

TRANSNATIONAL MEDIA CORPORATIONS' STRATEGIES IN POST-WTO CHINA: APPROACHES OF THREE GLOBAL LEADERS

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ABSTRACT This study examines transnational media corporations' (TNMCs') strategies in the Chinese media market after its WTO entry, employing a theoretical model that involves the interactions of a company's risk in terms of environmental uncertainties and control in terms of equity ownership. Interviews were used as the primary research method, with 15 informants from three global media giants—Disney, News Corporation and Sony. Findings suggested that in response to the risk they perceive, TNMCs have plans for increasing control through engaging in higher forms of ownership, developing connections with governments and distributors, localizing their products, and differentiating the products vis-à-vis their competitors. These plans comprise a roadmap for TNMCs' long-term development in China.

KEY WORDS: transnational firms; international risk; environmental uncertainty; WTO; market control strategy, China

Globalization has become a fact of life in international business today and, as a result, unprecedented changes are transforming and integrating the political, economic, and social structures around the world. Manufacturers and service providers are expanding their activities across national boundaries. To create further sources of

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revenue, corporations are seeking investment opportunities outside of their domestic markets. The media industries are playing a major role in this trend. Within the past two decades, from Viacom's expansion around the world to News Corporation's acquisition of American media companies, a global media marketplace is taking shape at an amazingly high speed.

The Chinese market has always been a major attraction to global media corporations for its central strategic importance in the Asian media market, its huge market potential, and the foreseeable openness of the media market. Over the past two decades, these media giants have made continuous efforts to try to become players in China's media market.

China's entry into the World Trade Organization (WTO) in 2001 is considered by scholars and media professionals a sign marking an accelerated process of opening the domestic media market to international competition. Several initial moves have already been made, as the Chinese authorities have recently allowed foreign investment in the film industry, increased the import quota of foreign movies, and granted cable carriage rights to News Corporation's Star TV and Time Warner's partially owned CETV in South China. Moreover, China has lifted its ban on foreign investment in media production to permit international media companies to jointly create television programs and films with local partners (People's Daily, 2004).

This study aims to investigate the strategies global media corporations in China will undertake in response to the risk they perceive in the media market. It involves a set of case studies of three prominent global leaders, namely Disney, News Corporation and Sony. First, relevant theories and concepts concerning international business and strategy in general are presented, followed by a review of relevant literature explicating the concepts of risk and control. Next, research questions and methodology are specified. Finally, results are analyzed and directions for future research proposed. While findings of the study may not be definitive and widely applicable, they certainly provide a good overview of the general strategic thinking in the three international media companies.

LITERATURE REVIEW

A multinational enterprise (MNE) can be defined as an enterprise which owns and controls activities in different countries (Buckley and Casson, 1976). Business strategy is concerned with identifying and exploiting the resources and capabilities of the firm in the marketplace for gaining competitive advantage and superior financial performance (Tallman & Yip, 2001). Media MNEs, or TNMCs, play an important role in the global economic landscape of the world today (Albarran & Chan-Olmsted, 1998; Gershon, 1997; Herman & McChesney, 1997). Media firms are economic

institutions engaged in the production and dissemination of media content targeted toward consumers (Picard, 1989). A major feature that differentiates the TNMC from other types of transnational corporations is that the primary product being sold is information and entertainment, symbols as opposed to tangible products (Gershon, 1997).

International Business Theories

To study the strategic behavior of major TNMCs, it is important to review previous international business theories to find out how a firm enters a particular country in a particular way, what factors are important, and how they affect the strategic behavior of TNMCs at international locations. The theories explaining international business from both macro and micro perspectives are outlined in Table 1.

Table 1: Summary of International Business Theories

Macro – Pattern of Development
Product cycle (Vernon, 1966)
Knowledge development (Johanson and Vahlne, 1977)
Internalization theory (Buckley and Casson, 1976)
Integration-responsive model (Prahalad and Doz, 1987)
Micro – Factors Affecting International Development
Industry-specific factors
<ul style="list-style-type: none"> • Nature of product, structure of external market (Buckley and Casson, 1976) • Level of technology, market competition (Dunning, 1980, 1988) • Industry globalization drivers (Yip, 1992)
Country/region-specific factors
<ul style="list-style-type: none"> • Geographical and social distance, political and fiscal relations (Buckley and Casson, 1976) • Size, status of development, political risk (Dunning, 1980, 1988) • Factor (input) conditions, context for strategy and rivalry, demand conditions, related and supporting industries (Porter, 1990)
Firm-specific factors
<ul style="list-style-type: none"> • Degree of management professionalisation (Buckley and Casson, 1976) • Transaction costs, economies of vertical integration, control of markets (Dunning, 1980, 1988) • Global Strategy levers (Yip, 1992) • Primary activities, supporting activities (Porter, 1985)

From the macro perspective, several theories are concerned with the overall pattern of international business development. Vernon's (1966) product cycle model holds that many products go through a cycle during which developed nations are initially exporters, then lose their export market and finally become importers of the products. Johanson and Vahlne's (1977) knowledge development model posits that as a company's accumulation of experiential knowledge of a foreign market increases, the firm would commit more resources in that particular market. Buckley and Casson (1976) proposed that the imperfection of the external market causes a firm to internalize knowledge and integrate production and marketing R & D, thus creating the pattern of growth

and profitability of the MNEs. Prahalad and Doz (1987) noted the importance for a firm to respond to two imperatives: meeting local demands and capitalizing on worldwide competitive advantage. Such pressures impact the structure of different industries, the competitive positioning within industries, and the configuration of an organization.

