

Restructuring and Turnaround of A Public Service Broadcaster: Public Management with a Private Attitude

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ABSTRACT This article explores the restructuring and turnaround of a troubled broadcasting company. It seeks to identify some of the essential success factors associated with management and innovation within a firm. It uses as a case the Portuguese public service television broadcaster, a state-owned media company. It shows that it is possible to develop both reactive and proactive management attitudes in such an enterprise and the importance of leadership in innovation, management, change and organizational development processes of media firms.

KEY WORDS: television, management, leadership, change, Portugal

This article explores the restructuring process at Rádio Televisão Portuguesa (RTP), the Portuguese public service broadcaster, whose financial crisis led the government to implement an aggressive turnaround strategy based on innovative public management influenced by private business attitudes. It explores the roots and developments of the crisis, the changes implemented in the restructuring process, and the results of the restructuring and changes in the firm. The restructuring included complex process changes, downsizing that had a significant impact on the human resources, and alliances with new company collaborators.

Two main leaders contributed to this dramatic turnaround process: Morais Sarmiento, the minister for the media sector, who gave autonomy and incentives for the restructuring by RTP board, and Almerindo Marques, the board president who led the changes and believed it would be possible to rescue and put RTP in good order. The Social Democratic government changed in 2005, and the board changed in 2008. However,

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the present government recognized the work made by Almerindo Marques and his team and invited him to lead another problematic restructuring in another state company (Estradas de Portugal). The new RTP president is Guilherme Silva and he appears to be continuing the main policies adopted by former board.

This article is mostly based on primary and secondary documental sources such as books on management and on the media sector, billing reports, internal RTP documents, reports made by banks, and press releases (including interviews with the RTP's president and administrators, as well as the minister responsible for that sector at the time of the restructuring). Because of the author's professional functions in the Presidency Ministry of the XV and XVI Constitutional Governments, access to privileged documental sources was easier. Furthermore, the author had the opportunity to share knowledge with some of the RTP's administrators, which are still part of the company even though the Government is a different one.

This article is divided in four main parts. The literature review starts by addressing a theoretical approach with regard to organizations' management and innovation and then narrows down its scope to management and innovation in the media industry. The part presenting the Portuguese Public Broadcasting (RTP) case focuses on the description and analysis of the restructuring process that occurred in the Portuguese public broadcasting channel. The main restructuring measures are studied with particular attention to their contribution to the improvement of the company financial ratios and audience indicators. The implications part presents the conclusions of the RTP case, enhancing the critical factors of management and innovation success applied to the media industry, and in particular to the public broadcasting service. Last but not least, section five aims to point out some clues and recommendations regarding best practices of business and journalistic management which can be adopted by the public broadcasting public channels to achieve a good performance in a competitive market without disregard of the public service objectives.

LITERATURE REVIEW

Management and Innovation Theory

The themes related to management and innovation are, in most cases, associated with leadership. The organizational management point of view has an emphasis on the motivational human resource related aspects, the entrepreneurial management point of view put emphasis on the strategic and market aspects. There are many important contributions by researchers to a better comprehension of global management of companies and organizations. Some authors establish a close connection between leadership and management, even though they separate the concepts. According to Bennis and Nanus (1985) to manage

means to cause, to direct, to take responsibilities, to lead; and leading means to influence, to guide, to give orientation. In that sense, managers are people that know what to do; and leaders are people who know what needs to be done. On the other hand, Etzioni (1964), Adair (1988) and Kotter (1992) consider that, in order to be successful, organizations need to combine a strong leadership with a strong management.

The management of employees' behavior—i.e. their motivations and satisfactions at work—is also a crucial aspect for the success of organizations. Theories by pioneer authors such as Maio (1960), Schein (1982), Maslow (1954), Argyris (1964), Herzberg (1966), Etzioni (1989), MacGregor (1960), Ouchi (1981), Hersey and Blanchard (1996), among others, are still fundamental nowadays to better comprehend the social-organizational dimension of companies and organizations. Deep down, these authors enhance the need for leaders and managers to look at organizations as organic structures and not as mechanical structures (characterized by the primacy of the machines over people). Only organic structures can achieve productivity: their success depends on the level of satisfaction and perception of the advantages (not necessarily material advantages) by the organizational members.

As the organization's *performance* is determined by the human resources' behavior in a certain work related context, the psycho-social perspective of organizations has become more and more a central aspect of the organization's strategic management. Even innovation comes associated with the creation of a stimulating work environment and with the valorization of pro-activeness. In his book about *Qualifying Organization*, Peter Senge (1992) relates innovation to the ability and predisposition of the company (and its human resources) to constantly learn, i.e. innovation is the result of a constant learning process. Organizations need to innovate, otherwise they perish. The understanding of this need, together with the difficulty to stimulate and sustain an innovative and entrepreneurial spirit within the organizations, has generated a large body of research and management practices focused on these topics (Bouchikhi & Kimberly, 2001).

The emphasis on innovation as a competitive advantage is not new: Schumpeter (1939) associated the creation of value to the technological innovation, enhancing the importance of individual entrepreneurs for the company's dynamism. According to Schumpeter (1939) technological innovation generates a "creative destruction" by jeopardizing traditional ways of value creation. Drucker (1991) adds that "innovation is the deliberate and organized search for changes, as well as the systematic analysis and exploitation of the opportunities that changes can offer to the social and economic environment".

By definition, innovation is the process that leads to the introduction of something new in the organization or market. The innovation is not just the creation of new ideas, because it requires the invention of something new and a later application in the organization or introduction into the market. This is, in fact, the main difference

between invention and innovation: while invention is independent from its use, innovation requires the use of the invention in an internal or external context to the company. So, if the invention doesn't have any use for anyone, it's not an innovation. Innovation evolves through a cycle with its stages: the discovery of opportunities; the generation of ideas, the development of the selected ideas, the testing of the prototypes, the introduction of the new product, service or process and its expansion in the market (Freire, 2000).

The innovation also supposes the existence of a strategy which can be defined along two dimensions: *strategic scope* and *strategic strength*. *Strategic scope* is a demand-side dimension and looks at the size and composition of the target market. *Strategic strength* is a supply-side dimension and looks at the strength or core competencies of the firm. In particular Porter identified two strategies as the most important: product differentiation and product cost (efficiency). The strategy defines a combination of decisions and actions that allow a firm to provide its customers with more value compared to the competitors (Porter, 1980, 1985). Decisions and actions with regard to innovations can be combined in a centralized way by anticipating the future demand and mobilizing scarce resources. This way of strategizing is categorized as "technology push" system (Brow & Hagel, 2005). This system requires companies to specify, monitor, and enforce detailed activities and tasks. Such rigidity restricts the number and diversity of the participants to the innovation process, thus limiting the innovation and learning potential. As demand becomes more and more difficult to forecast, push systems increasingly fail to deliver even the efficiency they were designed to promote. "Technology pull" systems are more favorable for the development of innovations. In the following table we can observe the main difference between push systems and pull systems. Technology push systems differ from technology pulls ones particularly in their view of demand: the former treat it as foreseeable; the latter as highly uncertain.

