



# Media Sector

15<sup>th</sup> in a series



**T**his Eurosif sector report has been compiled using research by Ethix SRI Advisors. It describes the major environmental, social and governance (ESG) challenges facing the Media sector and the associated risks and opportunities these pose for long-term financial returns.

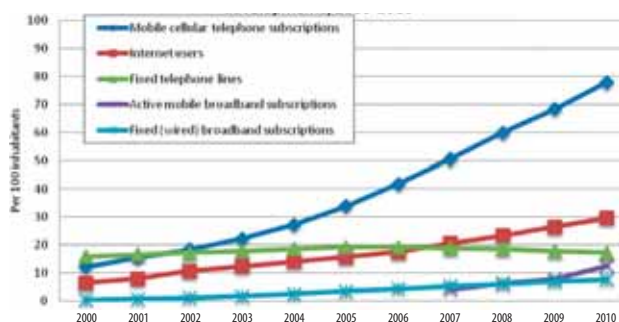
## SECTOR OVERVIEW

- The media sector encompasses companies involved in producing, communicating and distributing information and entertainment, as well as entities offering platforms for content distribution. The goods provided by the sector include many kinds of printed, audio, visual and audio-visual content, which are distributed to consumers through a wide range of channels such as the Internet, television, newspapers, magazines, books, video games, film, radio and social networks.
- This sector is changing, reflecting the rise of social media and the increased blurring of the boundaries between the media sector and the advertising, telecommunications and technology sectors. This blurring demonstrates the challenges presented to 'traditional' media businesses (newspapers, television, radio) by new communications technologies, the low cost of content generation, and the rise of social media.
- While the emergence of social media and new technologies are widely described as a threat to 'traditional' media businesses, television continues to be the world's largest advertising medium, with a total advertising expenditure of \$180 billion (€135 billion) in 2010, followed by newspapers (\$97 billion or €72.8 billion), the Internet (\$62 billion or €46.5 billion), magazines (\$43 billion or €32.3 billion) and radio (\$32 billion or €24 billion)<sup>1</sup>. Although it is likely that this picture will change – for example, search engine marketing will most likely take a larger share of companies' marketing budgets at the expense of traditional media (print media, TV, radio)<sup>2</sup>, – the rate of decline of traditional media should not be overestimated. For instance, while print circulation is declining worldwide (2% decrease from 2009 to 2010), it is still rising in Asia Pacific<sup>3</sup>.

## SECTOR TRENDS

- **Convergence of Sectors.** New communications technologies, such as the smartphone<sup>4</sup>, combined with the pressure to deliver more content at an even faster rate, are accelerating the convergence of the media, technology and telecommunications sectors, and the development of new media formats and distribution channels. Examples include the provision of TV through high-speed Internet connections, as well as reading tablets forcing content providers to adjust their offerings to fit into the interactive screen. The rise of new media content distribution channels and user-generated content is a challenge to traditional media companies' business models, as consumers increasingly access content via these new technologies, thereby enabling producers to market content directly to consumers.

Global Information and Communication Technology (ICT) Developments, 2000-2010



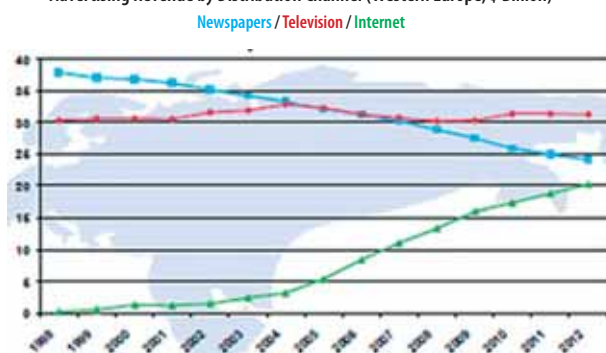
Source: ITU World Telecommunication / ICT Indicators database, 2012

- **Free Content but New Revenue Models.** Recognising the threat to their existing business models, many traditional media companies have sought to develop an online presence, whether on their own or in conjunction with technology partners. However, they have struggled to develop profitable online businesses, as an increasing number of consumers now expect to be able to access media anywhere, anytime free of charge. For example, videos can be watched on YouTube, music is distributed through streaming software such as Spotify, and more news is being read

online<sup>5</sup>. Despite the free content trend, new revenue models are developing, such as paying for downloaded media applications or extra features within social network games. Media companies are able to benefit from technology by reducing operating costs, and some media outlets have successfully established online pay-services, either directly or through the use of third-party applications. The success of these ventures is often based on the perceived quality of the information provided.