From the micro perspective, previous theories identified three main types of factors that affect a firm's development at international locations. These include industry-specific factors, country- or region-specific factors, and firm-specific factors. The industry-specific factors refer to the nature of the product and the structure of the external market (Buckley and Casson, 1976); the level of technology and the overall market competition (Dunning, 1980, 1988). In addition, Yip (1992) proposed four "industry globalization drivers" in developing global strategies (p. 739), which include market factors, cost factors, governmental factors, and competitive factors.

The country/region-specific factors include the geographical and cultural distance, and the political and fiscal relations between the regions or nations involved (Buckley & Casson, 1976), as well as the size, status of development, and political risk of the host country (Dunning, 1980, 1988). Moreover, Porter's (1990) diamond model highlights four sources of locational competitive advantage as shown in Table 1. Factor conditions refer to a country's human, natural and capital resources. Domestic rivalry serves to motivate firms to keep innovating for improvement. Demand conditions include the composition and pattern of demand for the products or services in the domestic economy. Finally, if the related and supporting industries of a domestic industry are internationally competitive, then this industry is more likely to be internationally competitive.

The firm-specific factors consist of the degree of professionalisation of management (Buckley & Casson, 1976), and internalization factors such as transaction costs, economies of vertical integration, and control of markets (Dunning, 1980, 1988). In addition, Yip (1992) noted five "global strategy levers" along which a firm makes strategic choices (p. 739), including market participation, product offerings, location of value-added activities, marketing approach, and competitive moves. Porter's (1985) value-chain model groups a firm's activities into two basic categories as shown in Table 1. The primary activities include inbound logistics, operations, outbound logistics, marketing and sales, and after-sales service. The supporting activities include firm infrastructure, human resource management, technology development, and procurement.

In summary, all of these international business theories highlight the importance for firms to minimize risk and maximize capabilities at international locations. In achieving such a goal, a firm's external conditions play an essential role. As Porter (1980) pointed out, the essence of formulating competitive strategies is relating a company to its environment. The following sections of the article show how factors in

TNMCs' external environment would affect the risk they encounter and the capabilities they possess at different locations.

Risk and Control

The term "risk" is used with respect to business performance variables such as revenues, profit and costs. There has not been a commonly accepted definition of risk in the strategic management literature. In general, risk has been defined as "the possibility of an outcome that is less favorable than the expected outcome" (Herring, 1983, p. 2), and "the possibility of an unforeseen development that influences our welfare" (Cooper, 1983, p. 23). In defining risk, Ting (1988) indicated two types of risk, objective and subjective. Objective or statistical risk refers to "the relative variation of an actual outcome of an event from some expected outcome", while subjective risk is the human perception of objective risk (p. 188).

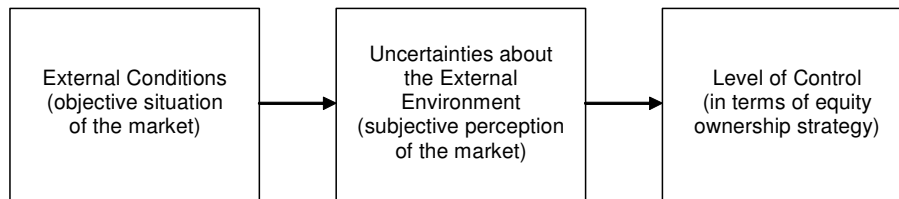
The use of risk as a reference to the probability of financial performance of failure is widely seen in the fields of economics, finance and strategic management. Based on this understanding, Miller (1992) broadly defined risk as "variation in corporate outcomes or performance that cannot be foreseen *ex ante*" (p. 311). Some studies devoted attention to only one dimension of risk, such as political risk (Howell & Brad, 1994; Simon, 1982) and financial risk (Stone, 1989). Brouthers (1995) indicated that examining only one perspective while ignoring other aspects of risk would result in incorrect entry mode decisions. Both Brouthers (1995) and Miller (1992, 1993) adopted an integrated measurement of risk which includes general environmental, industry-specific and firm-specific variables. Miller (1992) pointed out that it is a convention to relate risk to environmental factors that reduce performance predictability. In international business and strategic management literature, such environmental factors often involve uncertainty variables.

A firm's perception of external conditions that negatively affects its strategy and performance is referred to as "uncertainty" in relevant literature. A number of previous studies identified uncertainty as an important factor influencing firms' strategic decision making in various situations (e.g. Buckley & Casson, 1996; Dimmick & Wallschlaeger, 1986; Kogut, 1988). Uncertainty has been defined in various ways (Milliken, 1987). It has been used to indicate the unpredictability of environmental and organizational variables that impact corporate performance (Cyert & March, 1963; Pfeffer & Salancik, 1978). It has also been conceptualized as the inadequacy of information for decision making (Thompson, 1967; Duncan, 1972), or the complexity and ambiguity of the environment (Galbraith, 1973; Milliken, 1987). Uncertainty about a firm's external or internal environment reduces the predictability of corporate performance and increases risk.

Hence, the theoretical framework becomes clear (See Figure 1). Based on the external conditions, a firm perceives risk in terms of

uncertainties about the external environment and attempts to manage the perceived risk through the selection of appropriate control strategies. Such strategies are usually reflected in the firm's level of equity ownership in the market. The perception of risk varies with the level of control. When firms perceive high risk in an international market, they tend to choose non-equity based control modes, such as exporting and contractual agreements. As the perceived risk becomes lower, risk is balanced against opportunity and firms would seek greater control over their operations in an international market (Root, 1994, p.74). In turn, the level of control is likely to become higher with the companies' increasing equity ownership through joint ventures or wholly-owned subsidiaries.

