

**THE RISE OF A MEDIA EMPIRE IN THE FORMER COMMUNIST SPACE.
A CASE STUDY OF CENTRAL EUROPEAN MEDIA ENTERPRISES**

by

Monica Beatrice Kohlenberg

A Major Research Paper

presented to Ryerson University and York University

**in partial fulfilment of the
requirements for the degree of**

Master of Arts

**in the Program of
Communication and Culture**

Toronto, Ontario, Canada, 2009

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ABSTRACT

The Rise of a Media Empire in the Former Communist Space. A Case Study of Central European Media Enterprises

Monica Beatrice Kohlenberg

During the transition from authoritarian regimes to democracy, media have changed along with the other components of social and economic life. They have evolved from propaganda vehicles to real business entities that are functioning in free markets. However, relations between the media, state, society, and market have led to the development of unique dynamics of media systems in the ex-communist countries. Among all media groups that have formed in the ex-communist space, there is one company that stands out. Central European Media Enterprises (CME) – a Bahamas-based American-owned company – was the first to bring Western marketing and management styles, along with American programming. CME knew how to commercially exploit the market's underdeveloped potential and consumers' thirst for information and entertainment. This paper looks at CME mainly from a business perspective. It attempts to document and explain the company's strategies and decisions, and the way in which they were influenced by politics. The theoretical framework of the paper builds on the Splichal's concept of "political capitalism" and on Doyle's and Mosco's theories of media economics. The conclusion is that CME's financial success has been highly influenced – though not totally determined – by factors that have nothing to do with a normal, healthy business environment.

Acknowledgements

My graduate education in Canada, at Ryerson University and York University, has been an intense and memorable experience for me. My deepest gratitude goes to the people I met in the Communication and Culture program.

Thank you Charles Davis, my supervisor, for your guidance, encouragement and enthusiasm. I could not have completed this project without your help and support. You have been there when I needed support both in my academic work and in the toughest moments of my personal life. Special thanks are extended to Kevin Dowler, my second reader. You have made me think of television in a different, more critical way.

This project is also the result of my whole academic training that I received at Ryerson and York University, and I would like to mention all the professors who contributed to my studies: Wade Rowland, Philippe Savage, Ruth Panofsky, Colin Mooers, Wendy Cuckier, Joy Cohnstaedt, Paul Moore, and Doug Barrett. I am also grateful to Jo Ann Mackie, our Program Administrator, and to Abby Goodrum, my faculty advisor. You helped me so many times to make sense of the complicated administrative meanders.

A big hug to Dragos. You have been so supportive and patient. Thank you for your faith in my ability to do this and for your love.

A special thank you to my closest friend Elena for your copyediting eye. You made this journey easier and more enjoyable.

Finally, I would like to express my gratitude to my parents, who taught me to be honest and courageous, and who have always reminded me that I can do anything I want. Mom, you have always encouraged me to dare for more and I thank you for this. You are no longer here and I miss you a lot. This work is dedicated to you.

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Introduction

After 1989, when communism was abolished in Central and Eastern Europe, the region's media systems have undergone fundamental transformations. This complex process includes the transition to a market economy, the democratization of the state and the restoration of civil society. Media have been in the middle of this process, influencing and being influenced by all changes that have occurred. Their mission has not been easy. If until 1989 the principal threat to media freedom came from the state, after the fall of communism a multitude of actors have attempted to take control over media: governments, political parties, extremist groups, and transnational corporations.

One of the first measures taken by the post-communist governments was the liberalization of broadcasting systems. Although it was a huge step forward from the state-controlled censorship, this opened a new menace for the media systems, and by ricochet, for the whole society: monopolization and excessive commercialization, already known and blamed in the West. At the same time, the transfer of ownership from the state to the private sector did not eliminate political intrusion, but brought it to another level, more difficult to observe and characterize. Numerous alliances, informal and non-transparent, emerged between politicians and media operators. At stake was public exposure for the former, and benevolence, in the form of various types of economic incentives for the latter.

Among the media companies that have emerged in Central and Eastern Europe after 1990, Central European Media Enterprises (CME) stands out. It is the biggest and most profitable, and its role in reshaping the media landscape in the region is undeniable. At the same time, the company has been the exponent of Westernization, bringing new types of management

strategies and commercial television programs to a market that had not seen anything like this before.

This paper looks at CME from a political economy viewpoint. Although the influence of CME's stations on the social and cultural level, or on the formation of post-totalitarian cultural identities, does deserve attention, it is not the main focus of this project. However, viewed in perspective, the story of CME points up how difficult it has been to merge the liberalization of the market in the former communist states with the objectives of democratization of media.

CME at a glance

“I'm confident that this alliance with Time Warner will accelerate CME's future development and take it to levels I could only dream of fifteen years ago.”

(Ronald Lauder)

This was the reaction of Ronald Lauder, the founder of Central European Media Enterprises, after one of the biggest media companies in the world, Time Warner, announced, in March 2009, that it would acquire 31 percent of CME for US\$ 241.5 million. According to CME's press release, Time Warner will receive 19 million newly issued CME common shares. In a separate deal, Warner Bros. and CME agreed to form a partnership to launch and operate new thematic television channels in CME's countries. Some of these channels will be Warner Bros. branded, and will feature mainly films and television series, including titles from Warner Bros.' library.

The move represents the first big investment of Time Warner in the former communist space. For Time Warner, purchasing stakes in what had been until recently one of the most dynamic media companies looks like a normal decision. The company has the chance to enter a

market which still has potential, even though it is strongly affected by the global economic downturn, and, more importantly, at attractive prices. In short, Time Warner has found an easy and inexpensive way to consolidate its position in a profitable market through a low-risk investment.

Time Warner Chairman and CEO Jeff Bewkes admitted that even though the region has been affected by the global crisis, CME is “ideally positioned over the long term as Central and Eastern Europe returns to significant growth and the media sector in these countries continues to evolve.” Through this venture, Time Warner follows its strategy to deliver programming on multiple platforms globally, while creating value for the shareholders.

Furthermore, CME obtains the cash flow it needs in order to attenuate the effects of the economic crisis and to get over this turbulent period. At the same time, the fact that a giant corporation such as Time Warner has been interested in buying CME shares can be seen as a sign that the company is viable and does have market value even during unfavourable economic times. Commenting on the news, Adrian Sarbu, CME’s President and Chief Operating Officer, underlined the fact that the performance of CME is driven by its local management teams and their talent to create content for the local audiences. Now, according to Sarbu, two leaders in the content business, Time Warner and Warner Bros., come with their skills and experience with the declared goal of enhancing the quality of the local programming in a market where local productions outperform foreign entertainment. If that will be the case remains to be seen, since it would seem more likely for Time Warner to make money from exporting its own productions, not investing in local content.

The partnership Time Warner – CME comes at a moment when the largest broadcasting group in Central and Eastern Europe is struggling to survive the economic downturn. Little known in the West, this Bermuda-based American-owned company has had tremendous commercial success in the former communist space. Today, it is the leading broadcaster in the region. It operates 19 stations in seven countries (Czech Republic, Romania, Slovak Republic, Slovenia, Ukraine, Croatia, and Bulgaria,) reaching almost 100 million people. 2007 has been the best year for CME so far, with historic high prices on NYSE and a growth rate that placed the company in second place among media firms, just behind Google (www.cctv-net.com.) 2008 was still profitable, though much less spectacular than the previous year. The price of the shares dropped abruptly from a maximum of US \$120/share on November 2, 2007 to only US \$5.19 on March 6, 2009. The causes of these fluctuations and their effects will be detailed further in this paper.

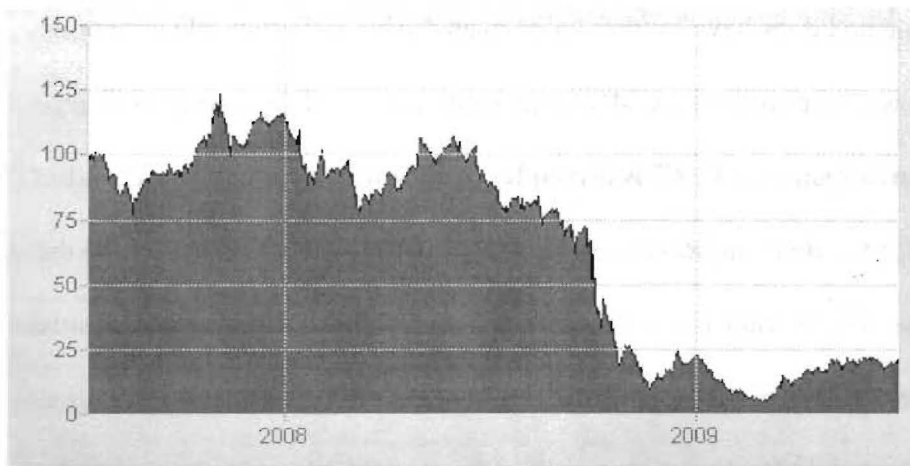


Fig. 1. The evolution of CME's shares 2007-2009 (source: money.canoe.ca)

CME claims to be the largest local content producer in the region, with more than 27,000 hours of programming produced in 2008. The productions cover a wide range of genres, from

news to entertainment, fiction series, and television movies. Up to 70 percent of the prime time programming is original content.

Given all this, the history of Central European Media Enterprises makes for a compelling corporate case study. The endeavour is even more challenging if we try to look at CME not only from a business perspective – even though this aspect is multi-faceted in itself – but also from a socio-cultural standpoint, given the particularities of the region in which the company operates.

Implications of the project

The choice of CME as main focus of this project is based on its uniqueness as a company of its kind in Central and Eastern Europe. No comprehensive corporate history has been written on CME in the more than fifteen years it has operated. Sparks (1999) attempted an analysis of the role CME has played in the development of broadcasting in former communist states. Although objective and detailed, the analysis is now dated, since the company has evolved enormously in the last decade. Sparks, though, sheds light on the beginning of CME and explains how it entered the first target markets. This project sets out to recount the key moments of CME, along with an analysis of the strategies it has employed to become what it is today – the largest media group in the former communist space.

Another implication of this project is the fact that it will contribute, as an empirical account, to the general picture of broadcast restructuring in Central and Eastern Europe after the fall of communism. Most of the studies to date on this topic are theoretical and very few look at the process from an economic / business perspective. Media companies in Central and Eastern Europe have evolved together with the whole society from a state-controlled economy to a free market, with some particularities that will be detailed in the next chapters.

Methodology

As a decision making process, research involves methodical reflection. A multitude of factors affects the work of a researcher. In this case, the theoretical framework and the research subject, along with my “positionality” influence the methodology I am using. Explicitly, having lived in Romania until 2006 and having worked in the media, I witnessed the processes of change that have reshaped the society as a whole and the media system in particular. Therefore, my understanding of the theoretical framework goes beyond the theory itself, which I believe is beneficial for the research.

An important annotation has to be made. I have worked with Central European Media Enterprises in Romania, thus witnessing as an insider some of the issues I am looking at in this paper. I realize that having been an “insider” might have its disadvantages, because my personal experiences and biases might influence the way in which I will interpret the findings. Although I understand that it is impossible to detach myself from my personal values and biases, as they are an important part of any human being, my position as a researcher will make me an “outsider” in this project (Gilbert, 1994).

The methodology I decided to use illustrates my determination to remain an independent researcher. In consequence, I do not make any claim based on my personal background and experiences. Most of my sources consist of data published in academic journals, newspapers and periodicals, industry-specific magazines, and trade journals, as I wanted to trace the history of CME from different perspectives. A significant amount of information came from the company’s quarterly and annual reports, and the news releases posted on its website. This type of data provided me with the positioning CME wished to present about itself. Furthermore, some of the

most pertinent analysis I found were published on specialty blogs, focused on the media industry, as I considered it important to see what the industry players and specialists in this field had to say about the development of CME as a corporation.

In the course of my research, I faced certain limitations. The most important was the fact that a major part of the articles about CME were not in English. CME is a regional company operating in a linguistically diverse area. Therefore, a lot of material about the company is published in local journals, in the local languages. The fact that most business publications in Eastern and Central Europe have English versions was of great help. For the chapter detailing the CME's operations in Romania, I also used sources in Romanian, which is my native language.

This paper aims to be an investigation of CME's history and an examination of its business strategies and decisions. A case-study approach was chosen because the main objective of the research was to account for an historical process occurring in a system that cannot be controlled by the researcher. As Ragin (1987) noted, "Case-oriented studies, by their nature, are sensitive to complexity and historical specificity. Thus, they are well suited for addressing empirically defined historical outcomes." (p. ix). The appropriateness of a case-study approach for such a topic is emphasized by Greenway, Smith and Street (1992):

Case-studies make politics come to life. They show the complexity of the processes of government. They reveal the uniqueness of a situation. (...) They may be used to illuminate and evaluate a whole variety of theoretical approaches. (p.11).

Corporate case-studies are accepted as a research method in the field of Political Economy of Communications (Wasko, 2008). Such an approach allows the researcher "to assess the precise

mechanisms of corporate ownership and control but also to examine trends of commodification, integration, and diversification” (p. 13). However, as Wasko (2008) mentions, “there are not as many academic studies that focus on specific corporations as one might hope” (p. 14).