Table 1: A Sharp Contrast

Push Systems	Pull Systems
Demand can be anticipated	Demand is highly uncertain
Top-down design	Emergent design
Centralized control	Decentralized initiative
Procedural	Modular
Tightly coupled	Loosely coupled
Resource centric	People centric
Participation restricted – few participants	Participation open – many diverse participants
Focus on efficiency	Focus on innovation
Limited number of major reengineering efforts	Rapid, incremental innovation
Zero-sum rewards-dominated by extrinsic rewards	Positive, sun rewards – dominated by intrinsic rewards

Source: McKinsey Quarterly, 2005, number 3

Management and Innovation Theory Applied to the Media Industry

Nowadays it is unanimously accepted in the scientific community as well as the business community that innovation and leadership are two important pillars of a company's success and competitiveness (Picard, 2002; Albarran, 2005; Taberero, 2000; Lavine & Wackman, 1988; and Lacy, 1992). And media companies are obviously no exception. A recurring emphasis on innovation and leadership occurs, in part, because of the constant need for media companies to adapt to the market. The origin of this need is multiple, starting from the transformations of the consumers' tastes, the increase of competition and the emergence of the new information and communication technologies (ICT). In particular, ICTs are transforming every sphere within the media business, from the productive processes to the commercialization of products.

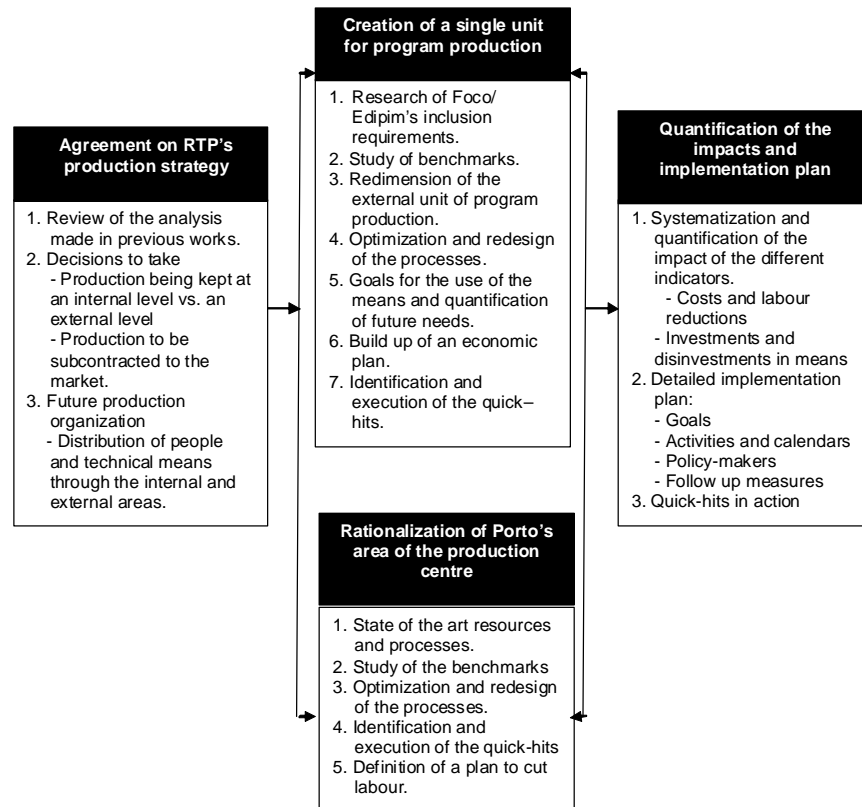
As the media industry heavily depends on its intellectual capital and the creativity of human resources (Echeverri, 1995), within such a dynamic context the application of democratic and participative leadership concepts is key to success. However, it is recognized by some authors (Picard, 2005; Albarran, 2005) that creative industries (consulting, advertising and journalism, for example), can demand the application of specific management concepts which value more the behavioral component and the creation of more challenging work environments. In knowledge intensive companies, such as the media, most employees are highly qualified professionals (Sveiby, 2000). In order to retain them relations among professionals and managers must be transparent and based on mutual understanding (Redmond, 2005). Only in this way a favorable work environment for innovations can be created and fostered.

According to Redmond (2005) "if not carefully managed, a media organization, depending on creative excellence, can quickly lose the competitive edge necessary to fend off competition in a highly volatile operating environment. That may occur when the overriding business concerns, or the focus on them, are allowed to dampen individual creativity on which the media organization depends". According to Medina (2005), the increase of competition in the communication sector made companies restructure their internal organization, their programming and investment policy. In the Portuguese example, the answer given by the State's media company to this new competitive scenery was very late. However, the existing indicators on RTP's changing process, which started in 2002, seem to picture a brighter future. In this case study some essential factors of success that seem to favor the set up of an innovation and organizational process in RTP can be identified.

According to Taberero (2000), innovations emerge either internally from initiatives of the employees themselves or external from suggestions by press officers, consultants and auditors. In the case of RTP the players involved were both the XV Portuguese Constitutional Government; and

RTP's Board. The planning and set up of RTP's organizational change also had the collaboration of international experts of the Boston Consulting Group (BCG). The work done by this consulting firm was developed in four modules as we can see of the Figure 1.

Figure 1: Methodology for RTP's Restructure



Source: BCG

The first module aimed at improving the production strategy: some program genres were set to be produced inside the firm while others to be subcontracted to independent producers. The two following modules ("creation of a new production company" and "rationalization of the area concerning Porto's production centre") allowed the identification and analysis of the recurrent initiatives concerning the implementation plan for their execution. The last module ("quantification of the impact and plan of implementation") contemplated the operationalization of the strategy impact and the execution planning. In the next section a detailed description and analysis of the RTP case follows.

RÁDIO TELEVISÃO PORTUGUESA CASE STUDY

A Problematic Economic and Financial History

According to Arons, et al. (2003), television in Portugal started with a significant delay when compared to other European countries, considering that regular broadcasting only started in 1957. The RTP Group—whose shareholder is the Portuguese state—has an historic and important position in the Portuguese regulatory framework for broadcasting. Created in 1957, RTP faced the competition of private networks such as SIC (1992) and TVI (1993) and it has not always answered correctly to that new competitive scenery. As years went by, the state television began to lose its competitiveness through a decline of audience, and consequently a decrease in advertising revenues, which led the company to chronic financial difficulties. According to Vasconcelos (2000:53) “Portugal was the last country in the European Union to authorize the establishment of private channels.” Under the circumstances in which it happened, the financial crisis and substantial loss of credit by the public station was inevitable.