Figure 1: Theoretical Outline



Miller (1992) developed a systematic summary of uncertainties to include general environmental, industry-specific and firm-specific variables. Using this conceptual framework, he created a comprehensive Perceived Environmental Uncertainty (PEU) instrument to measure risk (Miller, 1993). The instrument quantifies risk with a conceptualized framework involving various categories of environmental uncertainty items. Based on both studies, the external factors that constitute uncertainty sources in a firm's decision making process involve the following categories: government and policies, economy, competition, product market and demand, resources and services used by the company, as well as social and cultural conditions.

Government and policies play a critical role in determining TNMCs' involvement in the market. Given the peculiarities of the media industries in spreading a wide variety of information and cultural values, many governments are concerned with the deterioration of national sovereignty and information control (Gershon, 2000). As a result, governments would make attempts to regulate foreign media firms' operation. The general economic conditions of a country are an essential category of factors contributing to uncertainties about the media market. Fluctuations in the level of economic activity create uncertainties for new entrants.

The existing domestic and international competition is another major aspect of uncertainties in media markets. Porter (1985) stated that one of a firm's primary concerns is the intensity of competition within its

industry. In the media industries, competition is extensive at both domestic and international levels, between TNMCs and local media firms in the host country, and among TNMCs themselves. Concerning product market and demand, a firm's entry and operations are likely to be difficult and uncertain if existing products in the market are highly differentiated (Porter, 1980). Uncertainties may also exist in terms of customer preferences or product demand (Miller, 1993). With regard to resources and services, uncertainties arise if distributors do not readily exist (Porter, 1980), or the availability of trained labor is low in the host country (Miller, 1993).

The entry of foreign media operators is believed to pose challenges to a country's social beliefs and cultural integrity (McAnany & Wilkinson, 1992; Gershon, 2000). The larger the social and cultural distance, the more difficult it is for the foreign media firm to formulate proper strategic approaches to determine management styles and product offerings that meet local tastes and preferences. Besides, it would be problematic for a company to operate in the host country market if it is uncertain about the beliefs, values and attitudes of the population that are not reflected in government policies or business practices (Miller, 1992).

The primary emphasis of this study was on the linkage between risk and control elements of the theoretical model. While it was not the intent of the study to measure risk in a quantitative manner as did Miller (1993) and Werner et al. (1996), the study focused on the reaction to the risk perceived by TNMCs. That is, the control strategies in terms of equity ownership that will be adopted by international media corporations in China after the country's WTO accession.

Compared to other forms of media, the visual entertainment media (e.g. television and film) are more pervasive and capable of instant and simultaneous communication (Hao, 2000). Both television and film provide entertainment-oriented products to the public, which are less vulnerable to government restrictions than hardcore news and less subject to government-initiated entry barriers than other types of media. In this study, therefore, attention will be focused on the visual entertainment media, including television and film.

Pattern of TNMCs' Strategic Behavior

To examine how the interplay of risk and control relate to real life business practices, Li (2004) made an attempt to explore TNMCs' strategic behavior across the globe, comparing the media market of China with those of transitional and emerging economies in Eastern and Central Europe and Asia. As demonstrated in Table 2, TNMCs' strategic behavior in Eastern and Central Europe and Asia is overall on the upper levels of the ordinal scale with the establishment of joint ventures and wholly-owned subsidiaries, whereas their involvement in the Chinese market is still at a non-equity based preliminary stage. In terms of

Table 2: Ordinal Scale of TNMCs' Strategic Behavior

	Contractual Agreements	Joint Ventures	Wholly-Owned Subsidiaries
Eastern& Central Europe	HBO (t), (f)	HBO Poland (t) Turner (t) Nova (c) Pro TV (c) IT1 (c) POP (c) CNBC (g) Fox Kids (n) MTV (v) Nickelodeon (v)	HBO Hungary (t) RTL Hungary (b) RTL Poland (b)
Asia	CNNI (t) BBC World Disney Pictures (f) Discovery (l) Nickelodeon (v)	HBO (t) Turner (t) ESPN (d) CNBC (g) Star TV (n) Sony Pictures (f) MTV (v)	
China	CNNI (t), (r) HBO (t), (r) Turner (t) Warner Bros. (t), (f) BBC World (r) ABC (d) ESPN (d) CNBC(g), (r) Encore Int'l (l) Star TV (n) MTV (v) Nickelodeon (v)	Star TV (n)*	

Notations: b, Bertelsmann; c, Central European Media Enterprises; d, Disney; f, Film Industry; g, General Electric; l, Liberty Media; n, News Corporation; t, Time Warner; v, Viacom; r, Restricted access

* Agreement signed, no further reports found

Source: Li, Z. (2004). *Western media corporations' risk and strategies in post-WTO China*. Dissertation. Columbus, OH: Ohio Link ETD. [Online]. Available at: <http://www.ohiolink.edu/etd/view.cgi?osu1100671766>

statistical significance, there is a moderate relationship between the level of equity ownership and the level of risk as represented by the regions of the world (See Table 3). Li pointed out that in line with international business theories, the pattern of the global media companies' equity ownership exhibited across these locations is affected by the changing external conditions in these markets. As the external conditions in the media markets of the emerging markets in Eastern and Central Europe and Asia have become more favorable for foreign investors, risk associated with these markets has become lower, resulting in TNMCs' higher degree of equity ownership. Given China's accession to the WTO and the observable trend towards a gradually opening media market, it may be expected that international media firms' involvement

Table 3: Chi-square Analysis of TNMCs' Strategic Behavior

	Non-equity	Equity	Total
Eastern and Central Europe	1 (7.14%)	13 (92.86%)	14 (100%)
Asia	5 (41.67%)	7 (58.33%)	12 (100%)
China	12 (92.31%)	1 (7.69%)	13 (100%)
Total	18	21	39

$X^2 = 19.81$ $p < .01$ $V^2 = .51$

Source: Li, Z. (2004). *Western media corporations' risk and strategies in post-WTO China*. Dissertation. Columbus, OH: Ohio Link ETD. [Online]. Available at: <http://www.ohiolink.edu/etd/view.cgi?osu1100671766>

in China would become more equity-based in the future to follow the overall pattern of development.

