From Phone Hacking to the Splitting of Businesses in Times of Corporate Crisis: The Case of News Corporation

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Abstract

This article analyses the split of the former News Corporation into two new companies within a context of change in the media industry's market dynamics. The aim of this paper is to demonstrate that the phone hacking scandal in the *News of the World*, formerly one of News Corporation's best-selling tabloid newspapers in the United Kingdom, should be interpreted as a problem that Rupert Murdoch managed to address despite the toll that the case had taken on the company. Moreover, rather than a cause of the subsequent split, it should be understood as a means of halting the company's BSkyB takeover bid. This crisis gave the conglomerate the opportunity to make changes to its global strategy by specialising in market niches through two new brands: 21st Century Fox and the new News Corporation.

Keywords: Media conglomerate, News Corporation, Phone hacking, BSkyB, Murdoch, 21st Century Fox

Introduction

Several books were published about News Corporation (also known as "News Corp") in the United Kingdom between 2012 and 2013 following the well-known phone hacking case, which highlighted the illegal methods used by *News of the World* journalists to get hold of information about celebrities, politicians and victims of scabrous events. In all of those books, the authors are steadfast in their claims that the Sunday newspaper scandal has had a negative impact on the recent history of Murdoch's company. For example, John Lisners (2012) maintains that Murdoch's reputation (and his family's) has been seriously affected since the *News of the World* case. In his own words, Lisners considers that "politicians will in future be very careful about getting too close to Rupert Murdoch" (Lisners 2012, 270). On his part, David McKnight asserts that one of the most serious outcomes of the case was the former News Corporation's split into two separate businesses (McKnight 2013, 212). The same theory is espoused in the book *Dial M for Murdoch* (Watson & Hickman 2012), which we consider more interesting. The book's authors go a step further and claim that the phone hacking scandal actually broke the former News Corporation into two (Watson & Hickman 2012, 266).In this article, however, I am going to try to demonstrate that these considerations offer a reductionist view of News Corporation's global dimension. While the importance of the controversy surrounding the *News of the World* case cannot be denied, and which led to the newspaper's closure several weeks later, I would argue that Murdoch's empire and its media influence have not been undermined. Even though Murdoch's company may have suffered some kind of momentary attrition, I consider it crucial to take into account other issues of an economic and entrepreneurial nature in order to establish what actually happened within the company and why the split into two new businesses took place. It should not be forgotten that, while it has a big market share in the United Kingdom, News Corporation's biggest centre of business is the United States and its influence is global (Fitzgerald 2012, 368; Warf 2007, 96-98). The hypothesis will therefore focus on demonstrating that the news controversy that ended in the tabloid's closure was actually a means of halting News Corporation's BSkyB takeover bid, an operation that combined elements of a political and media-business nature in the United Kingdom. One year after these events, and albeit not the only direct consequence of them, News Corporation split into two large areas. Viacom and CBS had set precedents for this in 2006. To understand the full extent of News Corporation's new way of operating in the global market, I have to contextualise the new survival and growth strategies of conglomerates, which, in order to retain their global influence, have sought formulas that offer greater operational and financial flexibility.Taking all of these issues into account, my arguments will be base on the following premises in order to demonstrate my hypothesis:

- Changes in big global groups' market dynamics.
- The organisation of an anti-Murdoch media-business pressure group to prevent a BSkyB monopoly.
- The internal restructuring of News Corporation, with the diversification of the company's growth into sectoral niche markets.

For this article, I have used a qualitative descriptive methodology based on structuralism and interpretative analysis. My interest lies in studying the interrelationships among the various political, economic and business-related elements that came together in News Corporation's crisis situation, which will allow me to demonstrate my hypothesis. Based on an analysis of the data collected from Ofcom documents and from news items published in newspapers such as *The Guardian*, *The Times* and *The Telegraph*, I perform a diagnosis of the causes and consequences of the *News of the World* closure, of News Corporation's withdrawal of its BSkyB takeover bid, and of its subsequent split into two large businesses that have enabled it to continue exerting a global influence. This case study is preceded by a theoretical framework that, in addition, explains the context and the shift towards media group concentration.