At the same time, this paper can be considered a corporate history, a genre defined by Delahaye et. al. (2009): “[Corporate history] is a type of discourse that tells the past of an organization (...)” (p.30) and that “includes a large range of other genres, from academic business history through to glossy coffee table books” (p. 40). The authors make it clear that the genre of corporate history as an academic discourse should not be confounded with the historical accounts that the companies produce themselves. In the same vein, corporate history can be distinguished from academic business history: “The authorship of corporate history reflects mediatic, economic, and rhetorical forces at work behind the production of the genre” (p. 33), which is ultimately the goal of this paper. As Delahaye et. al. (2009) put it, “[C]orporate history is more than merely a repository of memory for future use. There is a cultural imperative for every large business organization to have a historical discourse.” (p. 39)

Conclusions

This chapter introduced Central European Media Corporation as the main subject of the paper. It started by mentioning the recent deal with Time Warner, according to which the American group bought almost one third of CME. For Time Warner, this was an economical way to consolidate its position in a market the analysts still consider attractive. For CME, it was a breath of fresh air in a very difficult and challenging period.

In the following section, general data about CME were presented. Set up in the early 1990s, the company is today the leader in broadcasting in Central and Eastern Europe, with 19 television stations in seven countries, and other interests in print media, radio and online.

The implications of the project were also mentioned. The uniqueness of CME as a company in the former communist space makes it a valuable research subject. The business-oriented approach employed in this paper can contribute to a more detailed picture of the evolution and restructuring of broadcasting in Central and Eastern Europe.

Finally, the methodology of the research was described. The case-study approach allows for an extrapolation of the main theoretical concepts use to frame the general process of media transformation in the former communist countries.

Chapter One

Media systems in Central and Eastern Europe

Introduction

As we have already mentioned, the CME case cannot be fully understood outside of the general context, therefore not taking into considerations the particularities of the environments in which it operates. On one hand, there are the media systems which suffered profound transformations after the fall of communism. On the other hand, there are the institutional changes that have influenced the general economic environment. In this chapter, we will look at the processes of change in the media systems in Central and Eastern Europe. By identifying their particularities, it will be easier to make sense of how CME has managed to enter the markets and almost monopolize them in a short period of time.

That mass-media are central to any society, totalitarian or democratic, is unquestionable. As Thompson (1995) puts it, "The development of communication media was interwoven in complex ways with a number of other developmental processes which, taken together, were constitutive of what we have come to call 'modernity.' (p.3) Similarly, Murdock (1989) notes: media "have played a part role in organizing consumption and leisure since the emergence of contemporary capitalism" (p. 228). O'Neil (1997) emphasizes that "the notion of a free press is central to many models of 'democracy'(...)" (p. 1).

At the same time, media played a central role during the communist regimes: "They are mechanisms through which the primary organization of the symbolic universe of the ruling group is disseminated and generalized. (...) [T]hey are the central instrument of the totalitarian project" (Sparks, 1998, p. 27). Gross (2002) cites Vladimir Tismaneanu, who wrote that the

Eastern European Communist parties “engineered the methodical destruction of the traditional political cultures of their respective nations.” (p. 1) Splichal (1994) notes, in turn, that “the media in socialist countries were organized as a state or party monopoly to protect and maintain a socialist system based on the power of authoritative institutions.” (p. 4) As instruments of propaganda, the media “aimed to control public opinion rather than express it.” (Splichal, 1998, p. 4)

In the last years of Communism, starting in the mid 1980s, the policy of *Glasnost* brought some changes “in the sort of expectations that were placed upon the media by the ruling group (...)” (Sparks & Reading, 1998, p. 63). Sparks and Reading (1998) cite a Soviet scholar, V. Korobeinikov, who theorized the new conditions:

Basically, Glasnost means having ready access to various facts of life and an open public discussion of these questions. (...) Making mass media part of the process of greater openness will oblige them objectively to get rid of political pompousness, general phrases, and makes it impossible ‘to varnish’ different aspects of life. (Korobeinikov, 1988, p. 7-9, cited by Sparks & Reading, 2002, p. 63)

However, Splichal (1998) mentions that there is an important element both capitalist and socialist systems had in common: the abuse over the means of communication for political control (propaganda) or commercial profit (advertising).

Media transformations: from communism to political capitalism

Although the former communist countries have different historical and cultural backgrounds, they certainly have something in common: decades of strict media censorship and

a tremendous appetite for Western production. Take the example of Romania. Before December 1989, on the state-owned television there were only two hours of programming, most of them communist propaganda, which transformed television into no more than an instrument of political ideology. O'Neil (1997) underlines that "under socialism, (...) the media served as a 'transmission belt' – not from the masses to the party, in a democratic-centralist form, but rather from the party to the people, as an important part of control" (O'Neil, 1997, p. 1). Garton Ash, cited by Dennis and Heuvel (1990) writes about the reasons why old media lost their credibility:

"The combination of censorship and a nearly complete party-state monopoly of the mass media provided the army of semantic occupation (of the public sphere); ideology, in the debased, routinized form of newspeak, was its ammunition. [...] They no longer mobilized, but they did continue to prevent the public articulation of shared aspirations and common truths." (Dennis & Heuvel, 1990, p. 2)

Likewise, Gross (1995) highlights: "Romanians reached a point in the late 1980s when the need for any information other than that which was disseminated by the controlled and controlling Romanian media became important to their psychological and emotional survival." (Gross, 1995, p. 208)

Pavlik (1999) describes what the Czech television looked like before 1989. There were two national channels, financed through mandatory subscription fees and from the budget. All programming production plans were subject to the approval of the party organs. The workflow, overly bureaucratic, had nothing to do with the way in which Western producers work:

The creative teams were bound by a fixed annual plan of technical capacities (days in studio, days in the field, for example) and they had to fit their creative ideas into the strait-jacket of so-called program production types (e.g., 5 days in the studio + 1 day in the field). After the teams concretized their creative goals, they tried to coordinate with individual production sub-departments the use of appropriate technical capacities. The technical capacities were allocated on the basis of availability and not cost-effectiveness as would be the case in a more efficient economic system. (p. 93)

In 1989, “these structures of ‘organized lying’ began to break down” (Dennis & Heuvel, 1990) and among the first measures new governments took was the liberalization of media systems. However, the years after 1989 demonstrated that “the absence of communism does not alone lead to democracy by default” (O’Neil, 1997, p. 1). In this context, it is CME’s merit to have anticipated the potential that these raw markets had and to have realized that investing in Central and Eastern Europe could be an extremely wise long-term decision. Indeed, for Amdur and Johnson (1996), “the fact that so few major Western groups have been tempted East is surprising.”

The expansion of freedom of expression took place in a period of transition on all levels of the society, “where old rules had lost their legitimacy and new ones had not yet been promulgated to take their place” (O’Neil, 1997, p. 2). That is why after the fall of Communism, establishing a new regulatory framework for the media was a priority. The tasks were deregulation – in order to liberalize the media, re-regulation – to reform the inherited media laws, and regulation of the media activities that were new in these countries (Jakubowicz, 2007).

The process of transition from state-owned to private, commercial media has been complex and sinuous. In this “systemic social transformation, (...) media change can be treated as a litmus test of the more general process of transformation.” (Jakubowicz, 2007, p. 1) Sparks (1998), cited by Jakubowicz (2007) explains why: “certain features of the structures of society are more clearly illuminated through this optic [of media change] than through others.” (p. 1) And this is because, as McQuail (2000) puts it, media systems are situated at the centre of overlapping areas of influence. They depend on and influence politics, economics, and technology. We will discuss in the next part of this project the characteristics of these systemic changes and the role played by the media in this process.

Spark’s work

One of the most cited works about the theory of media change in the former communist space is Colin Sparks’s “Media theory after the fall of European communism: Why the old models from East and West won’t do any more,” published in the book “De-Westernizing Media Studies” edited by Myung-Jin Park and James Curran (2000). The chapter provides a theoretical framework to look at media systems in ex-communist countries based on concepts with which Western analysts operate. Sparks addresses three major issues: the theories about media systems with which Western scholars operate, the way in which the West looks at the relationship between media and different kinds of social power, and the lessons that the West can learn from studying Eastern media.

Among his theoretical considerations regarding cultural and social change, Sparks underlines what the West did not know about the communist media. First, the media systems in the countries of the communist block were different one from another. While in Romania media

meant only propaganda, in Hungary the system had been undergoing long processes of liberalization. The case of Poland is particular in that the underground media organized by Solidarity (opposition union) played a crucial role. These examples contradict the general view that communist media was the same everywhere and that there was a single type of media system reproduced in all the countries of the Eastern block.

Second, these systems were surprisingly open and not “sealed against evil imperialist influences” (p. 38), in that people from these countries could receive programs from neighbour Western countries. The case of East Germany was atypical, in that people could easily receive the signals from West Germany, which had the great advantage of being in the same language. In other countries, though, the language differences did not prevent people from trying to receive signals from the West. Sparks mentions that in Hungary, 30 percent of the population could receive Austrian signals. At the same time, there was a non-negligible amount of Western programming on Eastern televisions. In Hungary, for instance, 70 percent of the imported productions were from the West. However, this was an exception. In most countries, foreign programming was imported from the Soviet Union or other socialist countries. One general conclusion can be drawn: the communist systems could not prevent people from having access to new media technologies, such as satellite antennas and receivers. Even though they were considered “subversive,” there is no evidence that the regimes attempted to control them. (p. 39)

Deviating from Sparks’s work, but remaining on the same note, it is worth mentioning the case of the series “Dallas” being aired in Romania. Vieru (2008) cites two American journalists, Nick Gillespie and Matt Welch, from the *Washington Post*, according to whom “Dallas” was as important for the Eastern block as the debate between Nixon and Khrushchev. In Romania, the series started in May 1978 after months of discussions in the ideological committee

of the Communist Party. The declared goal of the authorities was to show people how corrupt and degraded capitalism was. The effect was, obviously, totally opposite. Every Saturday people would stop any activity to watch the only infusion of the West in their lives: luxury cars, villas, swimming pools, designer clothes. When the regime realized that the show was not anti-capitalist at all, it was too late.

Returning to Spark's analysis, the third thing that he thinks the West did not know about the Eastern media is the fact that the communist media systems did have histories of change. In other words, the change did not begin when the totalitarian regimes fell. The best known case was Poland, where a good part of the media workers were members in Solidarity. The union "was able to force concessions on the conduct and content of the press and broadcasting from the government, and itself advanced very radical plans for reconstructing the media to make them much more open to the diverse voices within Polish society." (p. 39) The state took back the control over media after the union was declared illegal in 1981. However, a group of "reform communists" understood that there had to be a place for Solidarity in society for the sake of the social peace. The "reformist" model was exported and in some countries these reformists started to look for dissident figures with whom they could deal, thus fissuring the unity of the *nomenklatura*. It was a chance for journalists to report facts that were never talked about before. Sparks writes: "The declining years of the communist regimes were, contrary to the predictions of the dominant theory, experienced by journalists as an oasis of freedom and independence." (p. 40)

Sparks also looks at what came after communism with respect to media systems in Central and Eastern Europe. The response to this question is complex: "It is entirely true to say that what comes after communism is capitalism, but the nature and form of the capitalism that

has emerged in the former communist countries are distinctive” (p. 41). Yet, a common trait does exist: the “political” and the “economic” in these societies are linked together and there is no clear distinction between them. In fact, the experience of the ex-communist block shows, once again, that there is a close relationship between capital and politics.

Splichal’s political capitalism

Another key work that looks at media systems in Central and Eastern Europe and to their processes of change is Slavko Splichal’s article “Reproducing Political Capitalism in the Media of East-Central Europe,” published in *Media Research*, vol. 6, nr. 1, 2000. The article analyzes the new media systems in the ex-communist space and argues that their imitative nature is an obstacle to the development of more democratic systems. Splichal identifies two types of imitative tendencies: those which reproduce Western (European and American) systems, and those which are imitating the (socialist) past of the countries from this part of Europe.

The central argument of the article is Splichal’s observation that “the development in the E[ast] C[entral] E[uropean] countries led to the establishment of a kind of ‘political capitalism’ and created a system of ‘paternalist commercialism’ in the media, with the state (government) often acting both as a powerful political and economic actor.” These two concepts are central for the further examination of CME history.

Splichal defines ‘political capitalism’ as a form of transition from socialism to (quasi)capitalism in the former communist space. In this transition, there is no clear differentiation between the state and the market, or between political parties and civil society. This is the environment in which media systems started to develop after the fall of communism. In former socialist countries, the state acted both as political and economic actor, thus shaping

media systems, which – as everywhere else – are highly dependent on political decisions. In political capitalism, “a state that rigidly controls the economy cannot tolerate the kind of political competition that independent media would represent.” The contradiction comes from the fact that the same state is the guarantor of civil society and has to fulfill its role of media regulator. Admittedly, without a market economy, media are politically dependent. Yet, the existence of a market economy is not the guarantee for a politically independent media.