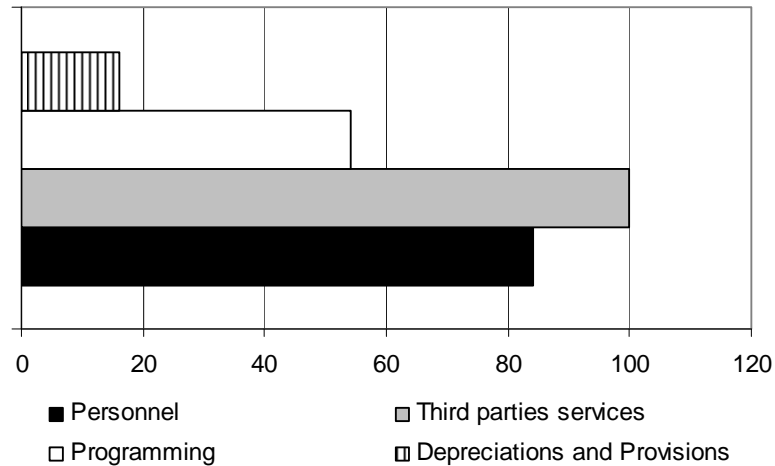
In 2001, RTP was a company sinking rapidly. However, and even considering that the State is an important part in assuring regular funding for the public service television, the crisis in RTP was not only the fault of the government’s lack of responsibility in that matter. The crisis emerged also from a deficient management which was not able to, on one hand, re-establish the company in new competitive media scenery and, on the other hand, identify the needs (opportunities) to implement a renewal both from a management point of view as well as a programming point of view. It is recognized by many analysts that RTP’s management has been passive for many years (unable to react or pro-act) with regard to the changes of media demand.

There was no strategy and no leaders capable of making its collaborators believe that it was possible to re-establish and recuperate the RTP brand operations. In the beginning of the 1990s, the configuration of the national television market was clearly determined: RTP enjoyed the monopoly of broadcasting with two generalist channels, RTP 1 with around 80% of the market share and RTP 2 controlling the other 20%. This comfortable situation created an easy access to the best international shows, as well as popular national events which could achieve greater audience numbers. Due to its status of public service, the public channels also received a large amount of financial Government incentives, which were increased by the advertising revenues. In 1994, RTP already showed a financial struggle on the verge of technical bankruptcy.

According to Reis (2004), the State’s television channel had an excessive amount of structural costs, fed by the general inefficiency. A sequence of years with negative results made the company fall into debt and forced the State to a series of capital increases to keep the company

alive. The accumulated losses since 1990 amounted to 1.2 billion euros. On the first semester of 2001, RTP presented operational costs of 256 million euros, with supply and external services (100 million euros, 39% of the total) and personnel (84 million euros, 33% of the total) being the majors weights in the expenditure (see Figure 2).

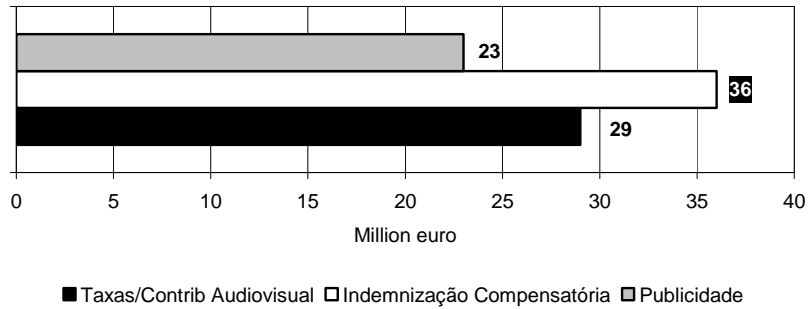
Figure 2: Costs in the 1st Semester of 2001



Source: Elaborated from data supplied by the company.

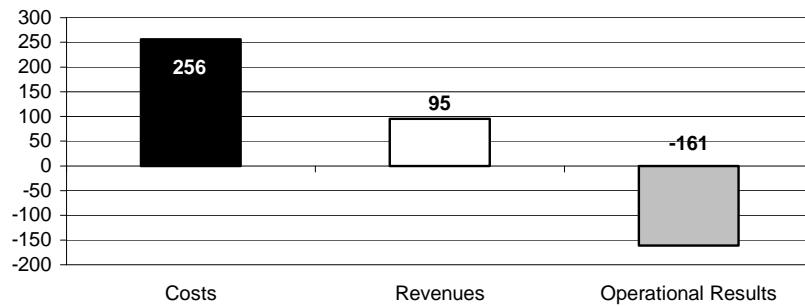
As shown in Figures 3 and 4, revenues in the first semester of 2001 were a total of 95 million euros, so the difference between costs and revenues revealed a negative operational result of 161 million euros. The high financial costs associated with a rapidly growing debt, made the net negative result even more worrying: 183 million euros. Concerning the market share, measured by audience numbers and advertising revenues, from a share of 46.9% in 1994—two years after the establishment of private operators in the audiovisuals' market—RTP fell to an average level of half that value in audiences (20.1%) in 2001, behind SIC and TVI (see Figure 5).

Figure 3: Revenue of the 1st Semester of 2001



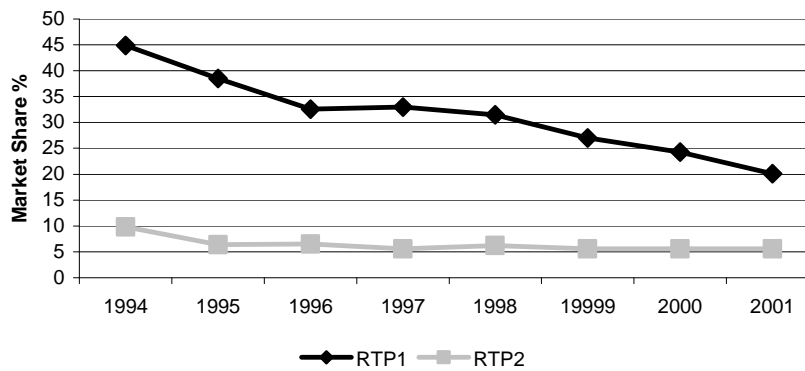
Source: Elaborated from data supplied from the company

Figure 4: Operational Results in the 1st Semester of 2001, Million Euros



Source: Elaborated from data supplied by the company

Figure 5: The Audience Evolution of the Public Channels



Source: Elaborated from data supplied by the company

We can say that public television channels were losing their influence in the Portuguese audience and putting their survival at risk. However, starting in 2002, important steps were taken to change the future of the public television channel. And at the end of 2005 (November), RTP reached the second place among its competitors for audience numbers, doing better than SIC.