- **Consumers Taking Control.** Consumers can now choose among a wide range of sources for their media consumption. Increasingly, consumers are able to bypass media content distributors and access content directly. This has created pressure for traditional media companies to seek partnerships or closer relationships with companies in the advertising, telecommunications and technology sectors. Piracy (and the protection of intellectual property more generally) has become a key battleground, with customers looking to access content through a variety of sources but, at the same time, content producers striving to protect their revenues by avoiding the unlimited distribution of content.

Advertising Revenue by Distribution Channel (Western Europe, \$ Billion)



Source: Christoph Reiss, "World Press Trends 2011", WAN/IFRA, 2011

Companies in the media sector tend to be involved in a whole variety of activities, including content generation, content distribution, advertising and marketing, technology development, and social networking. This variety limits investors' ability to analyse the investment implications of environmental, social and governance (ESG) issues for the sector as a whole, or even for subsectors. Instead, investors must consider the business implications of ESG issues at the individual company level and, frequently, at the level of individual business lines. This table, which has been developed based on a series of detailed discussions with corporate responsibility managers within the sector as well as relevant stakeholders, presents the ESG issues that are most commonly cited as being relevant to the sector. For each of these issues, the table provides examples of how they may impact on companies. It is important to stress that the inclusion of these issues in this table is not intended as a comment on whether these issues are financially material or not for individual companies, or even whether the business impacts are positive or negative.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES	KEY CHALLENGES	BUSINESS RISKS & OPPORTUNITIES
<ul style="list-style-type: none"> <li>The blurring of the boundaries between news, PR and entertainment may result in news and information providers</li> </ul>	<p>producing material that does not meet the criteria of independence, impartiality, integrity, reliability and credibility.</p>	<div data-bbox="1308 226 1665 472" style="text-align: center;">  <p>Trust</p> </div> <div data-bbox="1665 220 2300 472"> <ul style="list-style-type: none"> <li>If an information or news provider is not perceived as trustworthy, it may lose customers to other providers or it may find itself subject to regulatory scrutiny. Reductions in the number of viewers/readers/listeners/followers may, in turn, affect the company's ability to attract advertisers.</li> <li>News and information providers can enhance their trustworthiness by:               <ul style="list-style-type: none"> <li>Taking measures to ensure the quality of the information that they provide;</li> <li>Clearly delineating between facts and opinions, and be-</li> </ul> </li> </ul> </div> <div data-bbox="2300 220 2899 472"> <ul style="list-style-type: none"> <li>tween editorial and advertorial content;</li> <li>Being transparent about the sources and reliability of the information they provide;</li> <li>Being transparent about their ownership structures (and how this may affect the information that they produce);</li> <li>Providing mechanisms for correcting factual or other errors; and</li> <li>Maintaining an open dialogue with their readers and their customers.</li> </ul> </div>
<ul style="list-style-type: none"> <li>While the principle of freedom of expression suggests that there should be unrestricted and uncensored inclusion of views and opinions in media output, media companies face practical challenges, including:           <ul style="list-style-type: none"> <li>Balancing trade-offs. For example, does freedom of expression justify the publication of inappropriate content? How can freedom of expression be reconciled with other human rights (e.g. children's rights)? How can freedom of expression be reconciled with social and cultural norms in particular societies?</li> <li>Complying with regulations in individual countries. For example, Internet censorship affects both companies hosting</li> </ul> </li> </ul>	<p>media platforms such as blogging sites or video hosting (as they may be asked to deploy country-specific filters or deactivate accounts), and content providers (who may not be permitted to create certain types of content). In 2011, the Open Net Initiative reported network filtering by governments in over 40 countries<sup>6</sup>.