The instrument through which political capitalism directly manifests itself is media regulation. Splichal identifies five classes of interest in media, which makes regulation an even more difficult mission for the state. First, there are the media owners, whose goal is to maximize the profit, but also to use the media to express, directly or indirectly, their own views. Then, there are the interests of goods producers and service providers to advertise their products. Third, there is the interest of the public to receive information. It is followed by the interest of different civil groups to have access to the media in order to make their opinions known, and the general interest in respecting the civic rights and insuring that media do perform their civic duties. The mission of regulation is so difficult because it has to find the right balance between all these interests and between all the actors that take part to the construction of the media systems.

In order to make sense to what has happened in the ex-communist countries after the fall of the Iron Curtain, Splichal looks back to what media looked like during the totalitarian regimes. There are a few lessons to learn from post-communist countries as regards to the place and the role of media in society. First, in some of the former socialist countries, media were agents of political change in the late 1980s. Second, among the changes that were brought in society, of particular importance was the transformation of the state-owned media. Third, the fundamental questions of transition of these societies relate to the media, which became the

terrain of debate for topics such as the role of the state and civil society, privatization, freedom of expression, etc.

Although the ex-communist countries have experienced different patterns of transition of media systems, several common tendencies can be identified. Splichal enumerates seven such tendencies, which he sees as present in different degrees throughout the region:

- **Re-nationalization** – the state retained control over national broadcasting through regulation or by appointing boards, directors, editors;
- **Italianization** – the broadcasting systems were put under the control of leading political parties, similar to what happened in Italy in the 1980s and early 1990s;
- **De-nationalization and Privatization** – privatization of the press and broadcasting was seen as the guarantor of the freedom of expression
- **Commercialization** – the rule of profit was the only one to follow by the newly created media firms; as a consequence, a paternal-commercial media system emerged, which was preoccupied with its own profit on one hand, and with the maximization of its political influence, on the other;
- **Inter- and Transnationalization** – without foreign investment it would have been impossible for media systems to develop; thus, media became increasingly internationalized on many levels: reception, content, funding, regulation, and organization;
- **Nationalistic and Religious Exclusivism** – after the fall of communism, media also became the provider of the new reference points on which civic and national identity was (re)created (an identity shaped only by the state and the party's institutions until 1990);
- **Prosecution of Journalists** – in some of the ex-communist countries, power elites did not hesitate to attempt to intimidate and harass media, and even to assassinate

“uncomfortable” journalists; at the same time, in several countries anti-defamation laws are used to discipline journalists.

We shall discuss later which of these traits relate to CME and in what manner, as well as how they favoured or, on contrary, obstructed its activities. We shall also refer to Splichal’s pessimistic conclusions, according to which in the former communist space structural regulation remains ineffective, content regulation did not improve quality of programming, and “the imposition of commercial criteria threatens the integrity of civil society and hands the initiative to greedy commercial interests.” Splichal makes another interesting point that the East has been a sort of experiment for the Western media capital: strategies that could have never been implemented in Western societies, where media do fulfill their social responsibility roles, were “tried out” in Central and Eastern Europe.

Media economics

A growing body of literature has attempted to conceptualize the transformation of media after the fall of communism. The most attention has been paid to the socio-cultural processes of change and to the media-society relationship. If that can be considered appropriate for the first decade, given the fact that the profound transformations that occurred in all levels of society needed to be understood, it is surprising how few authors have focused on the new emerging media industry in Central and Eastern Europe.

The importance of media economics is underlined by Gillian Doyle, in her book *Understanding Media Economics* (2002). Even though media are usually examined in the spectrum of non-economic disciplines, the economic aspect is important in drawing a complete picture because media are influenced by financial concerns. Moreover, media as businesses

affect the society on multiple levels, from job creation to freedom of expression and cultural (in)dependency. Doyle defines media economics as a discipline concerned with “the changing economic forces that direct and constrain the choices of managers, practitioners, and other decision-makers across the media.” (p. 2) Media have characteristics that contribute to the distinctive forms that economic trends take, thus media economics is important to look at independently from general economics. Picard, as cited by Doyle (2002) notes that “economics has been described as the study of how people make choices to cope with scarcity” (p. 2), whereas media economics is “concerned with how media operators meet the informational and entertainment wants and needs of audiences, advertisers and society with available resources.” (p. 2)

Media economics is also particular in that “messages and meanings” are “intangible”. Economies of scale and economies of scope can be achieved in the media because of this intangible quality of information/entertainment/knowledge. The author does not examine how this “intangibility” is used; she only underscores that it is a valuable commodity because it can be easily manipulated from production to distribution. Vertically integrated firms take most advantage of this intangibility. Economies of scale and economies of scope are characteristic for media economics because of the low cost of distribution after initial production costs. The larger the company, the more potential for profit (economies of scale) and the greater its ability to reach multiple markets (economies of scope).

The media are affected by national and international economic tendencies in the globalized world. An interesting point is made about the interdependency between media companies and the overall performances of the economy. As Doyle points out, “the fortunes of most media firms are highly sensitive to the ups and downs of the economy as a whole” (p. 3), an

observation that makes even more sense in this turbulent economic period. Advertising is the main source of revenue for most media firms, and analyses have shown a strong correlation between advertising expenditures and the general economic environment. At the same time, revenues of media companies rely on direct expenditures by consumers, which depend on indicators such as disposable income and consumer confidence.

Unlike other firms, media companies usually function in regulated markets, which raise particular challenges, as well as opportunities for them. Doyle identifies three main types of market structures that influence firms' decisions as regards to the organization of their activities and resources: perfect competition (very rare), monopoly (it exists in some markets) and oligopoly (the most common in the media business world).

Doyle is also concerned with corporate strategies in the media world. The firms can grow horizontally (by combining forces with companies with similar product, operations etc.), vertically (by expanding forward and backward in the supply chain and controlling it from top to bottom) and diagonally/laterally (by diversifying its operations while remaining in the same industry, i.e. combining television, online, and radio or newspapers and book publishing). Doyle emphasizes the importance of "vertical deconstruction" in the study of media economics. "Vertical deconstruction" is defined as "breaking the industry's activities up into a number of different functions or stages so that each activity can be studied more closely" (p. 18). This is central in studying media economics because "all stages in vertical supply chain are interdependent." (p. 19)

Vincent Mosco (1996) gives a new meaning to these concepts by analyzing them in the terms of political economy. Horizontal growth can lead to the creation of media conglomerates,

“a product of the amalgamation of firms in different lines of business.” (p. 176) Vertical integration allows a firm to control the whole process of production. Thus, the firm can “gain a competitive advantage from the opportunities that vertical integration offers to rationalize its operations.” (p. 177) What Mosco stresses is the fact that horizontal and vertical integration are means for a company to control risks. More specifically, the company does not expose itself to economic uncertainties if its circuit of production does not rely on external markets.

“One obvious consequence is the rise of what Anthony Smith (1991) calls the ‘behemoth’: Time Warner, Matsushita, Bertelsmann, News Corp., Fininvest, Hachette, Disney, and Sony, among others. These firms integrate vertically by securing control over production, distribution, and exhibition; horizontally across a range of media products, including hardware and software; and globally by taking advantage of an international division of labor that makes possible the flexible and cost-effective use of labor, capital, research and development.” (p. 179)

I shall extrapolate these observations and apply them to the examination of CME. I intend especially to analyze how all of these make sense in the context of political capitalism, characteristic of the ex-communist space.

Conclusions

In the course of this chapter, theoretical frameworks that will be employed in this project were discussed in details. I started from the assumption that media are central to any society, whether democratic or totalitarian. In the first case, media contribute to the construction of modernity along with other developmental processes, while in communist societies media are

propaganda instruments for the ruling groups. This was, in fact, a common characteristic for the ex-communist countries, even though they had different historical and cultural backgrounds. However, there were several significant differences between countries as regards to what media, especially television, looked like before 1989. While in some countries people could watch Western productions, in other countries television meant just a few hours of programming by day, mostly communist propaganda.

Yet, there are several things that the West did not know about media in the East. First, the systems were not as closed as they were thought to be. It was quite common for people to receive signals from Western television without the regimes trying to interdict this practice. Then, there are histories of change in the Eastern media, and the most prominent case came from Poland. Solidarity, the opposition union that embraced almost the whole country, was able to obtain some rights and concessions over the content of press and broadcasting. In the last years before the 1989, the reformist current took over other communist regimes and they became less strict with the journalists and intellectuals.

After the fall of communism, all countries from Central and Eastern Europe experienced structural transformations on all levels: political, social, economic. Media impacted and were impacted by these processes of transition. They acted as public services by informing people, but suffered themselves intense restructuring processes. A common characteristic of these processes is the almost inexistent distinction between 'political' and 'economic', which led to the emergence of 'political capitalism'. In political capitalism, there is no clear differentiation between the state and the market, or between political parties and civil societies. This determined the basis on which media systems were restructured and shaped their future development.

In the next part of the chapter, I developed the theoretical framework which I plan to employ in my analysis of CME as a corporation. I pointed out that even though in general media are looked at in terms of content and presence in the social space, the economic component cannot be ignored. Media take part in general economic processes and are influenced by them. I mentioned some of the main concepts used in media economics, political economy and strategic analysis, concepts which will be employed in the empirical part of this project.

Chapter Two

CME as a corporation

Introduction

This chapter will focus on CME's history and evolution. The analysis will cover the key moments of CME as a corporation, its launch and development in various markets. The latest financial data that will be used are those included in the First Quarter 2009 Report, presented in April, 2009.

The most comprehensive account of CME and its role in the development of commercial television in Central and Eastern Europe is Colin Sparks's article "CME and broadcasting in the former communist countries," published in *Javnost – The Public*, vol. 6, nr. 2 (1999). Sparks's argument will be presented in this paper, but one must not forget that the article was written a decade ago and since then both CME and the socio-political environment in that part of Europe have undergone profound transformations. Therefore, Sparks's conclusions might no longer be valid and they will be challenged, based on more recent works. Most data used to document the evolution of CME as a corporation and its practices have been published in trade journals, daily newspapers, weekly or monthly financial and business magazines. Recently, an important body of information has been published on the internet, either in online magazine websites or specialized blogs.

Ronald Lauder, the man behind CME



At the origin of CME is Ronald S. Lauder, today Non Executive Chairman. To fund CME, Lauder used the fortune he inherited from his mother Estee Lauder, the owner of one of the biggest cosmetics companies in the world (Sparks, 1999, p. 34). To start the first operations, Lauder teamed up with former diplomat Mark Palmer. Both of them had good connections in Central and Eastern Europe: they had served as ambassadors in Austria and Hungary during the Reagan Administration (Druker, 2001, p. 82). Lauder had had even higher political aspirations: he had been a candidate for mayor of New York in 1989 (Gubernick, 1997). CME was a personal ambition for Ronald Lauder, often seen as the less talented brother of Leonard Lauder, who runs the cosmetics empire founded by their mother. Gubernick (1997) mentions that Lauder came up with the idea for CME as he saw the appetite for cosmetics grow in Central and Eastern Europe. He realized that as income rose, people would buy better-quality products, no matter if they were cosmetics, appliances or cars, and this would make television advertising blossom. With Lauder's money and Palmer's knowledge of the market, CME was formed.

Regarding Lauder's failed investment in Hungary, which will be detailed in the next sub-chapter, Durity (1991) points out "The Ten Commandments" that Ronald Lauder and his

associates followed from the beginning. Among them, hiring only Western auditors, always keeping the smallest staff possible, and trying to get as many and as big loans as possible since “bank debt doesn’t appear on the books.” These “commandments” are based on Lauder’s business experiences in Hungary, but represent his “Bible” for doing business anywhere in Eastern Europe.

Lauder is also an avid art collector. In 2006, he bought Gustav Klimt’s *Portrait of Adele Bloch-Bauer I* for 135 million dollars, the most expensive painting at that time. In fact, Lauder is the owner of an impressive collection of German and Austrian art, now exposed in New York. As Edgecliffe-Johnson (2008) explains,

This picture sums up the story of a troubled century’s relationship to its treasures, combining art, politics and money in much the same way as Lauder himself does.

Commissioned by a wealthy Jewish industrialist, it was seized by the Nazis in 1938 and only restituted to the industrialist’s niece in 2006 after a battle with the Austrian government. Within months of its return, Lauder snapped the picture up for the then-record sum of \$135m. (Edgecliffe-Johnson, 2008)

Lauder’s fortune was estimated to US\$ 2.0 billion by Forbes in 2008. Part of it was inherited from his mother Estee Lauder, but a good part was built through the media operations in Central and Eastern Europe. Lauder is also a renowned philanthropist. He “has used his fortune to prevent piles of shoes at Auschwitz from decaying, to rebuild synagogues from Tunisia to India, and to restore Gundel, Budapest’s grandest restaurant, to its former splendour” (Edgecliffe-Johnson, 2008). However, the main business of Lauder is CME, “a collection of television

stations that had until recently been one of the fastest-growing businesses in a struggling industry. Fears of slowing regional growth have brought its valuation down to earth since the autumn” (Edgecliffe-Johnson, 2008).