Innovation and Organizational Management in an Adverse Conjuncture

According to Bustamante (2002:12) “the revolutions endured by public televisions during the 90’s, are the perfect examples of a twisted policy, lacking of models, never adopted as a result of an open and public discussion and getting the consequences of its actions”. PSB has been lacking an innovative concept of management.

To understand the fall of RTP and the catastrophic situation it was facing at the beginning of the new century, it is necessary to take into account the socio-economic context of the country, the media market situation as well as the internal reality of the PSB organizations. The “explosion” of the speculative bubble that surrounded the internet and the “new economy” cast the first stone of an economic crisis at a worldwide level, which would be increased by the terrorist attacks of September 11th in the USA. The advertising market, structurally very dependent on the economic conjuncture, was one of the first to feel the crisis, compromising the expected revenue of the media companies in general, and of the television operators, in particular. At the end of 2001, advertising revenues showed a negative growth of 6.3% when compared with 2000, a situation that would worsen in the following year, with a new decline of the adverting investment of 9.4%.

According to Vasconcelos (2003:54) “Without learning the lesson from other countries, the Government decided to abolish the monopoly and open two private commercial channels without at the same time, ensuring a stable and correct funding for the public stations”. It was then questioned if the Portuguese advertising market would have the capacity to support the costs of three general television channels without any tax paid for in the public service. The net results obtained by the three companies during the 1990s support this serious doubt (see Table 2).

Table 2: Net Results of Television Operators*

	1992	1993	1994	1995	1996
RTP	-20,545	-39,165	-97,790	-132,905	-80,000
SIC	-3,455	-29,985	-9,810	0,770	10,000
TVI	-4,555	-27,395	-24,855	-24,260	-12,500
TOTAL	-28,555	-96,545	-132,455	-156,395	-82,500

* Estimative for the current prices – Values in million Euros

Source: RTP

TVI, marked by a very difficult economic and financial crisis, was only able to ensure its viability through its acquisition by the Media Capital Group, in 1995. Presently TVI is the television operator with the best financial performance, having been contacted by groups as important as Prisa and RTL that have acquired 33% and 32% of its “share capital”, respectively. In fact, this recovery can be seen in Table 2 as net results grew from -24,260 euros in 1995—to 12.5 million euros in 1996, an increase of 51.5%. Even SIC itself which very quickly reached the leading position in terms of audience and a positive net result, saw its situation worsen in the last years of the 1990s and began a painful restructuring process in 1999.

According to Faustino (2007) since 2001 until 2006 the Media Capital Group (where is integrated TVI) revenue has been increasing with the exception of 2003, where a slight decrease occurred. Regarding total revenues, 72% originated from TVI, 7% from radio, 7% from outdoors business, and the remaining 14% originating from all others business. In 2006, Media Capital revenues reached 230 million euros, which represented a 4% increase relative to 2005. TVI was the leading television channel in Portugal in 2005, for the first time in its history. TVI had been the leading station in prime time since 2001, but it reached an average audience of 34.9% of the market in 2005. The revenues sources associated to the television business (172 million euros in 2006) constitute the main Media Capital Group business drivers.

The competition between different channels and the lack of a bigger ad market were partly responsible for the difficult financial situation of the various television operators in the late 90's. But that does not explain the fast derailment of RTP prior to the liberalization of the audiovisual market, in spite of its monopoly position and Government support. According to Medina (2005), the growth of the competition, especially after the privatization process observed in other European televisions and the liberalization of telecommunications, stimulated the search for new, safer and less risky formulas of production. In the meantime, the new media offer created a more demanding audience and, therefore, the need to develop innovative strategies more in line with the tastes and interests of the public. The goal of innovation is to discover new solutions that improve the quality of products and services provided. Recent management and innovation lines of thought have stated the need to make public organizations similar to private ones, with a focus on results and performance goals, without losing sight of their social responsibilities. Accordingly, the citizen should be considered a customer, in such a way that makes it possible for him to choose between public and private services.

However, the unpredictability of technological developments, and the legal and economic uncertainties, forced the companies to stop taking long-term decisions, and hiring more employees. According to Whitfield (1975:99) “the innovator must have a job worth doing, one in which he

can make full use of his talents and provide an important contribution. However, since opportunities for real innovation are few and many other people may be involved in developing the creative idea into a finished product, the innovator may find there is little use for him and his potential". In general, obstacles to innovation arise when: (1) there is a corporate culture focused on short term results; (2) bureaucratic and paralyzing structures prevail; (3) there is a low level of trust and participation of the employees; (4) team work is absent; (5) arrogant management attitudes dominate; (6) leadership is absent; and (7) fear towards the unknown is observed. It is within this market context that we should frame RTP's current strategy of innovation and change.

Close to Chaos: Identity and Inefficiency Crisis

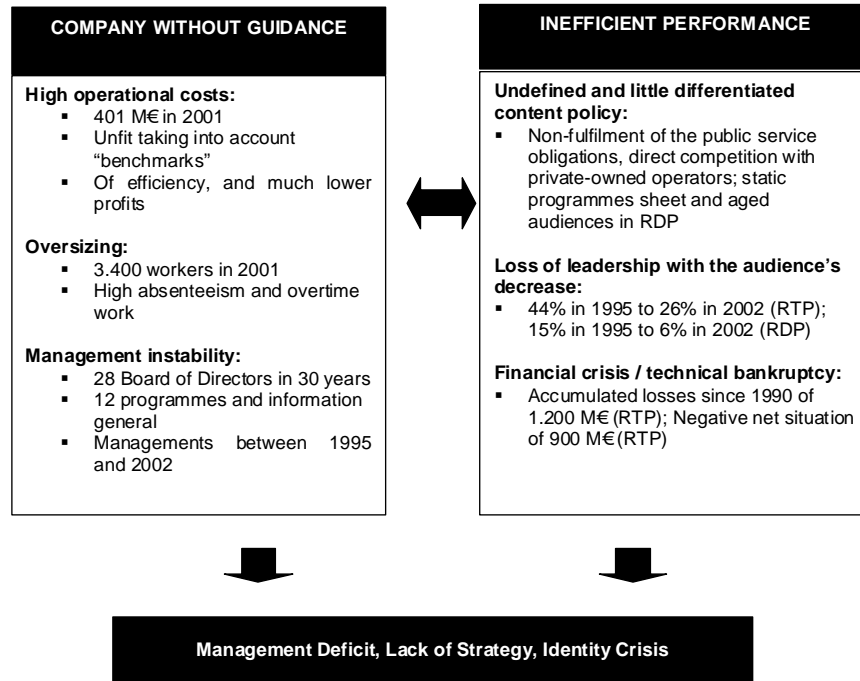
According to Richieri (1994), after the opening up of the TV service to private broadcasting a legitimacy crisis started within the State owned media companies, as well as a financial and an identity one. Besides the decrease in revenues due to the redistribution of advertising among all operators, "(...), costs increased due to the stretch of broadcasting time and the competition of different genres in the programming schedule (mass sports, imported fiction, star presenters)". (Bustamante, 1999:37).