RESEARCH QUESTIONS

Based on the literature review and the theoretical framework outlined in Figure 1, the following notions about TNMCs can be proposed:

1. Higher perceived uncertainties about the external conditions leads to less equity-based strategic behavior in a media market;
2. Lower perceived uncertainties about the external conditions leads to more equity-based strategic behavior in a media market.

China's WTO membership may result in changes in government policies and regulations on the media industries. Despite the fact that no WTO related agreements on foreign media ownership were reached initially, it is the optimistic belief of many domestic and international media professionals that China's media market will gradually open to international competition after WTO, as is evidenced by the initial changes in the government's policy on foreign media ownership by the end of 2004 to allow foreign investment in television and film production (People's Daily, 2004). This process is associated with changes in global media firms' external conditions in China, including a higher degree of competition, commercialization and internationalization of the Chinese media. Given the likelihood of such changes in the external conditions of the Chinese media market, TNMCs' perceptions of uncertainties about the external environment are also subject to change, which will inevitably result in adjustments of their strategies in China. Therefore, the following research question can be formulated.

RQ1 How will TNMCs' perceptions of uncertainties associated with the Chinese media market, if any, affect the pattern of their equity ownership in China?

In the Chinese media market, a trend towards an open media market is expected. This will be likely to lower international media firms' degree of uncertainty perception and increase their participation in the Chinese media market, driving their operations from the basic contractual stage to a more equity-based level of penetration. Therefore, it is reasonable to ask the following research question.

RQ2 Will TNMCs plan to accelerate their engagement in joint ventures with local and/or foreign partners in the Chinese media market?

To achieve a higher level of market penetration through equity ownership, TNMCs would need to take actions to manage risk in order to achieve a higher level of control. Risk management is "the general process of planning for, controlling and reducing the impact of the incidence of risk including activities and events that are considered causes of the occurrence of the risk" (Ting, 1988, p. 219). As such, the following question seems to be necessary:

RQ3 Will TNMCs adjust their strategies in an attempt to manage risk in the Chinese media market?

In response to different aspects of risk in terms of environmental uncertainties as discussed previously, global media firms need to pursue a series of strategies to achieve higher equity ownership in the Chinese media market. Hence, the following research questions seem appropriate based mainly on Miller's (1992, 1993) studies:

RQ4 To achieve a higher level of equity ownership, will TNMCs plan to increase their efforts to forge relations and ties with governments of all levels and distributors in the media market in China?

RQ5 To achieve a higher level of equity ownership, will TNMCs plan to increase their product localization in the Chinese media market?

RQ6 To achieve a higher level of equity ownership, will TNMCs plan to increase their product differentiation vis-à-vis their competitors?

METHODS

In analyzing and comparing corporate strategies, two approaches can be found. The traditional way is to conduct the analysis with external data, such as financial or accounting reports, to define strategies and to relate them to measures of performance. However, strategic decisions are not always made based on analysis of data, but many times on managerial cognition. Hence, the more recent cognitive approach, which relies on

reports of industry practitioners and informants obtained through interviews with industry executives, is believed to be a more effective way of studying corporate strategies. Since this research is exploratory in nature with a primary focus on drawing strategic implications of global media firms' operations in China, the cognitive approach seems most appropriate.

The study exploited case studies and interviews as its key research methods, which is most common among previous transnational media studies (Hollifield, 2001). In the selection of TNMCs for case studies, initial contacts were made to Time Warner, Walt Disney Co., News Corporation, Sony Pictures Entertainment, and Viacom in the form of personal referrals and letters. Walt Disney Co., News Corporation, and Sony Pictures Entertainment agreed to participate. Interviews were conducted among selected "informants," who are "capable of providing sufficient information about a culture" (Bernard, 2002, p.187) and could produce findings with a high degree of validity and generality (Campbell, 1969). In TNMCs, the informants selected for this study included 15 relevant management-level personnel in the previously mentioned three international media firms (five from each, see references for details) who are experienced in or responsible for the company's international business development relating to Asia, especially China.

A snowball sampling method was utilized in collecting the sample of informants, as it is especially useful in locating members of a particular population (Babbie, 1998). In implementing this procedure, the first author initially conducted interviews with a few media professionals that he knows in person who meet the selection criteria for the study, during which these informants were asked to recommend other informants that they might know who also meet the criteria. This referral process continued until names of informants who had already been included in the sample were mentioned.

Face-to-face and phone interviews were conducted to obtain data from the informants. Open-ended questions were used in the interviews. Questions pertaining to each aspect of the informant's company's control strategies were asked. For example, concerning investment strategies, the informant was first asked, "Have you invested in the Chinese media market?" If the answer was "yes," they were then asked to describe the nature of their investment, followed by the question, "Do you plan to invest more in the Chinese media market?" If the informant's response to the initial question was "no," the follow-up question would still apply to inquire whether or not they would have plans to invest in the Chinese media market. In the same format, questions were asked in the interviews with the informants regarding government and distributor relations, product localization, and differentiation of product offerings. Whenever face-to-face interviews were not attainable, phone interviews were arranged. Interviews with the informants of the study were conducted in a period from October 2003 through March 2004.