In fact, when Ronald Lauder started his media company, he was an outsider in the industry (Burt, 2005). In an interview published in 2005 he admitted that CME had cost him 100 million dollars from his own fortune, but he was quick to add that he expected a payback. To him, CME is not just a business, as he revealed in the same interview:

It's something very personal. As a teenager, when most people were going to vacation in the Hamptons or wherever, I was in Eastern Europe. My grandparents came from Budapest and Slovakia, and I was in Hungary when the Berlin Wall came down. I realized that it was a once-in-a-lifetime opportunity to change things. (Burt, 2005)

Sparks (1999) finds and explanation why Ronald Lauder's company has been so commercially successful:

Lauder had one important qualification that made him uniquely well-placed to lead CME. This was not that he has, for family reasons, a considerable interest in the middle of Europe, or that he is a wealthy man. The crucial factor was that, through his association with right-wing activism in the US, he had developed important political contacts both in the US and in the region. (...) Lauder was not just a rich American who wanted to take over businesses in former communist countries. He was a rich American who had experience of making political deals with Europeans, particularly European living in countries with a communist past.” (p. 38)

The beginnings of CME

Sparks (1999) puts the first steps of CME on Central and Eastern Europe in the context of the growth of foreign-owned companies in the television markets in the former communist space. He describes CME as “the most persistent and aggressive of western entrants into the market.” (p. 26) According to Amdur and Johnson (1996), “CME’s mantra [was]: be the first Western-style commercial operator in emerging Central-European markets – with or without well-defined broadcast regulations – with huge upside advertising potential, minimal competition, and well-connected local partners.” Thus, allying with key local partners, CME secured in its yard potential capable entrepreneurs, who could have become its competitors, had they started their own media businesses. As Amdur and Jonson (1996) put it, in these markets, “who you know is often as important as what you know.”

As Sparks (1999) notes, Central European Media Enterprises became visible in June 1994, when it began to trade on the US NASDAQ under the ticker symbol CETV. However, the first venture of the main shareholder Ronald Lauder had been Central European Development Corporation, a company founded in 1991 which shared the capital and the management with the future CME. From the beginning, CME established a business structure that was totally new to the countries that had just escaped from communism.

A company with its registered office in Hamilton, Bermuda, whose Chairman resides in New York, which located its head office in London and had, by March 1999, 41 subsidiaries in 13 different countries including the Netherlands Antilles, does rather sound as though its main business involves drugs, arms or money laundering, but this complex web of interlocking interests is in fact a commonplace for even moderately-sized and completely legitimate businesses. (Sparks, 1999, p. 27)

In 1993, CME was considered “the media arm of Central European Development Corporation” (Sparks, 1999). Teaming up with a number of German firms and individuals, it obtained four licences for local televisions in Berlin-Charlottenberg, Nurnberg, Leipzig and Dresden. Two other bids were unsuccessful. The Berlin station began broadcasting in November 1993, followed by those in Nurnberg and Leipzig. The station in Dresden was never to transmit at all. At the end of 1997, CME withdrew from all its German engagements.

The next step for CME was the Czech Republic’s TV Nova. This venture was to become the most representative operation of CME for many reasons. On one hand, it was considered the most successful launch in the history of television (Druker, 2001). On the other hand though, it meant a long and costly judicial fight for CME, a battle that went beyond the limits of usual business-related disputes. The case of TV Nova will be detailed in a separate subchapter. For now, we will only mention the beginnings of this controversial, but commercially successful venture.

In 1993, a company named Central Europe Television for the 21st Century (CET-21) and owned by a group of six Czech intellectuals, won the licence for a national television channel. In order to get the licence, CET-21 had allied with a company in which CME had 66 percent, the Czech bank Ceska Sportitlena 22 percent, and CET-21 the remaining 12 percent shares. TV Nova was launched in February 1994 and was an immediate success. By the end of 1994, it “had consolidated a 70 percent share of audience, the majority of advertising revenue, and was showing an operating profit well ahead of schedule” (Sparks, 1999, p. 27). Figure 2 reproduces the corporate organigram as it was presented to potential shareholders in October 1994.

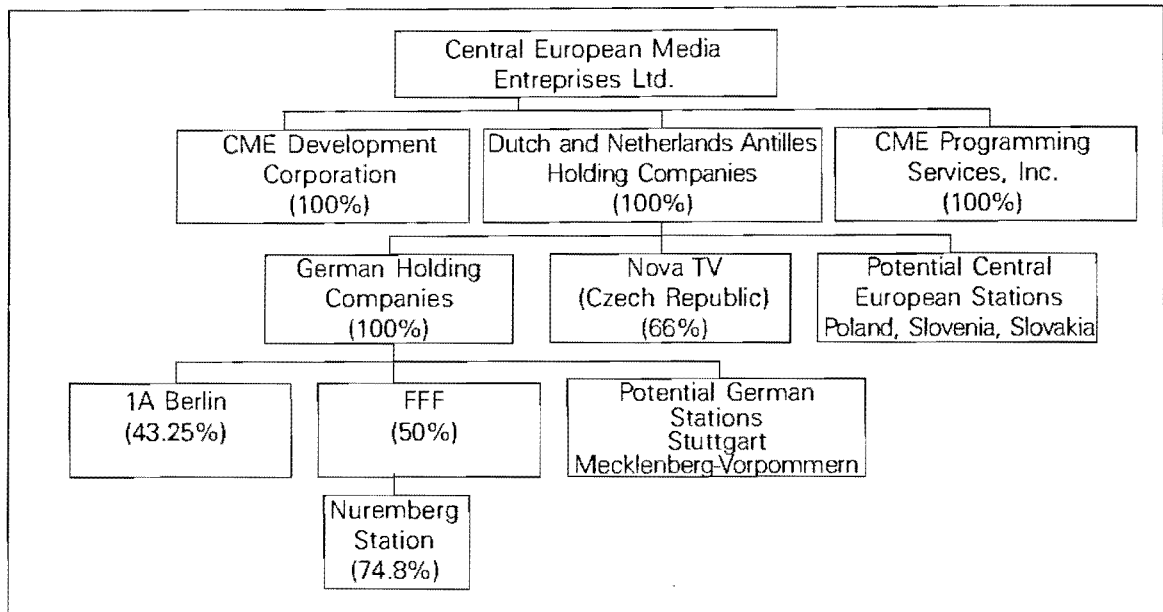


Fig. 2. CME's corporate map in October 1994 (Source: Sparks, 1999)

The other venture that was to become, along with TV Nova, a flagship of CME's flotilla – Romania's Pro TV – was launched in December 1995. In partnership with a local film-maker with good political connections, Adrian Sarbu, and a former tennis star turned businessman and banker, Ion Tiriac, CME implemented the same recipe that had made TV Nova a huge success. With an "aggressive management style, headed by Sarbu" (Sparks, 1999), Pro TV quickly became market leader. In 1998, Sarbu launched a second channel under CME's umbrella, Acasa TV. As Sparks (1999) notes, "the company operates closely with Sarbu's production interests and other media ventures." The case of Pro TV will also be presented in detail in a separate sub-chapter.

At the same moment as Pro TV, in December 1995, Pop TV was launched in Slovenia. CME teamed up with two Slovene companies and put together a number of small firms that had gained local and regional licences. With a national licence, Pop TV rapidly gained 45 percent

audience share. Less than two years later, in October 1997, a second channel was launched – Gajba TV.

The expansion of CME continued. In August 1996 Markiza TV was launched in Slovakia, bringing the same success in terms of audience. However, the venture brought CME into the middle of a scandal caused by the original owners of the licence, the Slovak partners Pavel Rusko and Sylvia Volzova. Rusko, named director of Markiza TV after the deal with CME, had secured a loan a few years before, using his company as collateral. In 1998, he could no longer pay the loan, and Markiza TV was bought by the company which had acquired the rights, Gamatex. The directors of this company even sent armed security men to take over the studio in August 1998. CME kept a neutral position and let the two parts to find a solution. Eventually, they agreed to sign a deal according to which Rusko gained back his position as Director General (Sparks, 1999).

1996 was also the launch year for Studio 1+1 in Ukraine. Initially holding 50 percent of the venture, CME later decided to acquire another 10 percent, in order to distance itself from the criticisms of its local partners (Dziadul, 1998, cited by Sparks, 1999).

The next year, CME launched two new channels, in Poland and Hungary. Unlike all other licences CME held, these were not national. In Poland, the company lost the bid for a national frequency and tried to build a network from a number of local stations in the main cities. The attempt was a failure. In Hungary, CME was so confident it would win the bid for a national terrestrial licence that it acquired the rights for 10,000 hours of programming and even a dubbing company which would translate the foreign programming. CME also launched a local cable channel. When the licence was won by another competitor, CME tried to build a national network through partnerships between its Budapest-based cable channel and other local cable

operator. Again, the attempt proved to be unsuccessful. Sparks (1999) underscores that 1997 was the high point of CME and presents its corporate map:

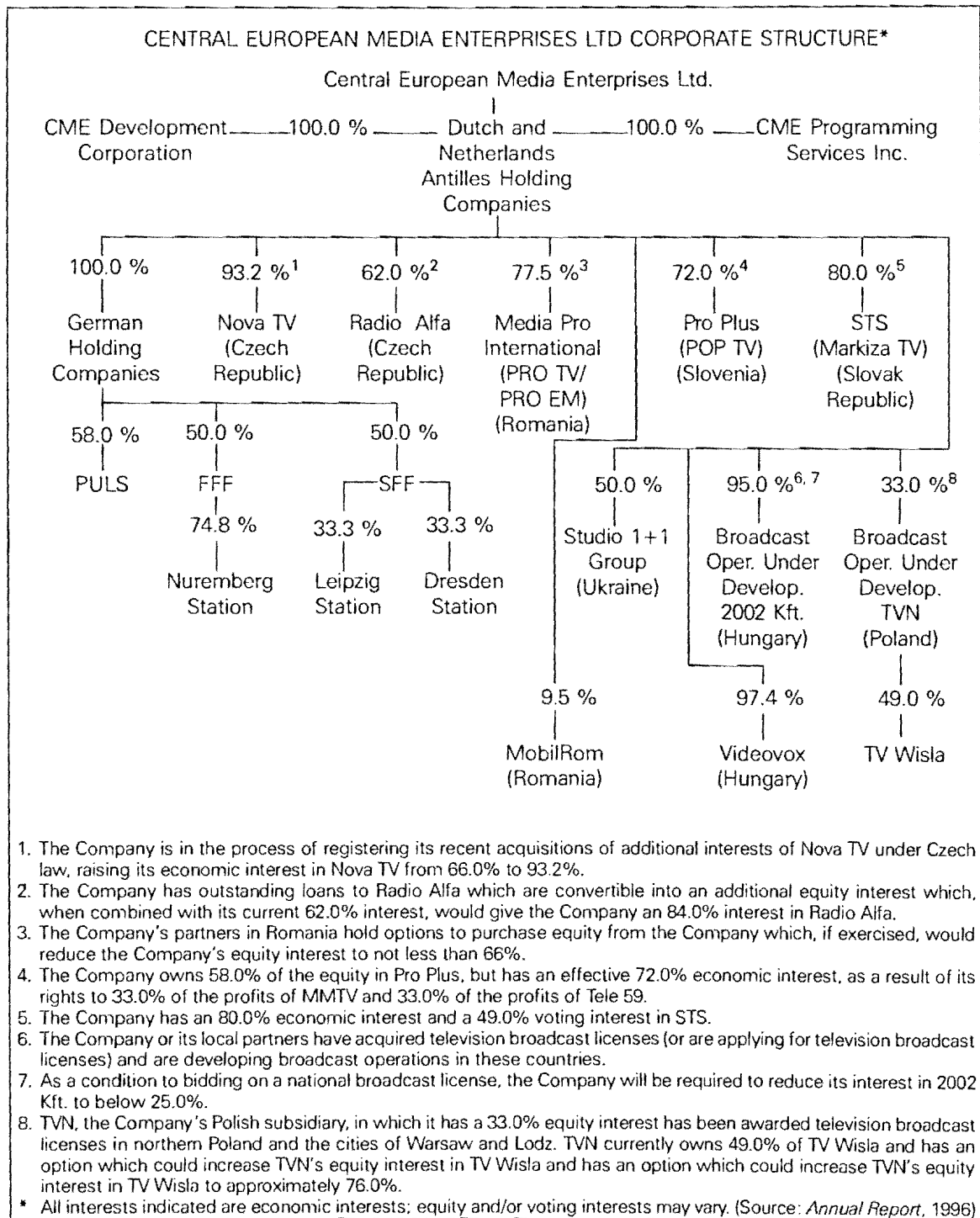


Fig. 3. The corporate map of CME at its high point in 1997 (Source: Sparks, 1999)

The image presents a healthy, organized company, with an array of established products and new ventures. However, the high point meant that what was to follow was the decline. In May 1997, CME's German operations filed for bankruptcy. The management was transferred to the local management and CME withdrew from the country at the end of the year (Sparks, 1999). In 1998, after a number of replacements in the Board of Directors that meant a new strategy of consolidation, CME renounced its Polish and Hungarian operations. What followed was a drop in the share price in the second half of 1998, due mainly to the investors' lack of confidence that the profitability of TV Nova would be reproduced by the other CME stations. In 1999, CME agreed to merge with SBS, thus ending a six-year roller coaster (Sparks, 1999).