In fact, from the beginning of the 1990s, RTP faced growing difficulties, because of a more expensive public service and programming, the absence of a market-oriented management, as well as expensive organizational structures and staff. Furthermore, in 2001, RTP stepped into an identity crisis. A mission and a clear position, reduced to the imitation of private operators, were absent. The fast growth of private channels SIC and TVI, along with the absence of a clear definition of public service television explain the lack of orientation of the public operator of television, with regard to the decrease in audience numbers.

On the other hand, the significant management instability—the company had 5 different administrators and 12 Programming and Information Boards between 1995 and 2002—goes a long way in explaining the lack of a strategy. As a result, the execution costs unraveled and the financial liabilities jumped from 359 million euros in 1996 to over a billion euros in 2002. Furthermore, a loose human resources policy resulted in high absenteeism, increased overtime work and inexistence of appraisal mechanisms.

The existence of participated companies, all of which had deficits that added up losses of 16 million euros in 2001, increased the inefficiency of the company and scattered its resources. Many analysts blame primarily the Portuguese Government for this situation. In fact, for several years, the State—single shareholder of the PBS—failed to take the appropriate core measures that could ensure a stable financial situation as well as an alternative strategic plan.

Figure 6: RTP in 2002 - The Public Disaster



Source: RTP

This situation forced the company to acquire a series of debts in order to sustain its operating and functional costs. Servicing the new debt added to the financial difficulties and forced the company to take up new loans, thus generating a vicious cycle.

Possible Scenarios and Attitudes of Management

For commercial media companies, the main goal is to reach a larger audience and therefore generate higher advertising revenues. Public service media are not subject to the same pressures, but "in public service and other not-for-profit media, producing information and programming useful and interesting to audiences is the primary function (Picard, 2002, p. 2). This can only happen if the business is run efficiently. According to Medina (2005) a media manager, even in a PSB company, needs to take the following issues into consideration: 1) Television programming is a continuous product: each day there is a broadcast of around 20-24 hours; 2) Television business sales should run out daily, even if advertisers buy time slots for the future; 3) Managers and professionals have a special social responsibility as they influence

the mass media; 4) Television consumption is very sensitive: the competition is strong and the efficiency of the decisions is controlled daily; and 5) The decisions face a time barrier: deadlines and the products' life cycle are short.

Even if the daily management of the public television companies is dependent on external pressures such as markets, laws and politics, it is necessary for those companies to develop and implement a business-oriented culture in the organization. Such a culture can provide public TV companies with clear strategies. The absence of a strong management and a business culture led RTP to an extremely fragile situation. Already in bankruptcy and falling behind both private operators in Portuguese preferences, a strategic decision on the future of this public company was in order. The closing down of RTP 2 as a response to the exiguity of the Portuguese ad market seemed certain. In a report published in 1996, Braumann pointed out four possible scenarios for the recovery of RTP:

Conservative Scenario RTP maintains all its channels and, given the insufficient ad revenues and the difficulty of an internal restructure, continues to be funded by the State with higher amounts. This scenario seems to be unbearable due to the large amount of financing needed.

Liberal Scenario The State "privatizes" or gives the partial or total concession of one of the two channels (RTP 1 and RTP2) to a private operator.

Radical Scenario RTP applies a full restructuring, which requires two to three years to reach financial balance. This strategy will radically change the organizational structure of the company, its programming strategy as well as the competition with the private operators.

Evolving Scenario The focus is on creating a modern public service, adapted to future demands, through the constitution of a business group with predominantly public funds, which is able to compete with the segments in the world market, with strategic partners at a technological and contents level. This last scenario entails RTP's constitution as a holding, in line with experiences of other European public operators in countries such as the United Kingdom, Italy, or France.

The public awareness that RTP had its future compromised was something analysts had been predicting for quite some time. On the other hand, being under State control, any decision to be taken would be conditioned by the political agenda.

A Light at the End of the Tunnel: A New Law and a New Grant Contract

Following years of controversial discussions and against a widespread skepticism on RTP's ability to recover, the XV Constitutional Government released the "New Options for Audiovisual" package in December 2002. The mission and goals to be pursued by the PSB were set out in the new television law n° 33/2003 of August 22nd, together with a new grant contract. The new governmental strategy resulted from an analysis of RTP's financial situation and took on board suggestions made by an independent working group, which roughly reflected both the radical and evolving scenarios described above. On the one hand, ambitious goals were defined for the restructuring and financial uplift of the company. Key measures included a substantial reduction of organizational costs (110 million euros a year), restructuring of participated companies, financial consolidation and Balance drainage. On the other hand, the new grant contract clarified RTP's obligations at public service level. With regard to the model for television public funding, the law set out:

1. The State ensures the funding of the broadcasting and television public service, in terms established in the law and the following grant contracts.
2. The funding of the broadcasting's public service is ensured by the collection of the audiovisuals' contribution.
3. The funding of the television's public service is ensured by compensatory indemnities and by the revenues from the contribution for the audiovisual that is not used in the terms of the number above.
4. The operator's advertising revenues explored in the general grant of the public service are to be for the payment of the consolidated debt and after that, to new investments, but not usable for the present exploitation.
5. Together with what is written on the 1st article, the expenses of the broadcasting and television's public service funding are predicted in a multi annual horizon, with the duration of four years, to allow an adequate and efficient management of resources, according to the predictable evolution of the social and economic conjuncture.
6. The prediction referred above should identify, more than just the total costs for a four year period, the yearly part of those costs.

The big news was the introduction of a contribution tax to be forwarded to the PBS, a completely new revenue stream. On the other hand, the State made a financial commitment, by presenting the compensatory indemnities as a primary source of RTP's funding, and by creating a contractual financial warranty derived from the State's budget. In the new law, the partnership model also changed through the

creation of a holding that puts together Radio and Television in Portugal and will manage four operational areas: RTP, RDP, RPT-Meios de Produção and MediaParque.

According to Almerindo Marques, president of the Administration Board at RTP:

The employees have had a safe job for two years now. Two or three years ago this company was about to be closed. And they are in a truly improved building when compared to the previous conditions. Also they have achieved safe and rigorous work relations, because when we got here there were about 300 disciplinary problems between company employees. This number decreased to less than 50%. There was also a resolution of the precarious contracts, the short term contracts that to that form only had a name and the receipts. It is true that, for a long time, employees didn't get a salary increase, i.e. participated in the demanded sacrifices. But they achieved a Collective Work Agreement: (...) more than 50% of the employees have already access to this agreement. Our commitment, which is described in the plan for the financial restructure, is to achieve a balancing point of the present exploitation till 2005 (*Público*, May 2nd, 2005, p.38).