FINDINGS

TNMCs' Pattern of Ownership in China

TNMCs' plans for obtaining equity ownership in line with their perceptions of uncertainties about the Chinese media market were analyzed through Research Question 1 (How will the changes in the perception of uncertainties associated with the Chinese media market, if any, affect the pattern of TNMCs' equity ownership in China?). Table 4 exhibits global media companies' main investment strategies and domains of business operations. Currently, no TNMCs hold equity ownership of any media outlets in the Chinese market. While all three companies have established representative offices, none of them has gone public because of government restrictions on foreign media ownership. The only available information about the amount of investment is related to Sony Pictures Entertainment with an estimate of \$5 million to \$6 million in television and \$50 million in films invested in China. Regarding business domains, News Corporation has a subsidiary television company that has tapped hard news and business news domains. Otherwise, all informants reported that their businesses concentrate on entertainment (including family, sport and movie-related entertainment, etc.) at this time.

Research Question 2 asked whether TNMCs will plan to accelerate their engagement in joint ventures with local or foreign partners in the Chinese media market. As Table 4 shows, informants across all three companies indicated plans for acquiring more equity ownership in the market in the form of joint ventures and wholly-owned subsidiaries. Table 5 further specifies the three global leaders' plans for desired equity ownership in the Chinese media market. For this particular question, 12 out of 15 respondents provided answers. Combining wholly-owned subsidiaries with joint ventures, it becomes clear that the majority of them (7 out of 12) indicated owning some equity as a part of their companies' strategic plan. The rest of the informants preferred not to acquire any equity in the Chinese media market in the foreseeable future. Following a simple coding scheme (3 for wholly-owned, 2 for joint ventures, and 1 for no equity), the mean value of the responses is 1.92, suggesting that, overall, TNMCs do have plans for obtaining some equity ownership, rather than none. In other words, these media companies are ready to move to a higher level of ownership through acquiring more equity in the Chinese market when the laws and policies permit. The three media companies' plans for acquiring more equity ownership reflect their uncertainty perceptions about the Chinese media market. In a sense, these plans exhibit confidence they have in the market, although some informants also indicated that the feasibility of establishing joint ventures would depend on government policies. On the whole, the results presented here answer the research question.

Table 4: Summary of the Three TNMCs' Investment Strategies

Questions Asked	<i>Have you invested in the Chinese media market?</i>		<i>Do you plan to invest (more) in the Chinese media market?</i>	
Company	Current equity	Current domain	Future equity	Future domain
Disney	-No equity -Rep office and distribution in Beijing since 1996	-Entertainment -Family entertainment -Sport news -Movie-related entertainment	-Joint ventures -Co-production -Distribution through company's own network -Program trade	- Entertainment -News is losing -Always a possibility
News Corporation	-No equity -Rep office	-Entertainment -Hard news -Business news	-Joint ventures and wholly-owned subsidiaries -Co-production of TV programs, films, and magazines -Launch 24-hour channels -Never stop investing, depending on media policies -Nothing more due to tight control over foreign TV stations	- Entertainment -News is highly regulated Documentary, "infotainment" -Print publication -Hard news -Business news
Sony	-No equity -Invested \$ 5-6 million in television -Co-production -Invested about \$50 million in films	Entertainment	-Establish partnerships -Co-production -Joint ventures and wholly-owned subsidiaries, depending on laws and policies -No equity, because of piracy, censorship, and unforeseeable changes -No regulated amount, no vast expansion	Entertainment

Table 5: The Three TNMCs' Plans for Equity Ownership

Type of equity ownership	N	% of informants
No equity ownership (e.g. exporting, distribution agreements, co-production)	5	42
Wholly-owned subsidiaries	4	33
Joint ventures	3	25
Total number of informants	12	100

As a matter of fact, some TNMCs have already acquired equity ownership in the Chinese media market in an alternative form¹. Since media ownership is restricted in the market, some international media corporations have established representative offices in the country. These offices are usually not allowed to conduct any business operations which produce revenues. To legally expand their businesses, some TNMCs have invested in the areas where foreign ownership is permitted, such businesses as advertising and media production. These areas do not belong to the media category as defined by the Chinese government. For instance, a TNMC would establish an advertising company and a production company in the form of joint ventures or wholly-owned subsidiaries as affiliations to the representative office. The two companies enable the TNMC to engage in business activities such as television or film production, marketing and distributions. Several international media firms have been operating following this type of business model for years in China. The government seems rather tolerant of this strategy.

Also presented in Table 4, the three TNMCs plan to operate mainly in the domains related to entertainment (i.e. family entertainment, movie-related entertainment) with little difference from their current business domains. Disney will continue with its operations in sport news, while News Corporation will keep its business practices in hard news and business news. One informant pointed out that the reason for their confinement to the entertainment domain is that the news domain is highly regulated. A Disney informant, however, claimed that the possibilities are open.

TNMCs' Strategic Plans in China

Given TNMCs' plans for obtaining equity, it is important to learn about other strategies they may have in response to the perceived risk in the market, as indicated in Research Question 3 (Will TNMCs adjust their strategies in an attempt to manage risk in the Chinese media market?). Concerning government and distributor relations, TNMCs' strategies are demonstrated in Table 6. Most informants noted that their companies have established connections with the State Administration of Radio, Film and Television (SARFT), together with other government departments, at both central and provincial levels at the present time. In addition, all three companies deal with several state-owned television and film companies, such as China Central Television and China Film Group. Compared across the three media firms, News Corporation seems to have more ties with local governments in China than the other two companies. One informant from Sony pointed out the importance of developing personal relationships with government officials and

¹ Information presented on this issue was acquired from interviews with informants.

departments. Regarding connections with distributors, these media companies possess accessibility to both state and local distribution channels. For film distribution, all of them are connected with the only two official distributors in the country, China Film Group and Huaxia Film Distribution Company. Regarding television, all companies maintain business relations with TV stations around the country. Disney has established a network with major cable stations at the provincial level, while Sony has a Beijing-based local distributor and other short-term distributors.