However, the merger that would have created one of the largest and most powerful station operations in Europe, with 18 stations spread across 12 countries, did not take place. The two companies called it off because of legal difficulties. CME's Czech partner, Vladimir Zelezny, had been let go but he refused to leave. He turned off the TV Nova's signal, convinced most of the staff to follow him and started broadcasting from a new headquarters (Druker, 2001). This episode and what followed will be detailed in a separate sub-chapter. For SBS it was the reason to call off the merger previously agreed. According to the website www.fundinguniverse.com, CME's share price fell to less than \$1 in the wake of these difficulties and remained extremely low through 2001. Moreover, the company was delisted from the NASDAQ for about two years.

Although most analysts had already declared CME dead, the company continued its operations in Slovenia, Slovakia, Romania and Ukraine. It even added a new channel to its portfolio, Slovenia's Kanal A, a leading channel operating on the Slovenian market since 1991. In 2001, an international court in Stockholm decided that the Czech state was responsible for

failing to protect a foreign investment and had to pay Lauder the market value of TV Nova at the moment when Zelezny confiscated it. More information on this ruling will be presented in the sub-chapter dedicated to CME's operation in the Czech Republic. This was a new turning point for CME and the beginning of its new commercial success.

CME in the Czech Republic

TV Nova has for a long time been the flagship of CME's flotilla. Its story is described in great detail by Druker (2001).

After the fall of Communism, Czechoslovakia was considered by many the last place in the world where a television showing nude bodies and explicit news about terrible accidents and other violent events would have been successful. The country had given to the world intellectuals like Franz Kafka and Milan Kundera, and was led by Vaclav Havel, a respected playwright who had been in the frontline of "The Velvet Revolution". The whole society, not only the elite, seemed passionate about high art and culture. However, when TV Nova was launched, in February 1994, everybody seemed mesmerized.

Almost overnight, the first private television station in Central and Eastern Europe grabbed an enormous market share. Using glitzy marketing to promote a lineup built on American films and television serials, Nova easily attracted viewers away from stodgy Czech public television (CT), the successor to communist-era Czechoslovak Television. Nova's runaway ratings victory led many to reassess their previous perceptions of a cultured nation that could withstand crude imports. And those who viewed the station's sensationalism as destructive to the fragile transition to democracy looked around for someone to blame. (Druker, 2001, p. 81)

Everything started in 1993, just after Czechoslovakia split into two independent republics. The Czech government announced that the frequency of the former Czechoslovak state television would be available for a commercial station. The winner was the project submitted by CET-21 (Central European Television for the 21st Century). The operations would be managed by a group of Czech and Slovak intellectuals, including Vladimir Zelezny, a former government spokesman and TV Nova's future director. Central European Media Enterprises would come with the money. And, as Druker (2001) mentions, it would come not only with the money, but also with the connections that Ronald Lauder and Mark Palmer had in the region. CME immediately invested 10 million dollars to buy a downtown building in Prague and equipment for the studio. They also hired young journalists and unknown faces to become Nova's stars. As Druker (2001) highlights, bringing new talent was a deliberate decision, aimed to clearly distance the new station ("Nova" means "new" in Czech) from the old state-owned public television. CME also invested in buying the rights for several famous American films and series, like "Dallas", "Beverly Hills 90210", and "Days of Our Lives". Along with these, the station lined up variety shows presented by local entertainers, an investigative program, and sensationalistic news. In other words, it was "the forbidden fruit" that people had dreamed of for years. Six months after its launch, TV Nova had twice the audience of the public station and in less than one year it started to generate profit. This makes TV Nova one of the most successful launching in television history worldwide (Druker, 2001, p. 82).

TV Nova's formula for commercial success was simple: American sitcoms and soap-operas, most of them reruns, and tabloid news (O'Neil, 1997, p. 56). The trademark was a reverse striptease act aired after the night news program. A naked female presenter dressed

herself according to the next day's weather. Druker notes that the show has become "part of modern Czech lore" (p. 85).

However, what seemed to be a perfect collaboration between Nova's general manager, Vladimir Zelezny, and CME did not last. Zelezny was a former state-television employee who stayed at his post in 1968, during the Soviet invasion to broadcast images of the tanks on the streets of Prague. Fired two years afterwards by the communists, he started to publish screenplays under a pseudonym. With TV Nova, he rapidly became a key figure. Zelezny was not only the manager of the station, but also its number one star. His show, *Call the Director*, was a bizarre mix of answers to viewers – some related to programming (i.e. why a show was moved from one day to another), other totally personal (i.e. why he does not wear bow ties anymore) – and fierce criticism against the regulatory body and the competition. Druker (2001) cites Jan Culik, an expert on Czech media, who wrote:

The purpose of [Call the Director was] to mesmerize the ordinary Czech viewer and to manipulate him into absolute submission. It [was] a self-promotional program, where Zelezny will say anything, often absolute manipulative rubbish, in an attempt to increase the viewing figures for his station. (Druker, 2001, p. 84)

Behaving as if the station was his own and he could do anything on air, Zelezny appeared on news in 1998 to defend his son, who had been convicted of rape. Zelezny assumed for himself the role of a "guru" in guessing what people want to watch on television, while cultivating a true "cult of personality" (Goldhaber, 2002). Meantime, his relations with CME's executives deteriorated and in April 1999 he was fired. Desai (2004) detailed the ins and outs of this episode.

The story is long and has complicated legal meanders. In short, Zelezny asked for a more important role for his own company, CET-21, who was the license holder of TV Nova. The operating company was CNTS (Czech Independent Television Company – Ceska Nezavisla Televizni Spolecnost), 99% owned by CME. Zelezny invoked a rule of the Media Council according to which exclusive agreements between licence holders and operating companies were not allowed. Instead of giving CET-21 more responsibilities, CME proposed a merger with CNTS, so that the two entities would become one. Zelezny was to receive a compensation for his agreement. This compensation became the central point of discussions between CME and SBS as the negotiations over a possible take over of CME by SBS advanced, in early 1999. Desai (2004) mentions that Ronald Lauder offered Zelezny 100 million USD to 140 million USD for CET-21. SBS, for its part, calculated that Zelezny should receive 18% of TV Nova value, worth 72 million UDS, plus a bonus of 28 millions. The total of 100 million USD would have been “the price of peace in the Czech Republic.” (Desai, 2001)

However, Zelezny did not accept the deal. He continue to act as General Director and warned CNTS that it could no longer be exclusive operator of TV Nova, therefore the contractual terms had to be modified. These frictions substantially impacted the value of CME on the stock exchange. From about 7USD/share, the price dropped to a few cents in a matter of weeks (Desai, 2001). Backed by the Czech Media Council, who reiterated that exclusive agreements between operating companies and license holders were “incorrect,” Zelezny refused to sell what he called “his child.” Fired from the position of executive director of CNTS, he remained director of TV Nova, while still controlling CER-21. The case erupted in the Czech media, but he Media Council refused to intervene.

A few months later, in August 1999, the contract between CET-21 and CNS expired and CET-21 withdrew the use of its license. With the Media Council not eager to intervene and the Czech courts unable or unwilling to offer a quick remedy, CNTS was out of business. SBS stopped the discussions over a possible merger with CME, while TV Nova continued to broadcast programs acquired by other operating companies. Thus, overnight, CME's multi-million investment became worthless.

Ronald Lauder tried to use his political connections to gather support for his case. He contacted senior US officials, including Secretary of State Madeleine Albright. CME continuously appealed to the Czech Media Council and the Czech courts, but in vain. Lauder and CME then went to international tribunals and filed two collection suits: "one against Zelezny and two against the Czech Republic, each claiming sums in the vicinity of 500 million dollars" (Goldhaber, 2002). The cases were judged in Amsterdam, London and Stockholm. Eventually, CME won the suit which claimed that the Czech state had violated the bilateral investment treaty with the United States. More specifically, Lauder accused the Czech government of having expropriated him. When the Czech government appealed the decision, the issue outran the limits of a commercial incident. Lauder's people made allusion to a possible lobby action against Czech Republic's admittance to the European Union. The state paid half a billion and CME took back its license. In 2003, the Czech Media Council was dismissed after the government and the parliament accused it of corruption and incompetence, and held it responsible for the loss in tribunal arbitration (Desai, 2001).

Today, Nova TV is by far the most successful television station in the Czech Republic. It has a prime-time market share of 42 percent. It keeps featuring shows like "The Bachelor", "Prison Break", "CSI New York", and "CSI Las Vegas", but also successful local productions

(drama and action series). It is already broadcasting in 16:9 format, being the only television station in the country able to air in full HD and SD simultaneously (www.cetv-net.com). More than half of its primetime content is locally produced (57%). Nova Sport and Nova Cinema have been added in the last years to the initial investment, together with an array of on-line businesses.

CME in Romania

The Romanian venture of CME started in 1994. Ronald Lauder agreed to meet in London with Adrian Sarbu, a Romanian who had already invested in media and wanted to develop his business.

It is worth mentioning some further aspects of Sarbu's biography. *The Economist* noted in 1996: "Making money in East Europe seems to require a canny, dissident flair. Adrian Sarbu has it." Sarbu set up his company – Media Pro – in December 1990, when he spent 10,000 dollars to found Mediafax, the first private news agency in Romania (Ghitulescu, 2005). In 1992, he obtained the licence for Canal 31, a television station first design to be an all-news-and-sport channel. In order to guarantee the programming, Sarbu signed a deal with CNN. Thus, Canal 31 was allowed to retransmit the CNN signal for 24 hours. The next year marked the beginnings of Pro FM, a radio network that would cover the big cities. These three media outlets built the basis for what was to become the biggest media group in Central and Eastern Europe (Avadani, 2007).

Ghitulescu (2005) points out that 1994 is the most important year in the history of Media Pro. First, Canal 31 changed its name into the more marketable Pro TV. Second, Sarbu travelled to London to meet Ronald Lauder, a rich American who had already invested in media in Central Europe. He agreed to invest his money in the Romanian adventure and one year later, in December 1995, Pro TV was launched.

According to *The Economist*, Sarbu admitted that he has financed the growth of the company “by paying late and collecting early.” This tactic helped him succeed in a market that had frightened Western media companies. In fact, Sarbu has always been on the right place at the right moment. In December 1989, he was in Bucharest city center with a camera and shot what was to become a legendary documentary about the communist leader Nicolae Ceausescu’s departure. Immediately afterwards, he became media councillor to the first post-communist prime minister and played an important role in drawing up the rules for an open market for television

Sarbu then left the public sector and set up his own media company. He was again in the right place at the right time – the rules he had made became laws and a “gold rush” started for the advertising dollars. As *The Economist* noted,

Although some suggest Mr Sarbu may not have remained entirely aloof from the bribery and patronage that lubricate Romania’s economy, by Bucharest’s standards he is remarkably short of enemies. This is largely because many people (including himself) still see him as a film maker rather than a mogul, and because they enjoy his TV station. He insists he is not a businessman, and peppers his conversation with words such as “spirit” and “mission”. (*The Economist*, Dec. 21, 1996)

Sarbu was exactly the type of manager with whom CME wanted to collaborate. He had strong political connections and possessed an already established business in media. Before launching Pro TV, CME spent 20 million dollars in research in order to find the best way to implement the American model in Romania (Jaeckel, 2001). The result could be seen in the station’s lineup.

Mr. Lauder's Pro TV produces fast and fresh news programming. ... Pro TV also broadcasts hit movies from the United States, like "Thelma and Louise," "Romancing the Stone" and "Die Hard." And it provides a lively breakfast show. For ordinary Romanians, the contrast between the old and the new could not be more welcome. (New York Times, May 13, 1996)

Using an "aggressive local management style" (Sparks, 1999, p. 29), the station gained almost half of the audience market in the first months. Nova's story was about to happen again. Pro TV's state-of-the-art equipment and a Western mentality made it the number one station in Romania (Jaeckel, 2001). A local from Bucharest, interviewed by the *New York Times*, described the general state of the Romanian television market in the mid 90s: "The only pleasure we get these days is watching Pro TV. ... We can't afford a beer anymore, so I go home, eat what we have and turn on Pro TV."

Pro TV might have been an immense commercial success from the beginning, but it has also been involved in a series of controversies. First, there was the criticism against its pro-Western bias and for "bribing the nation into watching its programs – and buying its products – by staging daily game shows by liberal-minded intellectuals" (Jaeckel, 2001). More substantial critical remarks came several years after the launch. Georgiadis (2004) cites *Bursa* newspaper and brings to attention the influence of government on private sector television news-making. Concretely, the state allegedly offered Media Pro corporate tax relief in exchange for favourable reporting on the government. *Bursa* suggests that the state has ignored for years a debt of 21 million dollars, which disappeared instantly in 2003. The issue was troubling for CME; the

American Securities and Exchange Commission (SEC) investigated the accuracy of CME's financial statements, because of hidden debts in the company. Moreover, the European Union questioned the issue of media debts in one of its annual reports, prior to Romania's admittance. This question followed a London *Financial Times* comment that "Pro TV is heavily indebted to the Romanian state, it has applied for a rescheduling of its debt, and that its tax liability makes the operation dependent on the goodwill of the government" (Georgiadis, 2004, p. 84). These debts, along with the accusations, disappeared and now the company does not have any debt (www.mma.ro). Munteanu (2006) cites a spokesperson of the Romanian Agency for Fiscal Administration who declared that the rescheduling was done in compliance with the Romanian law and Pro TV was not the only television station that benefited from it.

