler, 1978). The networks would be inundated with information if all these decisions and adaptations made during the production process were to be reported.

Major studios are currently not active in the production of cable programs. Cable networks have only begun to do original production after the mid-1980's. Except news, weather, or sports networks, many cable networks' schedules have been filled with old movies or off-network programs. In the windowing sequence of a network program, cable networks are behind independent stations. However, the proportion of original programs keeps increasing and some cancelled network programs are picked up by cable networks as cable original (Kim, 1994).

Currently, cable programs are mostly produced by independents. And many cable networks own their own production companies and in-house program development executives. Cable networks with full line-up of original programming schedule talk-related, sports, news, and music-videos. In other networks whose schedules are dominated by acquired fares, originals are mostly non-fictions such as talks, stand-up comedies, animation, documentaries, information & instruction, and game shows. There are made-for-cable movies and mini-series as fictions (Brown,1994). Cable original dramatic series are rare except HBO's "The Larry Sanders Show" and "Dream on".

Whether the cable networks failed to get the established producers to serve their needs for low-budget and/or customized programs or it is their

strategic move to maintain the down-stream revenue from keeping ownership of the program for resale is yet to be probed. The cost of integration and cost of market transaction should be compared in a systematic manner.

IV. Understanding the interaction between buyers and sellers of TV programs

1. The nature of TV programs

1-1. Risk factor

The perceived risk associated with a transaction-specific investment in television program production varies depending on the size of the portfolio of programs the production entity has. It has been a rule-of-thumb in Hollywood that the success of films or TV programs can never be predicted. Any producer runs a risk of losing the investment. However, a major studio can spread the risk over the larger number of programs it develops at the time. Perceived risk gets much higher for an independent who has smaller portfolio of programs to average the risk over. An independent might not start the project without some assurance that the cost will be recuperated or it will get on the air for sure. An independent is less likely to make a bet on projects that it foresees as successful at the same scale as the major studios.

This inherent nature of TV program production, uncertainty and associated risk, might explain the longevity of major studios. The success of large studios may seem opposing to the common belief that bureaucracy interferes with creativity. The forte of studio system might be at risk-bearing capacity, not at their superiority in terms of creativity or artistic sense, nor their 'deep pockets' per se.

1-2. Source of asset-specificity

From a strictly technical point of view, a TV program can air on any channel/network of broadcasting, any channel of cable television, or on satellite television, a low-power station, and the list goes on. Specificity may seem low. However, as shown in the previous section, network first-run programs can be very specific to each transaction, with mutual agreement on the value of it built in during the production process. If the deal breaks down and the producer tries to move the project to a different buyer, it has to start the search process all over. In addition, the consensus and mutual understanding that is a part of the program gets lost.

Buying a TV program is not like buying a can of tuna. You can pretty much tell the quality of tuna by checking the package or reading the nutritional facts. Quality or popularity of a program can not be measured ahead of time before the program is actually shown. Arrow's treatment of the economics of information disclosed that the 'fundamental paradox' of information is at opportunism - "its value for the purchaser is not known until he has the information, but then he has in effect acquired it without cost" (Arrow, 1971, p.152) Producers and program buyers build up the consensus on the value of the program as they go along in the production process. A program does not merely consist of a combination of script, actors, camera works, set design, etc. It incorporates numerous communications between the buyer and the seller, conflicts and compromises, as they try to reduce the uncertainty of success of a program. Transaction of TV program incurs search costs and communication costs. Relative amounts of these cost would vary from a type of program to another and will be a factor determining the governance structure of the transaction.

Human asset-specificity seems to be related with this specific knowledge (mutual understanding) cultivated during the interactive development stage of a show. Especially since there is relatively little product specification or

quality guarantee which can be agreed upon ex ante and no known formula for successful program, a producer must process tacit information to get to know what the program buyer wants and likes in addition to correctly guessing the audience response. The program buyer has to constantly renew the evaluation of the producer and the project. The transaction is more likely to be completed or facilitated as these tacit information is well exchanged and processed between the transactors.

A television program can be classified as a type of 'dedicated asset', which is general investment but with much less alternative value in other usage or for other user. The producer and the network develop specific knowledge regarding the potential of the show through an iterative process and it becomes difficult to take a new and untried show to another network which does not own the same level of mutual understanding.

2. Role of major studio as an information-processor

Major studios can be conceptualized as an information-processor. Independent production companies come and go, but major studios keep constant contact with the networks. When an independent production company directly deals with a network without the involvement of a major studio, having past experience with the network can be a strong advantage of the production company over the others. Since the production company which has the experience knows how to 'read' the network, it is much easier for them to convince the network it once worked with. Communication cost, which incurs while investigating each other (during search for the appropriate partner before the program development) and exchanging information during the development of a show, especially when uncertainty of product quality and specification is high, is much reduced when both parties already have mutual expectation of each other.