Research Question 4 asks whether TNMCs will plan to increase their efforts to forge relations and ties with governments of all levels and distributors in the media market in China in order to achieve a higher level of equity ownership. Informants across all three media companies indicated plans to continue maintaining and developing relations with governments and distributors. Among the three companies, News Corp.'s

Table 6: Summary of the Three TNMCs' Strategies for Developing Connections with Governments and Distributors

	<i>Have you established connections with governments and distributors in China?</i>	<i>Do you plan to establish (further) connections with governments and distributors in China?</i>
Company & Person	Current status	Future plan
Disney	<ul style="list-style-type: none"> -Business relations with CCTV and all major cable stations at the provincial level -SARFT at every level -Leaders of children's teaching -China Film Group, Huaxia Film Distribution Company, Film Bureau under SARFT -Exhibitors and film studios 	<ul style="list-style-type: none"> -Continue maintaining and developing business relations -Distributor barter agreement -Advertising team relating all major buying groups -No further connections, enough channels to get to government for problems
News Corporation	<ul style="list-style-type: none"> -Regular meetings with government agencies, such as SARFT and State Council's Information Office -Meetings with Shanghai and Guangdong media organizations -Relationship with Radio and Television Bureau, Guangdong -China Film Group, Huaxia Film Distribution Company -Connections with CCTV 	<ul style="list-style-type: none"> -Try to find mutually beneficial strategies through discussions with government agencies and media -Do business with commercial organizations, broadcasters, and government-related regulators -Continue to improve and develop relationships with all levels of the government
Sony	<ul style="list-style-type: none"> -Connections with SARFT and China Film Group -Connections with local governments in Beijing, Shanghai and Hong Kong -Personal relationships with government officials and departments -Connections with TV stations in Beijing and Shanghai -Connections with a distributor in Beijing and other temporary ones 	<ul style="list-style-type: none"> -Maintain important ongoing relationships -May consider other distributors -Always looking for partnerships -Continuing to make films leads to wider relationships

strategy seems to be most ambitious, in that it plans to establish connections with commercial organizations, broadcasters and government-related regulators of all levels, as well as to open up new offices and launch 24-hour channels. One informant also mentioned that they plan to communicate with the government to initiate mutually beneficial strategies. Disney, on the other hand, appears to plan to focus on distributing its existing products. Sony is probably the most cautious among the three. Most of the plans portrayed by the informants from Sony seem to be tentative and contingent upon the nature of opportunities and market conditions along with the company's operations in China. Overall, support is found for the expectation in the aspect of connections with governments and distributors.

With respect to product localization, all three media companies have more or less localized their products in the Chinese media market, as summarized in Table 7. Their means of localization include dubbing or subtitles for television or movies, localizing interesting stories, exploring local sources for stories, using local staff, developing local programming and promotion materials, working on local production and co-production with local and foreign partners, and creating local packaging. Among the three companies, News Corporation appears to be at the forefront of localization. In addition to dubbing the content, local production is a prominent strategy. The company has hired local staff to produce about 20 television shows and a total of 750 hours of programming each year. Disney has also been localizing through producing several local television shows, though not on so large a scale compared to News Corporation's business. Sony's localization strategy seems to rest mainly on subtitles and dubbing for its content at the moment, although co-production of films and local programming for television are also occurring.

In response to Research Question 5 (To achieve a higher level of equity ownership, will TNMCs plan to increase their product localization in the Chinese media market?), informants from all three media companies specified plans for further localization in the future. As suggested in Table 7, it appears that all three companies will localize their products to a greater extent through such avenues as developing locally relevant content, utilizing local resources, increasing local programming, and co-producing with Chinese partners.

Based on its current status of localization, News Corporation seems to be the most aggressive among the three media companies. In terms of television, it plans to increase the amount of locally produced programming. Regarding movies, the company plans to engage in producing films with Chinese cast members to create content for global viewers. Informants at Disney also mentioned plans for generating content that is both locally relevant and universally appealing. In addition, they will try to have more interactions with local children and families to enhance brand recognition. They indicated three main product priorities, including feature films, animations, and ABC

Table 7: Summary of the Three TNMCs' Product Localization Strategies

<i>Have you localized your products in the Chinese media market?</i>		<i>Do you plan to (further) localize your products in the Chinese media market?</i>
Company & Person	Current status	Future plan
Disney	<ul style="list-style-type: none"> - "China's Funniest Videos," "Dragon Club," foreign (U.S.) programming, local hosting, all content dubbed - Movies and animations on CCTV, dubbed - "Magic English," teaching English for children - ESPN, "Sports Funniest Videos" - Co-production of films - Localizing interesting stories - Exploring local sources for stories - Always been localizing 	<ul style="list-style-type: none"> - Localize as a whole, financially feasible, content locally relevant, universally appealing - Increase interactions with local children and families - U.S. script re-shoot in China - Three main product priorities: feature films, animation, ABC products - Three main ways: dubbing, local sources, co-production - Focus has been more on TV and theme parks
News Corporation	<ul style="list-style-type: none"> - Local staff, local programming, local production - Films dubbed in Chinese - Promotion materials in Chinese 	<ul style="list-style-type: none"> - Increase locally produced programming - Co-production with Chinese crews - Create content for global viewers - Not 100% local feed - Comfortable with current situation, already heavily localized - Can't make products unique to each market
Sony	<ul style="list-style-type: none"> - Local language and programming - Releasing VCDs and Region-6 DVDs - Local packaging - For films, subtitles, dubbing, and co-production in Chinese - For TV, subtitles on satellite channel not specific for China 	<ul style="list-style-type: none"> - Seek local partners - All products in local language - Establish local programming model - Include Mandarin tracks in products - Local production - For films, adopting universal model, localizing format of production - For TV, no reason to localize as the regulation changes - Create universally appealing films with limited geographic localization