In Romania, as in the Czech Republic, tabloid news and entertainment *a l'Americaine* proved to be a winning strategy for CME. But it was more than this:

Within two years, [Pro TV's] quiz and contest department emerged as a serious rival for the State lottery, pledging and giving out billions of lei in prizes... In area of politics, during the 1996 election campaign, Pro TV offered the political parties free air time, and spent millions of dollars for satellite links to the main countries of NATO as part of the campaign to join NATO. (Jaeckel, 2001, par. 12)

Many admit that Sarbu's main merit was his intuition that locally produced programs would be much more successful than foreign shows (Gubernick, 1997).

The aggressive business practices mentioned by Sparks (1999) and Jaeckel (2001) continued. Through Media Pro, CME brought to Romania the marketing strategies used by media companies in the United States. Among them, the concepts of trans-media branding and cross-promotion. Avadani (2007) mentions that such strategies were a first for Romania, a country where notions such as marketing and promotion had been completely unknown.

Today, the list of media outlets that are included under Media Pro's umbrella is impressive: five television channels, three radio networks, one daily newspaper, six local weeklies, a printing company, a distribution network, a video production studio, a music production studio, a telecommunication division, a film studio, three cinema theaters, and the list continues (Media Monitoring Agency, www.mma.ro). The flagship of this flotilla is the television, with its five representatives: Pro TV (general), Acasa TV (oriented to female audience), Pro Cinema (movies, series), Sport.ro (sport), and Pro TV International (geared to the Romanian communities abroad). The CME corporate presentation (www.cetv-net.com) does not hide the strategy upon which the development of the group has been based.

... [It is] the first multi-channel play-out high definition TV facility in Eastern Europe, including a recently launched 230 m² high definition news studio. [It is] the first 'one stop shop' TV group in Romania targeting 18-49 with Pro TV, educated urban with Pro Cinema, women with Acasa, and men with Sport.ro. Advertisers can meet their objectives by using our stations exclusively. (CME corporate presentation)

The same corporate presentation describes the type of programming aired on CME's Romanian stations: high rated movies, tabloid news programs, European football, and sport shows on Pro TV; telenovelas, romance movies, and talk-shows for women on Acasa TV. Although the type of programming could seem the same as in the first year, this is not the case. "High rated movies" means today not only American blockbuster, but also Romanian and European films.

Telenovelas are not spoken in Spanish anymore because they are produced in Romania, with Romanian actors and plots inspired from the local social reality, though copying the original formats. As for the news programs, even though they still maintain the tabloid Fox-inspired format, nobody can deny that they have played a significant role in shaping Romanians' understanding of the new reality they were living. Badescu (2007) notes that in its first years Pro TV was a factor in the modernizing of the Romanian mass-media and of the society in general. He also mentions the overt support that the station gave to the opposition democratic parties before the 1996 elections, and the social campaigns after the disastrous floods of 2000. More recently, a news story produced by Pro TV has been nominated at the International Emmy Awards in 2007, and in 2008 the station won the prestigious prize (www.iemmys.tv).

In fact, not only the quality of journalism has increased since the launch of Pro TV. Romania has become a sort of "exporter of management know-how" in CME's operating area. If in the case of Nova TV, CME has been wrong about Vladimir Zelezny, Adrian Sarbu, the man who knocked on Lauder's door to convince him to invest in Romania, has become one of the most innovative media managers in Central and Eastern Europe. Paying close attention to the international trends and to what was happening on the mature markets, he picked-up several ideas and implemented them in Romania. The multi-channel strategy is only one of them. Today, CME operates six television stations in Romania: Pro TV (general), Acasa TV (oriented to

female audience), Pro Cinema (movies, series), Sport.ro (sport), Pro TV International (geared to the Romanian communities abroad), and MTV Romania (taken over in December 2007).

In recognition of his managerial vision, in 2006 Sarbu was appointed Regional Director for Czech Republic, Slovak Republic and Romania. In 2007 he became CME's Chief Operating Officer. His mission is to implement the Romanian model in the other countries where CME operates. He already launched Nova Cinema, following the model of Pro Cinema and other channels are on their way. Moreover, Sarbu brought with him a team of Romanian managers whose task is to adapt successful Romanian formats to other markets.

CME in Croatia, Slovak Republic, Slovenia, and Ukraine

CME's operations in its other countries followed the same model as in Czech Republic and Romania. In Slovenia (Pop TV, Canal A), Croatia (Nova TV) and the Slovak Republic (TV Markiza, Nova Sport), CME is the market leader on its target group. Bulgaria is the most recent investment and the two channels – TV2 and Ring TV – have yet to find their place on the market. Ukraine is the most challenging market for CME ¹. The country is in deep recession, the local currency is collapsing and the advertisers are reluctant to commit their budgets for more than a week or two in advance.

All these stations have followed at the beginning the same recipe, based on cheap American programming and sensationalistic news. In Slovenia, for example, American shows counted for almost 80 percent of Pop TV's lineup at its launch (Kelly, Mazzoleni, and McQuail, 2004, p. 218). However, this has changed. As Sparks (1999) mentions, the CME's chief merit

¹ (<http://seekingalpha.com/article/134262-central-european-media-enterprises-ltd-q1-2009-earnings-call-transcript?page=-1>)

was that, although an American company, it understood that the general European habit is, over time, to prefer domestic content; thus, “it took steps to generate some of that kind of material” (Sparks, 1999, p. 36) and the stations have devoted important resources to raising standards.

Conclusions

This chapter presented CME as a corporation, focusing on its two most successful operations – those in the Czech Republic and Romania.

A portrait of Ronald Lauder, the founder of CME, helped us understand why he was attracted to invest in Central and Eastern Europe and how he managed to build a media empire using a set of “commandments” for doing business in this region.

Then the beginnings of CME were presented. As some authors have observed, CME’s strategy was to be the first Western-style operator in Central and Eastern European markets, trying thus to capitalize on the advertising potential, minimal competition, and – in some places – the lack of strict regulation on the broadcasting market. We also discussed the failures of CME and the negotiations with SBS for a possible merger. Eventually, the deal was called off because of the troubles between CME and its Czech partner.

The operations in Czech Republic were detailed in a separate subchapter. Special attention was paid to TV Nova, the most profitable operation of CME to date and, for some authors, the most successful launch of a television station in the world. Surprisingly for some, in a country where the masses seemed passionate about arts and culture, a TV station that showed tabloid news and naked women captured the viewers almost overnight and since then it has never lost its leadership. Extremely important for CME’s case was the judicial battle with the company’s former Czech partner, also described in detail in this chapter. Eventually, CME won

its licence back and, moreover, the Czech state had to pay hundreds of millions for failing to protect a foreign investment in the country.

The next subchapter was dedicated to the Romanian operations of CME. The company teamed up with a local businessman who had strong political connections and launched Pro TV. As in the case of TV Nova, Pro TV became leader on its market in a few months making use of the same recipe. The main ingredients were cheap American programming, game shows with tempting prizes, and tabloid news. The station was involved in a series of controversies and was accused of favourably presenting the government in exchange of corporate tax relief. The positive influences of Pro TV on the Romanian media market were also touched upon. Although in the first years the quality of its news programs was debatable, the station later become a standard for journalism in Romania, with an Emmy award won in 2008 and a nomination in 2007.

CME's operations in other countries were also mentioned, but not in details, due to space considerations.

Chapter Three

CME and the economic crisis

Media firms and the general economic climate

Media firms are not immune to the general economic forces; therefore, any change in the economic climate impacts the media industry. Picard (2002) explains: “Regular growth and contraction in the general economy is often called the “business cycle.” (...) [B]usiness cycles affect revenue, cost, and availability of supplies, profits, production, and employment.” (p. 82) More specifically, media are sensitive to economic downturns because, on one hand, sales of communication products and services tend to lower, and on the other hand, advertising sales decrease.

Doyle (2002) elaborates on the correlation between advertising expenditures and the performance of the economy. She maintains that there are two primary forces which determine the growth or decline of advertising expenditure: consumers’ expenditure and company profits (p. 49). Companies spend more on advertising when the economy is doing well and when consumers’ confidence is high, which can lead to an increase in sales. Doyle (2002) cites a representative of an advertising agency who explained: “[r]ecession is always a problem for the advertising industry, in the sense that clients feel that advertising is the first thing they can switch off” (p.50).

Navigating through the downturn

CME has been strongly affected by the recent economic crisis. In the first quarter of 2009, television advertising spending fell between 10% and 30% in the countries in which CME operates. Moreover, the company was not able to provide revenue guidance for 2009 because of the lack of visibility of advertising budgets (CME Q1 Conference Call, <http://www.cetv-net.com>). Even though the company offered incentives to its advertising clients in order to motivate them to commit for longer periods of time, the uncertainty persists in respect of how much will the advertisers really spend until the end of the year. The explanation is simple: the economic forecasts are so volatile that advertisers are forced to review their budgets frequently; thus, they are not willing to provide media firms with spending commitments beyond one month or two. As Adrian Sarbu said, the CME markets have not reached the bottom yet, which is expected to happen between the third quarter of 2009 and the first quarter of 2010.

During economic downturns, the best possible result for a media company is to increase its market share (Picard, 2002). CME did this in its core markets (Czech Republic, Croatia, Slovakia, Slovenia, and Romania) in the first three months of 2009. Moreover, the company's channels managed to maintain audience leadership despite rationalizing programming investment (CME Q1 Conference Call, <http://www.cetv-net.com>).

Another measure taken by the company was to reduce the costs by cutting not only production expenditures, but also staff. In order to reduce corporate costs even more, the London offices have been relocated to Prague in smaller and less expensive premises. The decision had an unexpected consequence: the Chief Financial Officer, Wallace Macmillan "departed the company rather than move to Prague, for personal reasons" (Hedges, 2009).

Ukraine and Bulgaria remain the most problematic markets for CME. With some investors urging the management not to put more money in these operations and others suggesting that they should be sold, the management had to find a solution. On July 1st, 2009, CME announced that it would create a “special purpose vehicle” to split its loss-making Bulgarian and Ukrainian interests from the rest of the company (Dziadul, 2009). As Adrian Sarbu said, this measure would help CME “to preserve [its] liquidity and improve its ability to refinance the company.” Only a day later, a solution for the Ukrainian market was found. CME entered a deal with a local businessman, Igor Kolomoisky, who already owned a television station, TET TV. Following an injection of 100 million dollars in cash and the addition of TET TV to the CME group, Kolomoisky became a 49% shareholder in CME’s Ukrainian operations.

As of July, 2009, a solution for Bulgaria has not been found.

The most important step taken by the company this year has been the deal with Time Warner, already detailed in chapter 1. The benefits of the deal are obvious. Besides a more than necessary injection of cash, there are new openings for “content sourcing, resources for channel development and opportunities for wider distribution of CME content” (ING Equity Market Research, <http://www.cetv-net.com>). Moreover, Adrian Sarbu believes that the CME – Time Warner deal gave a strong signal to the market, a signal of confidence (Carugati, 2009).

Central and Eastern Europe – an atypical media market

In order to make sense of the situation in which CME finds itself, we should look at the regional media market, at its evolution over the last twenty years, and at the other players with which CME is competing for increasingly limited advertising money. Hedges (2009) perfectly

summarizes what the media market in Central and Eastern Europe looks like today: “Some investors see complicated markets and ask ‘Why?’ Others, with a twinkle, say ‘Why not?’ Eastern Europe attracts the bold, the brave and, maybe, the crazy.”

Currently media in the former communist countries are owned by both local and foreign companies. Among the Western groups that have invested in Central and Eastern Europe are News Corporation, with interests in Bulgaria, Romania, Serbia, Latvia, and Georgia, RTL (Germany), that owns television channels in Croatia and Hungary, and SBS Broadcasting Group, with channels in Bulgaria, Hungary, and Romania. Other big companies, such as Universal and HBO, operate cable channels in almost all ex-communist countries, but not terrestrial networks. At the same time, local media companies have emerged and developed, in some cases, into strong competitors on the market. However, as they are not publicly traded, their financial results remain unknown and any analysis of the market has to rely only on secondary sources, in our case business press articles.

So far, there has been no significant move on the market, as it was the case of CME and Time Warner transaction. Last year, News Corporation tried to sell its Bulgarian operation, the channel bTV, which is the top rated television in the country. The price expected was in the range of one billion Euros. RTL manifested some interest, but a deal could not be reached and bTV is still operating under Murdoch’s group.

In the Czech Republic, there are four terrestrial nationwide channels: two public (CT1 and CT2) and two private (TV Nova and Prima). Their cumulated audience cover more than 90 percent of the market. Prima TV is owned by Prima TV Holding, a company in which the Czech investment group CES Holding and Scandinavian Modern Times Group have equal shares.