Subsequently, at the end of 2003 light could already be seen at the end of the tunnel and the effects of the new strategy: business was growing. According to Dal Zotto (2005:223), "A business grows when: (1) sales revenues increase, which means that more products are manufactured; (2) quality is improved and therefore an increased unit price is justified; (3) the product range is increased; (4) the products functionality and features are improved; and (5) a combination of these factors occurs".

Restructuring the Company and Re-Establishing the Brand

Business Restructuring and Internal Reforms The defined strategy for the new RTP, SGPS, is based on three milestones: 1) the transformation of RTP into a modern company, with clear business goals and a future-oriented strategy; 2) Balanced operational results, with a very clear focus on costs efforts and financial rationalization of the company; and 3) the transformation of RTP into a reference television, through the offer of a true public service focused on the different publics.

The rationalization of RTP's business structure was aimed at focusing the activities of the company around its "core business", with the subsequent liquidation or alienation of several subsidiary companies. In line with this plan, TV Guia as well as the majority shares of Sport TV were sold. RTC (Radiotevisão Comercial), the subsidiary company which had the exclusivity of selling advertising, was dissolved and RTP itself became responsible for the sales. FO&CO and Edipim, two

participated companies for content production, were restructured and merged into a new autonomous unity, RTP-Meios de Produção. The holding SGPS, which includes RTP and RDP, was created to enable the two companies to share resources, maximize synergies and generate economies of scale: this happened mainly through the integration of all administrative and support services, common use of regional and international structures, promotion of mobility and multidiscipline among employees of both companies and joint negotiations with suppliers. In a medium term perspective, a merger between the two companies is thought to be a possibility.

The transformation of RTP into a modern company inevitably required the downsizing of its human resources, with a substantial reduction of staff, a rejuvenation of the board, and a more efficient HR management. Between 2001 and 2003, 800 employees were made redundant (a quarter of the total), mostly through a program of voluntary rescissions of contracts. Overtime was strictly cut and appraisal models were introduced. Moreover, the mainstreaming of pension payments into Caixa Geral de Aposentações (civil servants' social security scheme) allowed significant savings. These two reforms allowed a cost decrease of about 9.2 million euros over two-year period. A reduced cost for the signal emission, due to a Government intervention, forcing a renegotiation of the contract with Portugal Telecom, one of RTP's main creditors, with more favorable terms for the PSB, was also instrumental for RTP's financial improvement.

Some cuts were made at program scheduling level, mostly due to the introduction of a new public service policy that rejects direct competition with private operators in the never-ending search for audience, but also due to the renegotiation of broadcasting rights for sporting events, such as football matches and automobile competitions. Conscious about persisting inefficiencies, the new board members that took charge in July 2002, promoted a series of internal audits aimed at improving working methods and procedures. Debt restructuring (notably the concentration of several loans into an aggregate 800 million euros credit line from Depfta Bank with maturity extended from 3 1/2 to 10 years) led to yearly savings of over 15 million euros in financial costs.

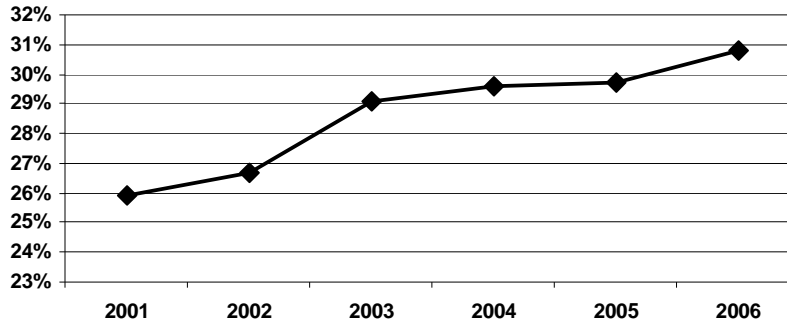
Re-establishment of the Brand and an Increase in Revenue RTP entered the 21st century in a situation of major decline also regarding the Portuguese public preferences. At the beginning of 2000, it was already clear that the public service television was recovering. This depended not only on a profound business renewal, but also on the new image that emerged from the construction of a new public service oriented identity. RTP focused on its commercial nature by looking for what was interesting to the masses, but conditioned its programming policy to the responsibilities of a public service television, as defined in the new grant contract signed in 2003.

As for the strategy to be followed by RTP2, the debate was richer and even more complex. Several voices emerged defending the privatization of the channel, or its pure and simple extinction. This could have helped reviving the fragile Portuguese audiovisual sector by allowing the redirection of ad revenues absorbed by RTP2 to the remaining channels. In contrast, there were warnings about the fact that the impending end of RTP2 would be just the beginning of the end of the public service television. For this reason, the continuity of RTP2 was considered a way to ensure the rights and integration of social minorities. In the end, a political decision of maintaining RTP 2 in the universe of PSB was taken. Several issues remained unanswered: 1) how could the difference between the two public channels be ensured while avoiding cannibalization? 2) How could the two channels be funded by the Government given the public financing restraints in place? 3) What added value could a second State television channel represent to the Portuguese audiovisual scenery and to public service?

The answer to these questions came with the implementation of an innovative concept. RTP 2 was converted into a channel opened-up to the society, through a range of protocols with several entities, in order to enhance the integration of people, notably those with special needs as well as to facilitate their access to knowledge. In light of this change, RTP established a protocol with SIC and TVI which abolished commercial advertising on RTP 2 and reduced the advertising on RTP1 by 20%, to six minutes per hour. Results of these changes started materializing and allowing for some optimism. As costs fell, on the back of rationalized business management practices, audience numbers steadily increased. In 2006, RTP's audience grew for the fifth consecutive year, reaching the leadership of the Portuguese television market for the first time in this century. The consolidated market share for RTP group was 30.8% (of which RTP1 accounted for 24.4%, RTP2 for 5.4% and the rest came from small cable channels, see below), 1.1 percent points up from 2005 and 4.9 percent points up from 2001 (see Figure 7).

Consequently, despite the substantial ad space reduction, publicity revenues grew from 39 million euros in 2002 to 48.1 million euros in 2006, representing an average annual growth of 5.8%. Although this trend was influenced by a slight recovery of the advertising market in 2003 (despite the recessive macro-economic framework), RTP's ad revenues growth rates were consistently above the global market performance, which suggests efficiency gains from the public service television operator. In the context of a diversification strategy, and running in parallel with RTP's new image, two new cable channels were launched in 2005: RTP Memória and RTPN. While the former focused on broadcasting old RTP programming (building on its 50 years of history), the latter followed from the extinct NTV and aimed at being a channel with a stronger proximity to regional realities (taking advantage of RTP's existing regional offices/structures), and a significant focus on news.