products, as well as three ways of localizing—dubbing, local sources, and co-production. One Disney informant stated that the company's business will emphasize more on television and theme parks than films in China, because there are no recognizable benefits in the film market which is not as open as the other two. Sony's localization plans are concerned with developing local partners, establishing a local programming model, and local production. For films, the company plans to localize the format of production based on the business model that has been universally implemented across various international locations. One informant noted, however, that the company will focus on making universally appealing films in the globalization process with limited geographic localization. For television, one informant argued that since regulations may change, there is no reason for the company to localize at this point.

On the whole, the results provide sensible answers to the research question about TNMCs' plans for product localization.

Regarding global media firms' product differentiation strategies, Table 8 shows that all three companies are already engaged in such practices based on the informants' responses. Confronted with competition from both international and domestic media organizations, their current differentiation strategies include branding, producing unique content, providing a wider variety of content than competitors, utilizing expertise and high-quality programming from the parent firm, and committing more resources than competitors. Two informants indicated that each film is considered to be a different product in itself.

According to the informants' input, Disney boasts for its powerful brand and great reputation in children and family entertainment. Currently, the Mickey Mouse brand is widely known in China, whereas

Table 8: Summary of the Three TNMCs' Product Differentiation Strategies

	<i>Have you differentiated your product offerings from competitors in the Chinese media market?</i>	<i>Do you plan to (further) differentiate your product offerings from competitors in the Chinese media market?</i>
Company	Current status	Future plan
Disney	<ul style="list-style-type: none"> -Distribution play (as different from platform play by CETV, News Corps, and Viacom) -Children and family branding -8 channels and 4 languages with one feed in Asia, dubbed -Each film is taken as a different product 	<ul style="list-style-type: none"> -Differentiating constantly -High quality family entertainment products -Through branding, quality of content -Adding Cantonese language -Increase production -Not organized to create a Chinese film -Not the first-in, wait 5 years
News Corporation	<ul style="list-style-type: none"> -Combining expertise and high-quality programming of parent firm with local production -Funds expedition and research exploration -Provides alternative entertainment choices -More flexibility of reporting as a foreign station 	<ul style="list-style-type: none"> -Differentiation by constantly developing new programs -Continue with local productions -Differentiation by category, movies, TV series, dramas, comedies -Build digital movie theaters -Can't provide specific things in each market
Sony	<ul style="list-style-type: none"> -From foreign competitors, production in local language -From domestic competitors, more money and more production expertise -Higher pricing for quality and packaging -Wider variety of films and TV programs, including many non-U.S. movies and TV series -Each film is considered a different product 	<ul style="list-style-type: none"> -Continue to provide a wider range of products -No plans, already done as much as the company can -No specific strategies due to absence of serious investments

the Cartoon and Nickelodeon brands have limited awareness. As far as the products are concerned, Disney adopts “distribution play,” which refers to the company’s practice of distributing its local and universal content to various buyers around the country, as opposed to “platform play,” or establishing platforms of content outlet such as television channels, as some other TNMCs are doing in China. Examples of the platform play include Time Warner with its partially owned CETV, News Corporation with Xingkong Satellite Television, and Viacom with its MTV. At this point, Disney offers eight channels in four languages in Asia with one feed. News Corporation’s differentiation strategy centers on the uniqueness of the television content through heavy localization with the parent firm’s expertise and providing choices of programming that are not available from local channels. Sony differentiates its products mainly through committing more resources and providing a wider variety of products to the market than its competitors. Furthermore, to differentiate from international competitors, the company creates content in the local language, which is the same as what Disney and News Corporation are doing. One Sony informant believed that the company possesses more production expertise than Chinese competitors.

Research Question 6 inquires whether TNMCs will plan to increase their product differentiation vis-à-vis their competitors to achieve a higher level of equity ownership. As presented in Table 8, most informants indicated their companies’ plans for further product differentiation by continuing with their current practices. The three media companies’ strategies for future differentiation include increasing production, improving the quality of content, and constantly developing new programs. News Corporation appears to have the most concrete plans for differentiation among the three companies. It will constantly develop new television programs to enrich the content. In addition, the company will increase local production of films. One informant mentioned construction of high-quality hardware facilities such as digital cinemas. Though building facilities as a differentiation strategy is not necessarily related to content, it demonstrates the company’s determination to have a presence in the market. Disney’s plans evolve around enhancing brand recognition and content quality. The company does not plan on producing films locally. One informant from Disney raised the concern of government approval for the company’s practices and of piracy control, and suggested that Disney would wait five years in the Chinese market instead of being the first-in. Sony will differentiate by providing a wider variety of films and TV programs to the market. One informant from Sony noted that no specific product differentiation plans exist at present because the company has not made any serious investments in the market as of yet.

DISCUSSION

Within the general trend of globalization, TNMCs have been actively expanding around the world in pursuit of increased revenues and profits. China is a market that cannot be ignored in this process, as its accession to WTO was a clear sign of further economic openness. This study aimed to examine TNMCs' strategies in the Chinese media market after WTO in an attempt to provide insights into their perceptions, positions and plans.