3. Matching the characteristics of the transaction and the governance structure: Difference among program types

There are four types of alternative governance structure in television program production. : 1. market where many producers and many distributors transact with one another without any continuing interest in the pair-wise identity. No pair of producer and distributor has higher probability of making transaction over the others; 2. hierarchy where distributors make programs through in-house production; or 3. networking whereby a specific pair of producer and distributor has higher probability of transaction.; 4. the transaction between a producer and a network occurs with a studio as an intermediary; The studio system maintains repeated relations with the networks.

Among the four, 3 and 4 are in-between types between market and hierarchy. Stinchcomb (1990) demonstrated that there are ways to construct social structures that work like hierarchies out of contracts between legally equal corporate bargaining agents in the market. It can be called short-term, project-based hierarchy since a program buyer gets involved from the development stage and owns (authoritative) approval rights at certain matters. Producers are protected by step-by-step contract (buyer gradually increases monetary investment in the project so that at least expense incurred during a segment of period can be covered) and program buyers have reputation of the producer as a hostage since the career of the producers is built up by reputation and credit. Also step deal works as a safeguard for the networks since it usually includes a right for the networks to cut off the deal at any point when the project is not deemed as appropriate.

Stinchcomb (1990) predicted that organizational structure would develop toward the source of uncertainty that it deals with. Uncertainty of production, no knowing ahead of the potential of a show or ability of

creative talents, explains the proliferation of such organizations as talent agencies, deal-packagers in addition to the studio system as an information-processor in the television and motion picture industry.

Overall, pure market transaction of programs between a producer and a program buyer makes up only a small portion. Some attributes of television program transaction must be preventing market mechanism from being a prevalent arrangement. Transaction of off-network syndicated programs make up the bulk of syndication market. The reason may be that the quality of the off-network program is already known, uncertainty of which is a source of transaction cost. Specificity goes down as a show stays longer on TV (information regarding the program is all out since it has been tried for a time period). The programs become less specific as they stay longer on TV since all the potential buyers possess comparable level of knowledge regarding the performance of the show. This can explain why ,in the U.S., off-network syndicated programs are bought and sold through the market mechanism such as at the NATPE (National Assoc. of Television Producers and Executives) convention, much like a supermarket for TV programs. Since the value of the show is already known, there is no need to search for right producer or right buyer and neither to put an effort to on-going communicative interaction to reduce the uncertainty.

In addition, specificity varies depending on the type of program. Specificity might be higher for a dramatic series than for a game show or talk show.

Since familiar element in program production is by definition tried-before element, it is more likely to be associated with more of routine procedures compared to innovative element. Routines are associated with rules and common practices. The need to develop specific knowledge regarding a program decreases as the production requires more routinized procedures. Programs such as game shows and talk shows call for more routinal decision making. Programs with low specificity are more likely to be bought and sold through market, which is what takes place in the U.S.

Malone, Yates, & Benjamin (1987) proposed that complexity of product description is a determinant of coordination structure. For the programs like game show and talk show, once a successful format is created, the set, the copy, and the like tend to remain the same. Little further information regarding the program is required to be exchanged between a buyer and a producer. Complexity of product description increases communication cost.

Communication costs are incurred while exchanging tacit information between the transacting parties after the matching takes place. It will be one determinant of how the transaction is organized. As a production requires more of routines and less frequent decision making, there is less amount of information to be exchanged between the transactors. Past experience of a particular producer with a particular network might not work as a strong ex post advantage reducing communication cost. Market will be a favorable choice over a hierarchy. When variability of ratings of a program is expected high (that is, high uncertainty), more information needs to be exchanged. This will favor toward hierarchy where shared knowledge and experience facilitates communication of tacit information.

Broadcast (as opposed to narrowcast/niche) networks do orienting search (Greeno, 1976, cited in Heeter & Greenberg, 1988) during the 'pitch-in' process. The network has indefinite goal and has a variety of overt and covert potential needs. A single, specific program may not emerge as an optimal choice. The goal, or ideal program for the time, is constantly adapted during the search. If a broadcast network relies on a few close independent or in-house producers, it is abandoning this valuable chance to adapt their goal and to be exposed to new and diverse ideas. So, as a network aims to broadcast rather than narrowcast it has an incentive to use many independent producers rather than relying on in-house production.

To sum up, producing a television show entails developing a transaction-specific knowledge regarding a show and major transaction cost is the search cost and communication cost. As the specificity goes down

depending on the program type or on the fact that the show is formerly tried on TV, the governance structure is likely to evolve toward market form.