Changes in big global groups' market dynamics

The concentration processes of the late 1990s gave rise to big media groups that intended to grow in all sectors, combining traditional media with telecommunications and information technologies. The new companies, which were also the outcome of profound deregulation (Napoli 2011, 73-85), emerged in the United States and Europe, although their influence became global (Bagdikian 2004, 27-30). It was during this period when the term ‘conglomerate’ was coined to describe the model to be adopted, which was based not only on the size of the company, but also on the businesses that formed part of it. According to Scott Fitzgerald: Corporations, such as the newly formed Time Warner, claimed that their global competitiveness was not merely the result of their size but more importantly their structure. Their strategy of integration proceeded horizontally across a diverse range of media products, including cultural hardware and software, and vertically, oriented toward gaining control of the central points of the production, distribution, and exchange processes through various proprietary relationships (Fitzgerald 2012, 24-25).However, just a few years later, the dynamics of creating media giants had failed. Citing *Daily Variety*, Scott Fitzgerald also refers to “willful myopia” (Fitzgerald 2012, 29) and the analysis that experts like Jaemin Jung and Sylvia Chan-Olmsted had performed in order to explain why the big conglomerates’ plans had failed: “‘excessive’ product and international diversification may enhance cash flow or large enterprises, but it may harm performance in terms of managerial efficiency (return on assets, return on sales, and so forth), profitability, and investors’ valuation (measured in earnings per share)” (Jung and Chan-Olmsted 2010, 29).

For their part, Castulus Kolo and Patrick Vogt conducted a study in 2003 on a total of 178 media companies with a turnover of more than US$1 million. The aim was to analyse interdependence among variables of size, diversification and profitability to establish whether the first two had an impact on the last. The conclusions drawn from the study highlighted that the potential effects of a company’s growth in relation to its size could be cancelled out owing to the complexity of the process, the adaptations that would need to be made and the fixed costs it would have. Those authors consider that an increase in size is likewise cancelled out by the emergence of additional costs in relation to its diversification, since using assets from one company in another in order to reduce costs is ultimately something theoretical that only generates costs in practice (Castulus & Vogt 2003, 257).At the beginning of the new century, there was talk of six media giants, among which were AOL-Time Warner, Vivendi, Walt Disney Corporation, Bertelsmann, Viacom-CBS and News Corporation. When referring to this compact group of conglomerates, Crispin Miller said that the “Leviathan itself keeps getting bigger, louder, brighter, forever taking up more time and space, in every street, in countless homes, in every other head” (cited by Bibby 2003, 7). However, in a few short years, the negative effects of economies of scale in the media industry became apparent, and the main conglomerates were soon forced to adopt new market strategies to enable them to continue existing without losing their global power. Compared to the big mergers and acquisitions that took place at the end of the 1990s, companies have since decided to undergo restructuring and split-off operations. In doing so, there has also been a fundamental need for them to rethink their traditional business models in light of the changes brought about by digitalisation and new distribution platforms