The theoretical framework of the study was determined in light of the dynamics of risk and control. Based on its external conditions, a firm's perception of risk in terms of uncertainties about the market affects its control strategy in terms of equity ownership. At its core, the study expected that China's WTO entry would create a more favorable external environment for TNMCs with less perceived risk, which would result in a higher level of their equity ownership in the Chinese media market.

Results of the study showed that the three global media giants studied share a high level of commonality in terms of their strategies in the media market in China. All of them have plans for increasing control in response to the risk they perceive. A majority of the informants indicated possibilities for their companies to engage in the highest form of equity ownership in a long run contingent upon approval of government policies and regulations. In fact, some international media companies have already been engaged in an alternative form of equity ownership through establishing advertising or production companies affiliated to their representative offices in China. To try to manage risk and increase their equity ownership, these global media companies will continue to develop connections with governments and distributors, localizing their products, and differentiating the products vis-à-vis their competitors. All these plans constitute a roadmap for TNMCs' long-term development in China.

Overall, among the three TNMCs, News Corporation seems to be the most established in the market with heavily localized content, production of hard news, and one of its TV channels enjoying cable carriage rights in Guangdong, China. In turn, its strategies appear to be the most optimistic, if not aggressive. In terms of content domain, it is the only international media company among the three that has tapped and will keep producing hard news, other than business news and pure entertainment. Related to building government ties, News Corporation is foreseeing the prospects of pitching mutually beneficial ideas to related authorities. In addition, the company has further plans for differentiating its products from competitors through developing new TV programs and offering a wider range of content categories (i.e., movies, TV series and comedies). Disney's approaches to the Chinese media market exhibit differences from the other two companies in its innovative ways of localization, as it plans to increase brand recognition among local

children and families, as well as re-shooting U.S. scripts in China. In addition, the company is interested in distributor barter agreements with media entities in China. Sony has been the most active among the three global leaders in co-production of films. Moving forward, the company will keep seeking local partners to create universally appealing films. Also, Sony expressed the likelihood of cooperation with new distributors in the market.

The information concerning TNMCs' strategic plans presented here is consistent with relevant international business theories that highlight the importance for companies to minimize risk and maximize control capabilities at international locations. In response to the visibility of a gradually opening media market in China after the country's WTO accession, all TNMCs in this study have plans to increase control in terms of equity ownership. Based on the ordinal scale of equity ownership presented in Table 2, it is likely that TNMCs' strategic behavior in China will move from its current status with mostly non-equity based involvement to upper levels (i.e., joint ventures and wholly-owned subsidiaries) in the near future, particularly given the loosened restrictions on foreign investment in television and film production since year-end 2004 (People's Daily, 2004).

While the foregoing research findings may apply only to the three global firms studied, they certainly provide valuable implications for new and potential entrants to the Chinese media market. First of all, patience is crucial in the market. Whether the potential player is planning to take the first-mover advantage or wait until the market is open and mature to a certain degree, it is important to realize that unlike the manufacturing or service industries, media industries in China are under much closer supervision by the government and are therefore subject to changing regulations. Following the official announcement towards the end of 2004 to allow foreign ownership in media production (People's Daily, 2004), the government authorities have recently ceased approval of new foreign television channels, together with other selected forms of media, while censoring imported programming (CNN.com, 2005). Still, many industry practitioners believe that the general trend is towards gradual openness, and that this is merely a way for the government to exercise control over the pace of the opening process of the media market. When operating in the Chinese market, a TNMC needs to first understand that such fluctuations in the regulatory environment are not uncommon.

Secondly, localization plays a key role in global media companies' operations in China. As was previously presented, all three companies studied have to some degree localized their products in the Chinese media markets. The Chinese media consumers may have fairly different tastes and preferences from those with a Western cultural background. In fact, since each media market is unique in its own way, it has become increasingly common among international media operators to tailor their product offerings to local demands.

Lastly, from the experience of the three TNMCs, establishing connections and ties with governments and local distributors is essential, particularly if a new entrant plans for longer term investment with equity ownership. Again, all television broadcasters and film studios in China are government owned and controlled, and no foreign media organizations can freely distribute their media products. For a global media company to establish a presence in the Chinese media market as a foundation for further development, primary efforts need to be made in developing solid relationships with relevant government agencies and industry regulators, and maintain effective communications with distributors. For the time being, this is the only way to keep informed of policy changes and potential opportunities.

Limitation and Future Research

The proceeding study of global media corporations' strategies is a first attempt to gauge the process of TNMCs' entry into China. It would have been a more complete reflection of reality if more media companies and individual informants in the sampling frame participated in the research. However, in its current form, the study provides a great deal of information, along with implications for new and potential market entrants. Future research may consider utilizing the risk aspect of the theoretical model, following Miller's (1992, 1993) quantitative risk measurement approach, to fully present the dynamics of risk and control. Another important area of focus is to examine TNMCs' products across international markets, whether they are locally produced, and whether differentiation exists. If applicable, content analysis could be performed to more closely study these products. Finally, the issue of customer needs was emphasized among the informants. Audience analyses could be conducted to identify the preferences of media product consumers in China and possibly other transitional and emerging markets.

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SUMMARY OF INFORMANTS

Walt Disney Company

Lawrence Kaplan	Executive Vice President and General Manager, Buena Vista International
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News Corporation

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Shuang Liu	Vice President, Phoenix Star TV
Ward Platt	Executive Vice President, National Geographic Channel International
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Sony Pictures Entertainment

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Andy Kaplan	Senior Executive President, International Networks
Tim Meade	Regional Director of Asia Licensing, Columbia Tri-Star Motion Picture Group
Pietro Ventani	Vice President of Licensing, Sony Television International, Asia
Gareth Wigan	Vice Chairman, Columbia Tri-Star Motion Picture Group