4. Programs in a multichannel environment : Close networking between producers and narrowcasting networks

Although a multichannel environment increases the number of potential buyers of a given TV program, the transaction of TV programs is not likely to be easily converted to a market system due to the inherent characteristics of the transaction explained above. It is early to say something about the production processes for cable networks since original programs have just started to appear on cable. However, it is a notable trend that some independent production companies repeat transactions with particular network specializing in similar type of program.

Generally speaking, as more and more networks (broadcast and cable altogether) try to develop its own identity or personality (analogous to brand-name) in the multichannel environment, overall level of specificity of programs initially produced for a particular network might go up. It depends on the degree of specialization of the program subject. As the number of channel competing for the same pool of audience increases, the need for niche programming which can set the network apart from the others goes up. As a programming director confesses, "there is certainly a proliferation of services, and that is eventually going to have an effect on your bottom line and who watches you...it makes us pay even more attention to staying with our niche". (Brown, 1994, 'When it works,...') According to program choice theories (Owen & Wildman, 1992) as the size of expected audience from broad-appeal programming goes down with the increasing number of competing channels, the incentive to stay with the niche programming goes up.

In general, niche programming networks have better ideas about the

kinds of programs they need compared to broad-appeal programming networks. The production of such a niche program typically starts from meeting with the network and catching the needs (Cooper, 1994). Technically, anybody can catch the need and present a program to the network. But those closer to the information source (in this case, programming executive of the networks) have higher chance of detecting the opportunity faster and convincing the network. At the same time, the fact that niche network programs are targeted to a specific profile of audience, and therefore easier to specify, might decrease the need for communication during the production process. This can work as an opposing force pushing toward the direction of market transaction.

Difference in production arrangement between broadcasting and cable television might arise from the different location in the windowing sequence. Von Hippel (1982) showed how appropriability of benefit predicts locus of innovation. Likewise expected gain from downstream revenue (from the following windowing sequence) gives producers an incentive to maintain the quality of program. Cable television is located at a much latter position than broadcast television. Program suppliers to broadcast networks have higher incentive to ensure quality because it is directly related to their own benefit. But, the program suppliers who can expect little benefit for themselves have weak incentive other than to protect their own reputation. Program suppliers to cable television might need additional assurance such as continuing transactions with the given network as a quality control mechanism.

Close ties of a specific network with a group of producers also serves the similar purpose as major studios for broadcast networks; search and communication facilitating roles. Among the alternative governance structures, hierarchical element has comparative advantage of facilitating communication since shared knowledge and experience facilitates exchange of tacit information (based on common knowledge of the specific network's audience and programming needs). No extensive searching or investigating

is necessary.

Both major studio and close networking between producers and networks function as a mechanism to ensure quality of the program. The network buys the expertise of the studio in assessing the producer or project or directly deals repeatedly with a limited number of producers. Information exchange is facilitated in both cases. It seems that in case major studio (with large over-head and less flexibility to accommodate wide range of budgets and contents due to the bureaucratic characteristics of the organization) cannot serve the information-processing function, close ties of a distributor and a small number of producers may fill the gap alternatively. If indeed this is what takes place in cable television is yet to be observed.

Williamson (1985, p62) suggested that familiarity permits communication economies, which includes specialized language, nuances signaled and received in a sensitive way, and personal trust relationship. In the same vein, Cremer (1993) suggested that an organizational culture as a shared knowledge is a factor of efficiency in the internal treatment of information within an organization. Communication is facilitated and mutual understanding is developed within a close network as well as in a hierarchical organization.

5. Organizational difference between production and distribution

Hierarchy saves transaction costs. However, such benefits should be measured against the governance costs that the hierarchical organization incurs. Hierarchical structure runs a disadvantage of higher governance cost due to the cost arising from managing dissimilar activities within and behavioral control loss. From the point of information-processing, production and distribution businesses are different. Production process requires more of organic information-processing and distribution, more of

mechanistic.

Burns & Stalker (1971) differentiated two 'rational' types of system of management[organization], which can be generally applied to the production and distribution activities. These two disparate types of organization arise responding to the rate of change in the external environment that each organization faces in order to fully exploit (minimize costs) the pool of resources it has. Major difference lies at the different information-processing and communication style. In a mechanistic system, which emerges in the stable condition; 1. functional tasks are differentiated 2. individual tasks are pursued more or less distinct from those of the concern as a whole 3. there is a tendency for vertical and authoritative communication. Organic system is appropriate to changing conditions, which give rise to fresh problems and unforeseen requirements for action which cannot be broken down or distributed automatically arising from the functional roles defined within a hierarchical structure. Individual tasks are set by the total situation and redefined continually through interactions with others. It has network structure of control and lateral communication between people of different ranks, consultation rather than commands (Burns & Stalker, 1971). This partly explains why distribution organizations are more hierarchical than production organizations of television program.