(Aris & Bughin 2009, 5). In this respect, conglomerates like Disney had to invest in internal changes connected with the technological aspects of their content in order to start competing on a global scale again. In other cases, like that of AOL-Time Warner, the macro merger announced as the "'transformative' arrival of a new 21st century corporate media model" (Fitzgerald 2012, 238) had to be dissolved because of AOL's losses at a time of Internet market transformation. For its part, Viacom-CBS also decided to split its businesses due to "little economies of synergy" in the words of Arsenault and Castells: Viacom actually emerged out of CBS in 1973 when CBS was forced to spin off its TV syndication unit under new FCC regulations forbidding US TV networks to own TV syndication units. In 2000, Viacom, which in the interim became the more successful Company, purchased its parent Company CBS for $22 billion in what was then the largest media merger to date. However, five years later, Viacom and CBS de-merged, finding little economies of synergy between the two companies. After the split, CBS retained the majority of the content delivery platforms (e.g., the CBS Network, CBS Radio, and the CW) while Viacom retained the majority of the content creation properties (e.g., Paramount Studios and the MTV family of networks). National Amusements, one of the United States oldest and largest movie theatre chain companies and family company of Sumner Redstone, retains controlling interest in both companies (Arsenault & Castells 2008, 721).In an earlier article, I analysed how the main solutions to internal crises had marked the end of heady growth but not of the conglomerate concept. In fact, the changes made by these companies at that time actually perpetuated the oligopolistic situation of the media market (Hardy 2008, 199; McChesney 2004, 187-189; McChesney 2001). Thus, in 2014, the list of big media companies is more or less the same as it was at the start of the decade, and it includes those that, after carrying out their respective restructuring operations, have managed to retain leading positions in the global ranking. According to *Forbes* data ("Global 2000" 2014), the American company Comcast ranked first, followed by Disney, 21st Century Fox, Time Warner and Time Warner Cable. Ranked sixth was Direct TV, followed by WWP, CBS, Viacom and DISH Network.From the following table, it is possible to see that there have not been any substantial changes in global media dominance, and that the imperative for vertical/horizontal growth through cumulative acquisitions and mergers has disappeared:

Ranking of the top 10 global media companies

2014	TYPE OF BUSINESS
Comcast (USA)	Cable, television, filmed entertainment and theme parks
Walt Disney (USA)	Media, parks and resorts, film studios, consumer products and interactive media
21st Century Fox	Cable programming, filmed entertainment, television and satellite

(USA)	television
Time Warner (USA)	Television networks, filmed entertainment and publishing
Time Warner Cable (USA)	Cable services
Direct TV (USA)	Digital television and multichannel programming
WWP (UK)	Advertising, media investment management, consumer insight and public relations
CBS (USA)	Entertainment, cable networks, publishing, local broadcasting and advertising spaces
Viacom (USA)	Media networks and filmed entertainment
Dish Network (USA)	Satellite television (technology), wireless spectrum and Blockbuster (on demand)

Source: *Forbes* and own elaboration, 2014

In short, it can be asserted that the changes in big media companies have happened as a result of the negative effects caused by excessive mergers and of the need to face up to technological innovations. After the years of growth, there is now a new stage of neoliberal media globalisation in which the conglomerates have curbed their aggressive expansion in order to concentrate on sustained internal growth. In this respect, the split of the former News Corporation into two companies in summer 2013 should be viewed as an attempt to "reorganise its business models to gain greater control and profitability" (Fitzgerald 2009, 400). In addition, it is about adapting to a new stage within the media market, which some authors have called the "de-convergence" process:In the midst of the failure of the mergers, several major communication companies have pursued de-convergence in order to regain profits, revenues, and shareholders' confidence. The de-convergence model has appeared in several ways – sales of profit-losing companies, and/or spin-off/split-off for instance, but in many cases they are not mutually exclusive. In fact, several major media corporations have rapidly changed their strategies, from convergence to de-convergence. Although some of them are still interested in vertical and horizontal integration, many of them are seeking de-convergence (Jin 2012, 767-768).In the long shadow of phone hacking, splitting the company into 21st Century Fox and News Corporation was a way of focusing its market interests on certain areas. However, the *News of the World* scandal should also be studied as part of the company's restructuring strategy, although it is worth noting that the controversy – which had a major impact on public opinion – was above all an attempt to constrain Murdoch's media and political power in the United Kingdom in light of his attempt to gain full control over BSkyB, the country's biggest satellite pay-TV broadcaster.