</p> <ul style="list-style-type: none"> <li>Commercial pressures to adopt a particular editorial line. While the implications of national regulation for freedom of expression are well recognised, there are a range of other, frequently hidden, pressures for media companies to self-censor. These may include proprietorial interference and the desire not to offend particular clients or advertisers.</li> </ul>	<div data-bbox="1308 512 1665 800" style="text-align: center;">  <p>Freedom of Expression</p> </div> <div data-bbox="1665 506 2300 800"> <ul style="list-style-type: none"> <li>As media and related entities expand globally, they find themselves operating under different regulatory regimes, including some in which they may be called upon by governments to limit access to content that is deemed politically sensitive. Companies have found themselves facing situations where they either need to comply with the governments' requests (and, thereby, compromise their and their users' freedom of expression) or lose their licence to operate in that country.</li> </ul> </div> <div data-bbox="2300 506 2899 800"> <ul style="list-style-type: none"> <li>Media companies may find that there are commercial benefits to self-censorship, and that the commercial benefits of clients being more willing to place advertisements with them may outweigh any loss of readers due to the editorial line being taken.</li> </ul> </div>
<ul style="list-style-type: none"> <li>The production of news content raises serious ethical issues, many of which have come to the fore in the recent controversies around Wikileaks and around phone hacking in the UK. These include:           <ul style="list-style-type: none"> <li>The protection of the identity of anonymous sources. This is a basic principle for journalists and is underpinned by legislation in several countries. The removal of this protection would undermine the willingness of many whistle-blowers to report wrongdoing.</li> <li>Tensions between the right of anonymity and potential</li> </ul> </li> </ul>	<p>wrong-doing (e.g. when information is confidential or unlawfully obtained).</p> <ul style="list-style-type: none"> <li>The rights of individuals to a private life, a principle that was clearly ignored in the phone-hacking scandal and, more generally, in the media harassment of many celebrities.</li> <li>The issues around press ethics also intersect with other issues raised here, in particular the issues of trust, freedom of expression, and security and privacy.</li> </ul>	<div data-bbox="1308 852 1665 1094" style="text-align: center;">  <p>Press Ethics</p> </div> <div data-bbox="1665 846 2300 1094"> <ul style="list-style-type: none"> <li>Failures of press/journalistic ethics affect all news/content providers. As seen in the UK, this can result in calls for greater regulation of content providers and may also undermine the</li> </ul> </div> <div data-bbox="2300 846 2899 1094"> <p>public's trust in the press. This, in turn, may result in cost increases or loss of customers (and, in turn, revenue).</p> </div>
<ul style="list-style-type: none"> <li>Security refers to the ability to protect customers, data and systems from outside interference and unauthorised personnel. Privacy refers to the ability to protect or safeguard personal information and confidentiality<sup>7</sup>. The media sector faces a series of complex and interrelated issues around security and privacy, including:           <ul style="list-style-type: none"> <li>How to ensure that individuals' personal data and information is properly protected? In perhaps the most high profile case, private photographs of Facebook founder Mark Zuckerberg were made publicly available following the publication of information on how to circumvent Facebook's</li> </ul> </li> </ul>	<p>privacy rules.</p> <ul style="list-style-type: none"> <li>Who owns private information? For example, some online media platforms have been acquired by online service providers (e.g. YouTube by Google), raising concerns that the personal information on these platforms may be used for purposes other than those originally intended.</li> <li>How to respond to government requests to hand over private customer data? That is, how are tensions between individual civil liberties and national issues such as security to be reconciled?</li> </ul>	<div data-bbox="1308 1142 1665 1404" style="text-align: center;">  <p>Security and Privacy</p> </div> <div data-bbox="1665 1136 2300 1404"> <ul style="list-style-type: none"> <li>The manner in which the media sector manages personal data and information is likely to receive greater attention, with privacy campaigners highlighting the unauthorised or inappropriate use of this information. It is likely that media companies will face increasing pressure from both regulators and customers to ensure that they properly manage private information. Perhaps more significantly, they may face limits or constraints on how they can use this information (e.g. for selling other products).</li> </ul> </div> <div data-bbox="2300 1136 2899 1404"> <ul style="list-style-type: none"> <li>A proactive response to managing security and privacy issues is vital in order to safeguard the sector's license to operate, avoid obstructive regulation, and maintain customer trust. For example, media sector companies could educate customers on how they themselves can increase the security of their personal information when using media platforms and when accessing or creating media content.</li> </ul> </div>