The kinds and degree of uncertainty determine transaction-costs minimizing organizational structure because different environment requires different information-processing styles. The tasks of production companies involve uncertainties arising from a shorter period of time than a programming network whose tasks can be planned ahead of time. Source of uncertainty is scattered. For example, the performance of crews and performers is uncertain. On the other hand, uncertainties of audience and advertiser are rather decisive kinds.

According to the capabilities approach, activities which require dissimilar capabilities are sources of governance costs which are incurred while

organizing the transaction within a firm (Langlois, 1992). Bureaucratic information-processing (more mechanistic type) will spill over to the production where more consultative communication (organismic information-processing) is required for efficient information-processing and task accomplishment. Williamson (1985) noted that selective intervention, whereby integration realizes adaptive gains but experiences no losses, is not feasible. Common conflicts between producers and distributors can be understood as the difference of information-processing/communication style rather than conflicts of 'goals' or 'values'.

Recently, after the turnover of fin/syn regulation, ABC/Capital cities made an investment in the comedic talent management firm Brillstein-Grey (B-G). It was said that it was not an in-house deal although B-G would function as a studio meeting the needs of ABC. ABC did not integrate B-G, but invested in the expertise of identifying talent which is invaluable in programming (Carter, 1994). Casting talents is one of the big process during a production that requires network involvement and approval and one of the key factor in reducing uncertainty of the final performance of a program.

Also, Fox Television entered into a first-look production pact with a talent management firm 3 Arts Entertainment. These firms manage not only actors and actresses but also writer-producers. An executive at Fox commented that this move expedites the development process (Tyrer, 1994).

These cases may suggest a change that development process is spun off from the network to the market (sub-contracting) by outsourcing search and communication functions dealing with production companies. The talent management companies might serve the role the studio system has been playing — assessing the information and putting the elements of a production together.

V. Implications and hypotheses

The analysis of mass media in the organizational context is certainly not a new issue in the research tradition of mass communications. However, there has been lack of efforts to tackle these problems with a new angle. As countries around the world seek to accommodate various kinds of new media not only as an added cultural element but also as an information infrastructure, strategic concerns such as setting up the right industry policy governing the media are rising. In the same context, understanding essential workings of mass media as an economic exchange should be a basis of such policy endeavors. The nature of these transaction activities providing a cause for different economic organization offers a new perspective and opens up new possibilities in the research.

The theoretical framework this paper proposes requires us to have more complete understanding of the nature of the transactions and activities that are being analyzed. This research was designed and conducted as an exploratory one. The study identified factors such as risk, search cost, communication pattern of the interaction as key elements coordinating TV program transaction. As the question of information and communicative pattern is related to the media organizations, this line of research suggests encompassing both interpersonal and mass communication studies as a future direction of research.

Diversification of buyers of programs in a multichannel environment does not necessarily mean that TV programs are traded under the market mechanism whereby many production companies deal with many networks/distributors. Even in the U.S. where the history of multichannel environment is one of the oldest, a prevailing pattern of supply of programs to cable networks has not emerged yet. However, as shown above, there are elements inherent in the production of TV programs that are more

compatible with the hierarchical relationship between the buyers and sellers. In addition, this study suggests that optimal governance structure can vary depending on the type of program. A policy forcing to sever the vertical integration between production and distribution for the purpose of boosting the production sector might not be a wise choice. In the U.S., the fin-syn rule which limited network's ownership of programs is now overturned.

The role of intermediaries such as talent agencies and studios as an information-processor or communication-facilitator is bound to change in the changing media environment. This yields another research opportunities.

This study suggests that the organization such as the Motion Picture Association of America (MPAA, formerly Motion Picture Export Association of America) can be interpreted as an information intermediary between sellers (American production companies) and buyers (foreign distributors). Although export markets are located at near the end of a U.S.-produced program's windowing sequence, they provide an important source of revenue for U.S. production companies. What sells well in foreign markets influences what kind of motion pictures and TV programs are produced in the U.S. Through MPAA, information on the export market trends can be collected and condensed to be used as guidelines. Such organization can be useful for other countries interested in exporting movies and programs.

In the interviews with industry professionals, it repeatedly came up that they rely on people within close social networks for credible information for decision-making. For future research, network theories of sociology seems to be a valuable addition to the understanding of informal social relations emerging around economic exchange. Networks are structures of personal relations. Networks can be envisioned as an alternative type of governance structure that facilitate economic exchange. As opposed to the neoclassical notion that markets are impersonal coordinated only by the

price mechanism, network theory considers social context and the role of information in the market. This perspective can be especially relevant for examining Korean media industry in the context of cultural traditions and social context. Personal relationships can evolve to address the information asymmetry problem inherent in the transaction. The notion of 'trust' and 'favors' can be interpreted as mechanisms to convey and assess information which is crucial for TV program transactions.

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