There are two cable providers: UPC Direct and Digi TV, the later being a Romanian company that has expanded its cable, internet, telephone and DTH services in Hungary, Croatia, Serbia, Czech Republic and Slovakia.

In terms of competition, CME's TV Nova is the leader of the market, with about 50 percent market share in primetime. The channel has managed to maintain its leadership during the last turbulent months, even though the advertising revenues have plummeted. Analysts believe that it must have been the result of its experimented management. In other cases, "[i]nstead of redesigning their advertising offers and restructuring their operations with a view to maintain their journalistic strength on new platforms, most Czech media rushed to slash editorial costs, mostly by firing journalists, and throwing staggering discounts at advertisers." (Dragomir, 2009) Trying to secure at least a small part of the ad money, some media outlets offered cross-media packages for the same price, or even "limited time" offers, where advertisers could get significant discount, up to 70 percent, had they acted within the time offered, sometimes no more than 30 minutes (Dragomir, 2009).

The winner, though, seems to be the internet. In the Czech Republic, online portals expect a double digit growth this year (Dragomir, 2009). The newspapers that have already invested in their online presence have much more internet readers than the printed version. Other media are trying to catch up and bolster their online products. CME's online assets – which include the portal www.tn.cz and the blogging platform www.blog.cz – are in the top three.

In Romania, the consolidation of media market began when international media groups entered the market. Among them there were Ringier (Swiss – publishing), SBS Broadcasting Group (German – television, radio), Lagardere (French – radio, publishing) and WAZ (Germany

– publishing). Increasing competition has led to massive takeovers in the case of local media outlets. As a result, three major players have emerged. Intact Group operates one national network and four cable channels, two radio stations and several newspapers and magazines. Realitatea-Catavencu Group owns three cable television stations, one radio station and is also present in print media. Adevarul Holding operates only in publishing. A report published by the nonprofit organization International Research and Exchanges Board notes that in Romania media ownership is highly concentrated, with several people controlling the most part of mainstream media. “Many are questioning their genuine interest in developing media as profit-making businesses,” maintains the report. The owners of Adevarul Holding and Realitatea-Catavencu Group, both in the first five wealthiest Romanians, have been investigated for financial delinquencies. The owner of Intact Group, also on the list of the richest Romanians, was a collaborator of the former political police and is now very active in politics. His media trust openly supports his party and attacks its political enemies.

The report describes the market as still being highly influenced by politics.

The media landscape [in Romania] is a mix of outlets that are profit-oriented and others that seek profit only as an incidental goal, but which are primarily developed in order to ensure their owners a political and economic instrument. Being supported by other businesses, the later put pressure on the market and gain more influence. (International Research and Exchanges Board)

On the television market, the main players are CME, Intact Group, Prima Group (owned by SBS), TVR1 and TVR2 (state-owned), Realitatea-Catavencu Group, and Kanal D (owned by the Turkish Dogan Group). The competition for advertising budgets is fierce and decreasing ad expenditures have forced media outlets to take drastic measures in order to lower their costs. Media analyst Iulian Comanescu writes on his media-focused blog that all groups cut off staff and salaries, and closed some of their publications or transferred the content online.

The cable market is dominated by two major players: UPC (the Europe's biggest cable provider) and RCS/RDS (Romanian). The latter also owns the DTH platform Digi TV, with operations in other East European countries.

Broadband internet is growing at a rapid pace. Almost all traditional media outlets have internet versions; most of them have recently created special departments to provide online content, developed and adapted for internet users. Online advertising is growing, but the competition is becoming even fiercer. CME has no less than 77 websites, the most successful being www.stirileprotv.ro – the news division of Pro TV.

One common characteristic of television in Central and Eastern Europe is to broadcast a significant amount of local production, which includes original formats, but also well-known adapted international formats. Buxton and Akyuz (2009) explain that many channels prefer already tested programming in an effort to minimize risk, especially in the current economic climate. However, pan-regional broadcasters, such as CME, had to learn what works where, because the audience is not the same in Central and Eastern Europe. The “one-size-fits-all” mentality simply does not work, as Buxton and Akyuz (2009) maintain, citing several television

executives from the region. In the Czech Republic, shows such as CSI, CSI: Miami or Big Brother have performed consistently well. In Ukraine, Russian programming is preferred over the American shows, while in Romania and Bulgaria South-American telenovelas attract large audiences. Some channels even tried to adapt US sitcoms (*The Nanny* and *Ugly Betty* in Poland, *Married with Children* in Hungary), but they have not performed as well as expected in the countries where the original had already aired.

For CME, the cultural and linguistic heterogeneity of the market in which it operates raise a number of challenges. The multi-channel strategy has proved profitable in large, mono-linguistic markets. CME, though, faces the problem of strong brands (Potucek, 2009). Finding a name for a thematic channel that would make sense in all languages is not easy. Similarly, implementing synergy might prove more difficult than expected, since the markets are so diverse. For now, the multi-channel expansion includes sports and film channels, which are simpler to build, programming-wise. Other projects are the expansion of the MTV franchise and women-oriented channels, similar to the Romanian Acasa TV.

Chapter Four

Discussions

Introduction

The evolution of Central European Media Enterprises from a small company with no experience in broadcasting into the largest media group in Central and Eastern Europe has been an achievement for the company, from a financial standpoint. The idea of CME founder, Ronald Lauder, to bring commercial television to those who had not had the chance to watch it for half a century has found a fertile environment in the former communist countries, which had rapidly won the reputation as a major growth region for commercial media (Hedges, 2009). However, the financial success has been highly influenced – though not totally determined – by factors that have nothing to do with a normal, healthy business environment. Admittedly, in contrast to the communist epoch, the broadcast systems in Central and Eastern Europe are separated from the governments. However, political interventions or attempts to control, still take place, though in different forms than 20 years ago. While the communists had total control over programming and staff, today, political interference is indirect and in a more open space, which makes it more contested (Sparks, 1998).

CME model

Sparks (1999) describes what he calls “the CME model,” a set of features that were multiplied by CME in all the countries it entered and that proved, in most cases, successful. Even though in its early days CME “had no very clear view of its strategy” (p. 33), the instant success

of TV Nova “convinced many people, the management of CME included, that they had found the magic key to the money machine in the former communist countries” (p. 33-34). Sparks identifies six stages in implementing the CME model, shown in Figure 4.

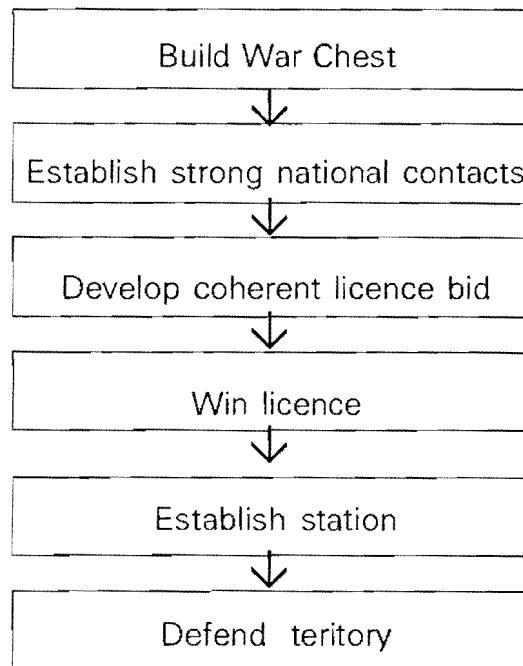


Fig. 4. The Stages in Implementing the CME Model (Source: Sparks, 1999)

The first step for CME was to establish a so called “war chest,” a structure able to prepare a good licence bid, acquire programming, lobby for the licence, and run the station through the initial period. First, Lauder put his own money into play, but after TV Nova success, he managed to attract other equity investors. During the difficult times of the company, Lauder had to assume again the role of the main paymaster (Sparks, 1999).

The second step was finding a strong local partner. As Sparks mentions, Lauder and his advisers understood that the former communist space relied a lot more than the West on political connections, and that broadcasting would be right in the center of this phenomenon. They

realised that after half a century of Soviet dominance, there was a sense of recovered autonomy, and “it was (...) likely that it was a local figure or group with good political connections who were going to win the initial broadcasting licences” (p. 34). At the same time, the CME management anticipated that local content would have an important place in the programming strategy, and for that local partners were needed.

The third stage of the CME model was preparing the bid for a licence. That meant creating a business structure and acquiring the programming rights for a line-up that would secure the licence. Basically, the bids “were based around professional offer of popular programming” (p. 35).

Then next step was to win the licence. According to Sparks (1999), in the Czech case the competition was fairly conducted and CME came with the best package. In other cases, “it was a much more fraught political and economic struggle” (p. 35) and in Poland and Hungary CME even lost its bid. In the Ukraine, the company that lost the bid for Studio 1+1 accused political pressure and threats in order to make way for CME.

Now that the licence had been won, the next step was to establish the station. It has to be mentioned that in most cases, the licence was won by entities in which CME had a limited stake. These entities then formed other companies with CME controlled firms, and the new company would run the station and provide the programming. The initial programming package was almost the same for all stations: a large number of successful American and Western European series and films, most of them already dated, thus not expensive, but extremely attractive for the former communist market. However, “the company understood that the general European experience is, over time, to prefer local programming, and it took steps to generate some of that

kind of material” (p. 36). First, the local content consisted of game shows and other cheap formats, copied from American programs.

Once the mix of programming proved its success, the last step was to “defend the station’s patch against any threats” (p. 36). One of these threats was political, and CME, though not overtly engaged in any political game, has cultivated good relations with the governments of the countries in which it operates. Another threat came from the regulatory bodies, more inclined to favour the European tradition, thus limiting the “nature, amount and intrusiveness of advertising” (p. 36). CME was opposed to this kind of regulation and had to fight a series of battles against the regulators. In the Czech Republic, CME won using its political influence and threatening with US-based legal actions. In Hungary, however, where the position and the influence of CME was less solid, the Broadcasting Council suspended its licence because of excessive advertising (Vrannai, 1999, p. 4, cited in Sparks, 1999).

Competition was another threat and CME tried to make sure that it had no competition. In the Czech Republic and Romania, CME’s local partners made public statement that no more commercial channels should be licensed because the market was too small. Paradoxically, the last type of threat involved those who apparently were CME’s closest allies: its local partners. The case of Vladimir Zelezny was already discussed. Sparks (1999) summarizes the CME model:

[The CME model had] reasonably deep pockets, a clear understanding of what works in US TV, and the formation of political alliances with prominent local figures in their target markets. In addition, the company possessed a ruthless and instrumental attitude towards the legal, regulatory and political system. (p. 37)

Sparks (1999) also explains CME's failures in the 1990s, especially in Poland and Hungary.

First, the company failed to win a national licence, and this could be the consequence of the fact that the local allies had insufficient influence on the political scene. Second, CME was successful only when it was first to a particular market and did not have to compete with an already established broadcaster.

Theory revisited: Political capitalism and theories of change in the media systems

In this sub-chapter I consider the extent to which the theories used to describe the processes of change in the media systems in Central and Eastern Europe, together with the general theories about media economics, make sense of CME's practices. Admittedly, the transition from communism to capitalism has been more indefinite and conflicting than the theory and its extrapolations would imply. Sparks (1998) underlines:

Boundaries in actual social life are inevitably messy and blurred. Actual social formations always display a greater richness and complexity than the theoretical abstractions we use to understand them. (...) [However, w]e are forced to use those abstractions because we cannot hope to understand reality simply by observing its surface features." (Sparks, 1998, p. 29)

I proceed by reviewing Slipchak's (2000) political capitalism, followed by Moscos's and Doyle's theories of media economics and an interpretation of Porter's Five Forces Model in the case of CME.

In Splichal's words, 'political capitalism' is a form of transition from socialism to (quasi)capitalism in the former communist space, transition in which there is no clear differentiation between the state and the market, or between political parties and civil society. Since the state-market demarcation is not the scope of this paper, we shall focus on the blurry line that separates political parties from civil society in Central and Eastern Europe and where CME positioned itself on this line. As Sparks (1999) bluntly puts it, "CME was a textbook illustration of the interpenetration of money and politics that are so evident in the former communist countries." (p 38)

In fact, the political game played by CME's founder Ronald Lauder had two directions. On one hand, there were his own connections with the former communist countries from the period when he was a diplomat. Added to these are his acquaintances in the high politics in the United States and the influence he and his friends had. How influential Lauder really was could be seen in the judicial battle CME had with the Czech state over TV Nova licence. Eventually, the company won the licence back, after Lauder threatened to lobby the American politicians against Czech Republic's admittance to the European Union.