<ul style="list-style-type: none"> <li>The media sector accounted for 1.7% of global greenhouse gas emissions and 3.2% of global electricity use in 2007.<sup>8</sup></li> <li>Companies in the sector can have an important influence on the public's awareness of, and opinions on, environmental and</li> </ul>	<p>social issues, and, through advertising, on purchasing decisions and consumption patterns.</p>	<div data-bbox="1308 1436 1665 1530" style="text-align: center;">  <p>Environmental Impact</p> </div> <div data-bbox="1665 1430 2300 1530"> <ul style="list-style-type: none"> <li>A focus on environmental issues (in operations and in programming) may provide companies with cost savings through: reducing the use of resources and energy, brand benefits by allowing them to market their green credentials, and better customer relationships.</li> <li>Environmental issues also present challenges. Perhaps the most significant is that companies fail to recognise that changes in</li> </ul> </div> <div data-bbox="2300 1430 2899 1530"> <p>their activities and operations may create new issues for them to manage. For example, while the environmental impacts of physical devices are generally not considered by media entities (as these impacts are seen as being the responsibility of telecommunications companies), sector and technology convergence may see these impacts being of greater importance over time.</p> </div>
<ul style="list-style-type: none"> <li>Social media and user-generated media pose new challenges regarding copyright, in particular protecting the commercial</li> </ul>	<p>and moral rights of the creators of copyrighted material.</p>	<div data-bbox="1308 1650 1665 1837" style="text-align: center;">  <p>Copyright</p> </div> <div data-bbox="1665 1644 2300 1837"> <ul style="list-style-type: none"> <li>Social networking and user-generated content sites create a plethora of risks, as software developers and media companies may end up distributing unlicensed copyrighted content, with the consequent risks of litigation for breaches of intellectual property (IP) law. For example, the wrangles surrounding music exchange have generated extensive copyright litigation, notably over Napster's music download service. Experts have suggested this risk will be tested again with Google as a result</li> </ul> </div> <div data-bbox="2300 1644 2899 1837"> <ul style="list-style-type: none"> <li>of its acquisition of YouTube. A company's ability to secure its own IP, as well as ensure that any products/services on offer do not breach IP laws, will be an increasingly core part of safeguarding its business<sup>9</sup>.</li> <li>Piracy may result in content being distributed without permission, potentially resulting in loss of revenues for the producers and owners of this content.</li> </ul> </div>
<ul style="list-style-type: none"> <li>Media companies should seek to offer balanced content that ensures a fair and accurate representation of views.</li> <li>Media companies can play a valuable role in broadening the</li> </ul>	<p>content that is available through, for example, catering to the interests of minority groups and offering content that is not available elsewhere.</p>	<div data-bbox="1308 1881 1665 2047" style="text-align: center;">  <p>Content Diversity</p> </div> <div data-bbox="1665 1875 2300 2047"> <ul style="list-style-type: none"> <li>The provision of diverse content may result in an increase in customers by providing information and material that is not available elsewhere. Offering diverse content may also enable media companies to have better relationships with regulators and other important stakeholders by enabling them to demonstrate that they are socially responsible, that they deliver on</li> </ul> </div> <div data-bbox="2300 1875 2899 2047"> <ul style="list-style-type: none"> <li>their public service obligations, and that they can be relied on to self-regulate.</li> <li>Increasing content diversity may result in increased costs and may have the effect of weakening the company's brand or even alienating some of its existing customers (who may not be interested in accessing new or unfamiliar content).</li> </ul> </div>