Figure 7: Evolution of RTP's Audience Numbers between 2001 and 2006

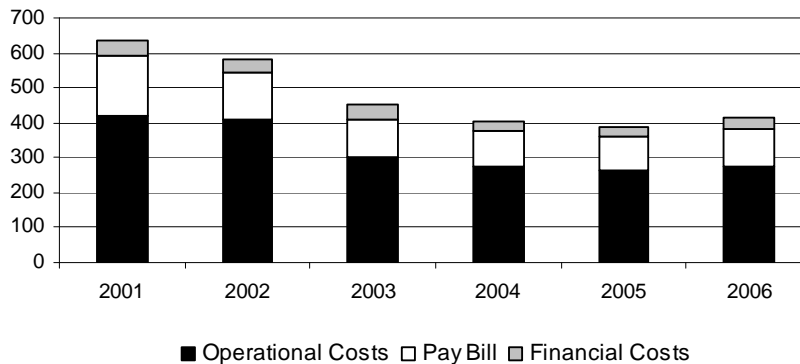


Source: RTP

Results: On Track to Break-Even

In the following charts and tables, we look at the evolution of RTP's key economic and financial indicators, which translate the company's upturn, based on a strict cost control policy and increased revenues.

Figure 8: Evolution of Costs, million Euros



Source: RTP

The recovery strategy implemented by the new board relied heavily on a strong cost contention policy, which focused primarily on the major spending areas, notably personnel. Operational costs decreased from 420 million euros in 2001 to 276 million euros in 2006 (a 34% reduction). Leaving aside programming costs, which roughly account for a third of operational costs, the major contribution came from the Pay Bill (salaries and wages) which decreased some 37%, from 170 million euros in 2001 to 107 million euros in 2006. Financial costs have also decreased from 44.5

million euros in 2001 to 34 million euros in 2006, despite last year's increase, largely due to the rise in interest rates. These achievements were possible because of: 1) A more efficient management of resources thanks to the sharing of infrastructures and administrative services amongst the companies included in the holding; 1) the contract renegotiation with suppliers and the reduction of distribution cost; 3) a human resources downsizing policy, which allows a cut of almost one thousand staff. Hence, in just five years, the company costs had been significantly reduced.

In a recent benchmark disclosed by European Broadcasting Union (EBU), and based on 2005 data, RTP features as the most efficient public service operator in terms of running costs, investing only 9.25 million euros per audience share point, against a European average of 56 million euros. The report also highlights that, between 2001 and 2005, the per capita public services costs in Portugal decreased from 44 to 25 euros per year, turning RTP into the public service operator least expensive to taxpayers in Europe.

In parallel with the cost reduction, RTP also set in motion a strategy to increase revenues. As the quality of the public service improved, audience shares increased, leading to a valuation of ad spaces. As shown in Table 3, operational profits jumped 42% from 205 million euros in 2001 to 292 million euros in 2006. Public funds take the lion share in the company's revenue structure, having reached 224 million years in 2006, of which 124 million euros were due to compensatory indemnities and the remaining 100 million euros to the audiovisual contribution. Looking at commercial revenues, these increased 30% between 2001 and 2006. Advertising revenues increased from 44 million euros in 2001 to 48 million euros, whilst the distribution and multimedia receipts grew even faster, from 1.3 million euros to over 10 million euros in 2001 and 2006 respectively. Data already available for the first half of 2007 seems to confirm this trend, with advertising revenues increasing 14% from the first half of 2006.

Table 3: Revenue Evolution (Values in million Euros)

Analysis Period	Operational Profits	Advertising	Distribution and multimedia
2001	205	44	1
2002	222	39	1
2003	230	49	2
2004	262	50	4
2005	266	48	9
2006	292	48	10

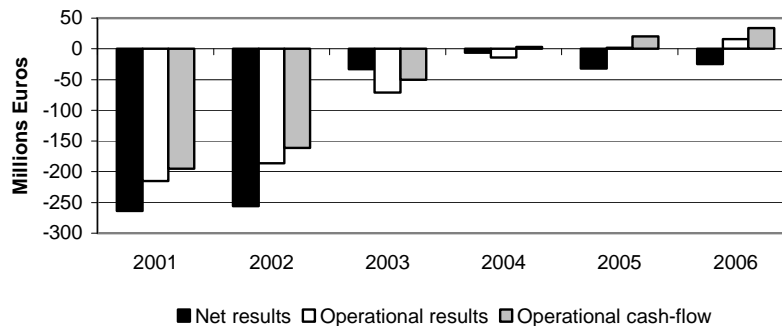
Source: RTP

As mentioned above, the analysis of the revenue structure highlights RTP's significant reliance on public funds, which accounted for 77% of

the overall operational profits in 2006. This has the advantage of artificially protecting the company from less favorable economic conditions, which tend to have a knock-out effect on advertising revenues.

As shown in Figure 9, and as a consequence of the increased revenues and reduced costs, RTP's operational results have been improving steadily in recent years, having registered positive figures in the past two years. Similarly, the company's operational cash flow increased from -195 million euros in 2001 to 34 million euros in 2006. Net results, despite remaining negative, have improved from -264 million euros in 2001 to -25 million euros in 2006, an impressive annual average increase of 18%. RTP's break-even seems much closer now than five years ago).

Figure 9: Evolution of Results



Source: RTP

Public Service with a Private Attitude

Over the past 3 years, RTP has been adapting to a new reality and completely changed its attitude (from passive and reactive to pro-active and market-focused). RTP, SGPS, is currently moving towards “break-even”, registering balanced results, on the back of a cost structure fit to its dimension and a new funding system that transfers the necessary revenues, in a stable and planned way, towards the fulfillment of the public service of the television station. By presenting its new identity, and therefore a new image, as well as by assuming a clear commitment with the public, RTP managed to re-conquer the trust of Portuguese people. This led to a bigger market share and higher ad revenues. In November 2005, RTP ranked second as the most watched TV channel, overpowering SIC. And, as mentioned above, taking the whole group into consideration, RTP reached the leadership last year. The company's administration remains committed to further reducing costs. According to Picard (2002):

Profitability is crucial to all media companies, because it allows them to produce their own financial resources and makes them more attractive to lenders and other capital sources when they require additional funds to support their strategies and activities....Even non-commercial and not-for-profit media need to produce profit that can then be used to develop the content and organizations. If media companies are not able to operate profitably, they fall into a spiral of decline that makes it difficult to sustain their operations and to offer quality content (p. 7).

Costs reduction and the search for profitability have been considered two essential factors for the success of the public television channel strategy. However, RTP has also been focusing on new strategic areas such as multimedia, internet, teletext and SMS. An example of investments in these areas is the creation of MediaParque, a new company based on the infrastructure of the Porto's Production Centre and meant to become a small city around an ICT business. Simultaneously, attention has been devoted to the development of the company website, which reflects not only RTP's new image, but also constitutes an important news platform where interactivity plays a key role.