On the other hand, the local partners with whom CME teamed up had good political connections and made efforts to keep good relations with the ruling political parties. In the Czech Republic, Vladimir Zelezny was a former dissident, which was important for his credibility in a country where the president Vaclav Havel was also a former opponent to the communist regime. In Romania, Adrian Sarbu had been an advisor in the first post-communist government, playing an important role in drawing the first Broadcasting Law – a law that we can say that he made for himself, since immediately after it was approved in Parliament, he departed the public administration and set up his own media company. As Sparks (1999) accentuates:

The sad fact is that, in general, it was not the principled opponents of communist tyranny who came to have influence in the new world of private capitalism. Many of the people with good connections under the new order had been at least junior member of the old system, and CME, whatever private reservations the founders might claim to have had, was happy to ally with them if they looked as though they could deliver the goods.” (p. 38-39)

Another example of how indistinct the relations were between politics and economics is Romania’s Pro TV. The channel was accused of favourably presenting the government in its news programs in exchange of debt forgiveness. In this case, the state acted as both political and economic actor, a perfect illustration of the political capitalism in Slipchal’s terms.

Sparks (1999) summarizes CME’s practices:

Curiously enough, CME was best not at what it claimed to know about – running a commercial broadcasting station – but at the special features of local capitalism, namely making political deals in order to gain economic advantage. It played the game of “political capitalism” very well indeed in most cases (...)” (Sparks, 1999, p. 42)

In his attempt to theorize the transition of the media systems in former communist space, Slipchal finds a number of tendencies that have been present, to different degrees, in most of the countries: re-nationalization, italianization, de-nationalization and privatization, commercialization, inter- and trans-nationalization, nationalistic and religious exclusivism, and prosecution of journalists. These tendencies were defined in Chapter 2. Commercialization –

following the rule of profit and trying to maximize the political influence – best defines the CME case. As Sparks (1999) comments, CME, as a commercial broadcaster, has always claimed that it gives viewers what they want. Indeed, TV Nova and Pro TV are good examples in this respect. “But it is not possible for a commercial broadcaster to give an audience anything at all, let alone what it wants, unless that broadcaster can make money from it.” (Sparks, 1999, p. 42) In other words, CME provided what it was profitable to provide, and the aggressive marketing acted as convincing agent, letting audiences believe that what they get is what they want.

CME is also the perfect illustration of another trait identified by Slipchal (2000) as characteristic for the change of media systems after the fall of communism: inter- and trans-nationalization. Because media could not have developed without foreign investment, it became increasingly internationalized on many levels: reception, content, funding, regulation, and organization. Indeed, CME has brought foreign capital, management know-how, and content in the countries it operates. The high proportion of low brow American programming in the line-ups has been criticized, as well as the American-style marketing, extremely aggressive and persuasive for a public not used to any kind of commercial promotion. From a business standpoint, the company’s organizational structure reproduced the Western model. Moreover, American specialists were brought at the beginning to run the CME’s stations. Their role was also to train local managers and producers. Marsha Greenberg, former Marketing Manager of Pro TV recounts in an online video (http://www.youtube.com/watch?v=tIuidPBb_Do) the beginnings of the station and the fact that the team she trained managed to keep the leadership of Pro TV after she left. Another example is Michael Garin, the company’s CEO between 2004 and 2008. He was a founder of Lorimar Telepicture, the production company behind the show *Dallas* (Burt, 2005).

In the case of CME, the internationalization has had a new form – the involvement of a foreign lobby in influencing a judicial decision involving a foreign company and a state. We have already detailed the legal battle of CME with the Czech state to gain the TV Nova's licence back. In this case, as well as in the case of Nova's take-over in 1999 by CME, foreign interests took advantage of the inexperienced Czech lawmakers (Pavlik, 1999).

Theory revisited: Media economics

Undeniably, some of the accomplishments for the television in Central and Eastern Europe came with the privatization of broadcasting, which allowed the media companies to organize themselves as businesses.

As Picard (2002) puts it,

The economics and financing of media companies are the foundations upon which all media activity takes place. Regardless of cultural, political and social roles and expectations for media, media must cover their costs and create returns, just as any other business, or they will wither and disappear. (p. xi-xii)

In fact, profitability is a closed circle for media companies: if they are profitable, they are able to invest in content, which makes them more attractive to audiences and advertisers, thus bringing even more profit. As an operator of commercial television stations, CME has always focused on return on investment and profit. The company has made a practice of relying on bank loans, which do not appear on the official financial statements (Durity, 1991). It is publicly traded in New York and Prague and has had a high share price growth rate until September 2008.

CME's development strategy has followed horizontal, vertical and diagonal directions, in the terms defined by Doyle (2002). Horizontally, it has expanded its area of operation during the years. Today, CME owns media outlets in seven countries, reaching almost 100 million people. Vertically, it has integrated production and distribution companies for its television content, as well as news agencies, marketing firms, and even a university to train its staff in media-related professions. Diagonally, CME launched specialty television stations, owns shares in radio stations, newspapers and magazines, and now the priority is to monetize the internet. CME's declared goal is to build its strategy on its strengths: leadership position in most markets, commercially appealing products, trained staff on all levels, and a vertical structure in which broadcast entities incubate content production and internet.

Remaining in the domain of business strategy, it is worth taking a look to the theoretical model proposed by Michael Porter for assessing a market. The model is not intended to evaluate nor analyse a company, but the whole industry. However, it does bring out certain characteristics of the markets in Central and Eastern Europe that allowed CME to become the largest group in the broadcasting industry in the region.

Porter identifies four forces, or threats, that determine the competitiveness of an industry: new entrants and substitute products, on the horizontal level, and the bargaining power of suppliers and, respectively, customers, on the vertical level. Extrapolating the model to the specific case of CME, the most important aspect is the way in which it entered its markets. Pavlik (1999) notes that in the Czech Republic "the success of TV Nova was, at least partially, contingent on acquiring the nationwide television channel that became available after the break-up of Czechoslovakia." In fact, not owning a nationwide licence has been identified by Sparks

(1999) as instrumental in CME's failures in Poland and Hungary. Sparks, however, identifies CME's greatest economic asset, its "first mover advantage."

When CME was first to a particular market, it could control programme costs since the market in question was relatively untried, and it faced as competition the demoralised state broadcasting institutions that. For historical, political and cultural reasons, were resistant to western programming ideas. (...) When another commercial operator was first to a particular market, (...) [CME's] costs for programmes and marketing were relatively higher, and winning an audience against more sophisticated competitors was relatively more difficult. (Sparks, 1999, p. 39)

In other words, CME took advantage of the lack of competitiveness on the markets in the former communist countries and established itself as a dominant player, monopolizing the advertising markets and imposing other players, both public or private, to change their strategies on all levels: programming, marketing, sales, management. In the Czech Republic, as Pavlik (1999) maintains, even the public service standards of the state-owned television were compromised because of the attempts to keep up with TV Nova.

Chapter Five

Conclusions

Finishing up a project such as this is extremely difficult. Events are constantly overtaking intermediary drafts. On July 29th, 2009, CME presented its financial data for the second quarter of 2009 and its strategy to survive the crisis. The figures are almost apocalyptic. The core markets (Czech Republic, Romania, Slovakia, Slovenia, and Croatia) declined between 15 and 30 percent. The advertising markets reset to the level of 2007, forcing operating costs reductions and corporate function restructuring. One important move, announced just one day before the financial results, is the acquisition of Media Pro Entertainment, the Romanian company founded by Adrian Sarbu, recently named President and CEO of CME (July 28th, 2009). Media Pro Entertainment is “one of the leading producers and distributors of television fiction and owns one of the largest studio/production facilities in Central and Eastern Europe.” (www.cetv-net.com) In fact, Media Pro Entertainment means a Hollywood-style film and television studio (where dozens of American and Western European movies have been shot), film, music and video production divisions, a distribution company, several cinema theatres, and casting agencies. The company delivers 500 hours of television fiction and feature films per year, which makes it a “content-factory” for all CME’s markets.

The company also announced a structural shift in its business model, with three divisions – Broadcasting, Internet and Content – and five sources of revenue: advertising, subscription, content sales, internet sales, and management services.

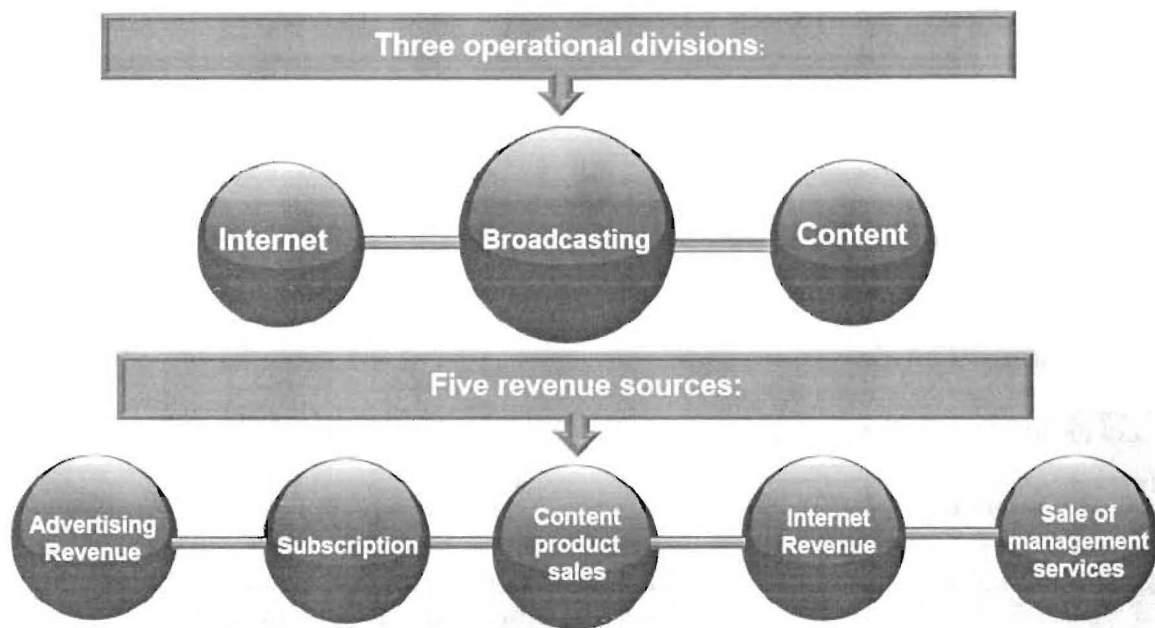


Figure 5. CME's new business model (Source: www.cetv-net.com)

The acquisition of Media Pro Entertainment and the partnership with Time Warner and Warner Bros. will transform CME into the largest content producer in the region and one of the largest in Europe, with more than 5,000 hours of television fiction per year. The operational model will be designed to supply and distribute content on CME markets as well as outside them. In short, the objective of CME is to become a highly profitable vertically integrated media company, with content distributed and monetized on all possible platforms – digital/analog/cable television, internet television, terrestrial digital multichannel, DTH, and portable media.

Media critics agree that media industries everywhere encourage alienation through consumerism. Central and Eastern Europe is not an exception, and CME's stations are, probably, the best exponents of this tendency. The biggest risk of the standardization of formats throughout CME's market is the fact that it can lead to a unidimensional cultural model. Not only does this

model compete with the traditional cultural values, but it annihilates them. Standardized content, even though locally produced, stimulates the consumerist reflex in viewers and “exports” it to the whole region. What works in one country is translated, adapted and aggressively marketed in another, and it will also work, that is, it will be commercially profitable.

Paradoxically, this “democratization of consumption,” the availability of media products, does not contribute to the democratization of society. The type of programming that viewers in Central and Eastern Europe are offered is certainly more entertaining than what they used to watch until 1989, but by no means is it more enlightening. The mere fact that politics and economics are absent from the line-ups of CME’s televisions shows that the company wants to distance itself from politics and just do its business: making money. Without making a content analysis, but relying on secondary sources that have commented on the programming of CME’s stations, it can be affirmed that the most successful shows are local adaptations of North American (*Big Brother*, *Czech Idol*, *So You Think You Can Dance*, etc.) and South American (telenovelas, *Dancing For a Dream*) formats.

At the same time, by selling its management services to other stations, CME wants to become a “know-how exporter”. The President and CEO Adrian Sarbu explained that this will work similarly to the selling of management services by large hotel chains. Obviously, the target markets are those outside CME’s operating countries, because the company does not plan to sell its knowledge to its competitors.

It is not the scope of this paper to assess what effects these moves will have on the viewers, nor is it to discuss the consequences of a higher degree of concentration and vertical

integration on media plurality. The paper looks at CME only as a corporation, and from this perspective there are no better words to end it than those of Peter Chernin, the former president of News Corporation, cited by McChesney (2001): "There are great arguments about whether content is king or distribution is king. At the end of the day, scale is king." In its present structure, CME has the content and the distribution and it is constantly building its scale. Whether these will be enough for the company to survive unharmed the economic downturn remains to be seen.

In conclusion, the case of CME demonstrates the power of large Western companies when it comes to market penetration and profit accumulation. At the same time, it shows that under-regulation of foreign investments in media may present a business opportunity for investors, but also a serious risk to the cultural identity of a nation. The most important lessons that the new democracies in Central and Eastern Europe have learned is that privatization and market liberalization should be preceded by strict regulation. As foreign investment is vital for any economy and any sector, the development of public service television is essential in the ex-communist states to counter-balance the over-commercialized privately owned stations. The public service stations could be the alternative perspective societies need. Otherwise the public and the democratic consolidation, still fragile, can be negatively impacted.

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