## CASE STUDIES

### Alma Media: A Sustainable Media Project

The general lack of trust in media is a major challenge for the whole sector with major implications for circulation and, in turn, advertising revenues. One of the key reasons for this lack of trust is the public's lack of familiarity with journalistic ethical processes and how these processes differ from free of charge social and interactive media. At the newspaper Aamulehti, circulated mainly in the Pirkanmaa region in Finland, Alma Media has initiated a sustainable media project to increase the transparency of journalism and engage journalists in open dialogue on journalism and related topics. The goal is to re-establish trust by allowing readers to understand the journalistic process. There are plans to create an interactive game tool where readers can play the role of a reporter and learn about the thinking process and choices behind news decisions. Furthermore, there are plans for "question hours" and forum topics, crowd sourcing (asking the public for opinions and input), and putting "journalist view" sections next to articles in the actual newspaper, where the author can explain how the news item was created.

### Reed Elsevier: Improving Access to Information and Providing Universal Content

As part of its mission to build insight and breakdown boundaries, Elsevier makes more than 1,500 journals available to 4,000 institutions in low-income countries through the Research4Life programme. Research4Life is a partnership between publishers and the United Nations. All parties, including technology partner Microsoft, academic contributors like Cornell and Yale Universities, and trade organisations like the International Association of Scientific, Technical and Medical Publishers, have committed to Research4Life through 2015, in order to further the UN Millennium Development Goals. Research4Life connects participant countries with the global scientific community. Research conducted last year by Elsevier showed a rise in research output by scientists in the developing world since 2002. By comparing absolute growth in published research before Research4Life (1996-2002) and after (2002-2008), there has been a 194% increase in articles published in peer-reviewed journals<sup>10</sup>. Though the full credit cannot be given to this initiative, it is clear that providing this access has made an important contribution to allowing scientists from developing countries to have their research presented in international journals.

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1 Larry Kilman, "World Press Trends: Newspapers Still Reach More Than Internet", WAN/IFRA, 12 October 2011.  
 2 Ecoconsultancy, "State of Search Engine Marketing Report 2010", New York: 2010.  
 3 Larry Kilman, "World Press Trends: Newspapers Still Reach More Than Internet", WAN/IFRA, 12 October 2011.  
 4 Smartphone shipments (as a percentage of total mobile phone shipments) are reported to have exceeded 50% in both North America and Europe in 2010. Mary Meeker, "Internet Trends", Klein, Perkins, Caufield, Byers, 2011. [www.kpcb.com/internettrends](http://www.kpcb.com/internettrends) 2011.  
 5 Bain & Company, "Connected Devices and Services: Reinventing Content", 18 November 2011. <http://www.bain.com/publications/articles/connected-devices-and-services-avignon.aspx>.  
 6 Helmi Norman and Jillian C. York, "West Censoring East: The Use of Western Technologies by Middle East Censors 2010-2011", Open Net Initiative, March 2011. <http://opennet.net/west-censoring-east-the-use-western-technologies-middle-east-censors-2010-2011>.  
 7 F&C Investments, "Managing Access, Security & Privacy in the Global Digital Economy", 2007.  
 8 J. Malmadin, A. Moberg, D. Lundén, G. Finnveden, & N. Lövehagen, "Greenhouse Gas Emissions and Operational Electricity Use in the ICR and Entertainment & Media Sectors", Journal of Industrial Ecology 2010: vol. 14, no. 5, p. 770-790.  
 9 F&C Investments, "Managing Access, Security & Privacy in the Global Digital Economy", 2007.  
 10 Reed Elsevier, "Achievements and Recognition", 2009. <http://reports.reedelsevier.com/cr09/customers/achievements.html>.

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