We can say that the case of RTP dismantles the popular myth that it is impossible for a public television operator to offer a high quality public service and operate in financial balance and as efficiency as private companies are bound to do. For that reason, the management and restructuring process operated within RTP since 2002 represents an interesting case study of innovation and organizational change in the public administration.

IMPLICATIONS

According to Lopes (2002:133) "public television should invest in the offer, not the demand, by promoting the social integration that the commercial channels fail to promote. This integration, essential goal to the public channels, contemplates, in the end, the citizen's valorization". Due to their potential to influence social and cultural life, the social importance of media companies is different from those from other industries. Therefore, the strategy of public media companies, in spite of being focused on the market, should not be based on profit at all costs: corporate strategy should include both business and social values. Moreover, business goals should be understood and shared by the largest possible number of managers and collaborators.

Considering this, we can say that for many years there was a clear absence of a business and innovation-oriented culture in RTP. The lack of a business culture prevented the definition of a corporate strategy in the

form of a mission with clear objectives. And strategies need to be translated into practical actions. The development of an action plan has a major impact in three major domains: 1) the organization; 2) the financing; and 3) the people. Therefore, in order to avoid resistance during the implementation of an action plan, an innovation oriented culture needs to be put in place.

Until the establishment of the commercial television channels, public television was in a comfortable position that allowed it to conceive a programming schedule according to the interests of the people running the television. The main concern at RTP was to have the best TV shows without ever questioning their costs. As soon as competition from private channels kicked-in, the performance of RTP started declining, until the turning point, in 2002. As the analysis of the case shows, RTP has been improving its economic and social performance as well as its relevance in the national television market substantially.

We can therefore say that some of the myths usually associated with the public service of television were also proven wrong. It is a common thought that (a) PSBs are chronically in deficit, (b) reducing resources and budgets of PSBs leads inevitably to a decrease of the service performed, and (c) changing radically a public company and endowing it with an effective management logic takes many years. After the definition of a strategy and the general objectives of the Portuguese State television's public service, real measures to turn the economic and financial situation of RTP rapidly around had to be taken. On the one hand, it was necessary to urgently reduce costs and increase profits. These measures, based on an integrated management strategy, allowed the improvement of RTP's business model in a short period of time. The implementation of effective management logic and a complete recovery of the financial situation, on track to break-even, is a reality. Furthermore, the reverse of the audience trend towards positive figures testifies that the reduction of resources and budgets, through cost-cutting measures, did not have a negative impact on the service offered.

Finally, another important aspect—and a cornerstone of the new management model—was the need to re-position the programs in order to make them more coherent with the mission of improving the public service of information. In that sense, seven important decisions were taken, as we can see in Figure 10.

The description and analysis of the RTP case, allows us to advance important conclusions related to the management of a public media company:

1. To understand and manage any changing process the existence of a strong leadership, which does not have to be authoritarian, is fundamental.
2. The management of public service television is compatible with the implementation of rational management practices similar to the ones applied in the private sector.

3. The resistance to change can be dependent on the perception of the need to change and the involvement of employees in that change.
4. The governments should delegate as many decisions as possible related to the operational management of media companies, though they can—and should—take part of the major strategic definitions.
5. It is possible to offer a television public service which is market oriented and does not pursue disloyal competition towards other private television operators.

From an academic point of view, the analysis of the RTP case shows the importance of a good planning of the changing process, as well as the need to create mechanisms (negotiations) that can dissuade the emergence of internal and external resistance spots. One of the most remarkable aspects of the renewal process within RTP is that there was no significant resistance to change. Nonetheless, despite a considerable downsizing, the changing strategy was successful. This success can be partly explained because it was too obvious that something had to change or the future of the company, and consequently of the employees, would be compromised; on the other hand, the downsizing took place by mutual agreement with the employees and consisted mostly in pension compensations and early retirements.

From the time it took charge, the administration at RTP knew that the restructuring of the company was not an easy mission to fulfill, but the determination and persistence shown during the process has been strengthening the implementation of intervention measures, some of them quite radical. Beyond the importance of the political support to proceed with the restructuring, the experience and competence of the change leader—Almerindo Marques—was essential. With a professional background in the banking sector, he brought the appropriate management know-how which was missing at RTP. Important contributions were also made by other managers in the production, programming, human resources, marketing and sales departments. Together, the new administration succeeded in developing a new management philosophy which 1) underlined the concept of public service by devoting a larger attention to educational and cultural programs, 2) aligned the staff to the new structure and reduced the costs to meet new market conditions, 3) defined a Government policy regarding subsidies which enables the development of a medium term strategy, and 4) captured resources from the advertising market, without generating unfair competition for the private operators. In this sense, we can say that the new administration at RTP has been responding well to some of the major challenges that were set for the recovery of the company.

Figure 10: Content - Bet on Public Service

Re-Orientation of Programmes and Information for Public Service
1. Launch of new programmes and formats within the areas of proprietary content of public service.
2. Cancellation of sensational programmes and with offensive content, and bet on quality entertainment programs.
3. Stabilization of the programme sheets and fulfilment of timetable sheets.
4. Valorisation of information, with the creation of new spaces of TV journalism, and bet on a reference, reliable and exempt information.
5. Creation of special programming lines, with several special broadcasts which permit RTP and RDP to stand out as active operators, with capacity for scheduling the television and radio agenda.
6. Bet on content of national fiscal and documentary.
7. Reformulation of the international aeriels of RTP and RDP (International and Africa).

Source: RTP

Despite efforts and achieved results, the public television still has many challenges ahead. Amongst these challenges are the increasing pace of change in network markets; the increasing convergence and competition across network products, complements, and substitutes; the reduced possibility to engage in monopoly pricing and price discrimination; the shift toward access-based pricing rather than usage-based pricing (Bates & Albright, 2005). Thus, the future of the Portuguese public television operator depends on the way the company is managed in the next few years. If the management philosophy remains based on a more rational attitude—which usually characterizes private media companies—the RTP brand is expected to become stronger and well perceived by citizens. Furthermore, citizens will benefit from a less expensive television and higher quality information.

New Directions for the Future

The successful projects of change should be sponsored by someone with a position tightly connected with the success in change. The leader of a team constructs a justification for the change, sells it, comes up with the necessary resources, sets goals and establishes future actions. This behavior, sometimes almost visionary, almost evangelic—joint with a large determination in destroying the barriers—constitutes the energy source that leads to change. In this context, a good explanation for the change should also be found. The leader has to be prepared to face resistance to this change, which usually comes from managers and intermediate directors, who fear both the lost of their power and the risk

of failure. People at the lower management levels usually react better to change, because they often know how bad a situation was and want to help improving that situation. In the case of RTP, the perception, by the collaborators, that the situation was unsustainable also helped minimizing the resistance to change, though there was some—and there still is.

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