The News of the World scandal and its impact on BSkyB: The anti-Murdoch lobby

In November 2010, News Corporation informed the European Commission of its intention to gain full control over BSkyB, a company in which it had a 39% shareholding at that time. After that announcement, the then Secretary of State for Culture, Olympics, Media and Sport, Jeremy Hunt, issued a request for Ofcom, the communications regulator in the United Kingdom, to issue a report about the effects that the operation would have on pluralism. Ofcom decided to launch a public consultation about the matter in order to guarantee the functioning of "a healthy and informed democratic society" (Ofcom 2010a, 1). In total, the regulator received replies from:

- 20 professional and commercial organisations (including News Corporation and Sky).
- 8 researchers and scholars.
- Nearly 60,000 people, either individually or through online campaigns.

Ofcom also drew on the respective legal framework and case law, taking the public interest as its main principle from a two-pronged perspective:

- The 'static' effects of the proposed acquisition – on plurality immediately after the transaction in terms of range and number of persons controlling media enterprises including their ability to influence opinions; and
- The 'dynamic' effects of the proposed acquisition – issues that may arise over time, within a forward view of how plurality may develop (Ofcom 2010b, 5).

In a 156-page report, Ofcom analysed external plurality, internal plurality, diversity of content and audiences, as well as the importance of developing the audiovisual market in the United Kingdom. Based on these data, the regulator provided the following table about the degree of influence exerted by the country's media groups:

Proportion (%) of news minutes consumed per head/per day by platform and provider

	Papers1	**TV2**	**Radio3**	**Online4**	**Total**
Sky (including radio)	0.0	2.4	6.7	0.0	9.1
Five	0.0	0.7	0.0	0.0	0.7
News Corp	13.8	0.0	0.0	0.1	13.9
News Corp / Sky	**13.8**	**3.1**	**6.7**	**0.1**	**23.7**
BBC	**0.0**	**24.9**	**18.3**	**0.3**	**43.5**

ITV 1	0.0	4.8	0.0	0.0	4.8
Channel 4	0.0	1.1	0.0	0.0	1.1
ITN (ITV1 + C4)	**0.0**	**5.9**	**0.0**	**0.0**	**5.9**
DMGT	9.2	0.0	0.0	0.2	9.4
Trinity Mirror	4.8	0.0	0.0	0.0	4.8
Telegraph Media Group	4.2	0.0	0.0	0.1	4.2
Northern & Shell	4.1	0.0	0.0	0.0	4.1
Guardian Media Group	2.6	0.0	0.0	0.1	2.7
Lebedev Foundation	1.0	0.0	0.0	0.0	1.0
Pearson	0.6	0.0	0.0	0.0	0.6
Total	**40.3**	**33.9**	**25.1**	**0.7**	**100.0**

Source: Ofcom

As can be seen from these data, Ofcom found that News Corporation's influence on public opinion in the United Kingdom was relatively strong, with a proportion of news minutes consumed per head/per day of 23.7%. This was considerably higher than the respective proportions of the other privately owned groups. The BBC's leadership in the audiovisual media domain was undeniable, but the importance of Murdoch's company resided in its presence not only within this sector, but also within the print media sector. Indeed, the readers of its tabloid newspapers accounted for a large percentage of the British electorate. It should be noted that its readers were mostly working class and inclined towards Labour in the economic sphere, although they were just as likely to shift towards the Conservatives on other issues such as nation, race and social order (Tiffen 2012, 22).Ofcom therefore concluded that the former News Corporation's BSkyB takeover bid would be contrary to the public interest since it found that plurality in media group control in the United Kingdom could not be guaranteed. However, the regulator considered that the matter ought to be subject to a second review by the Competition Commission, which was tasked with determining whether the resultant media concentration would really go against the public interest (Ofcom 2010b, 90).In the document produced by Ofcom, it is especially interesting to find that there are also some considerations made by other media companies. For example, *The Guardian* asserted that the operation would lead to the amalgamation of the biggest press group and the biggest television company in the United Kingdom. In addition, it considered that it did not guarantee the principle of pluralism since, by becoming the sole provider of news in the United Kingdom via television, radio, the press and online platforms, it was contrary to the public interest. The BBC's comments were in the same vein. It placed emphasis on the fact that between 3.5 and 5 million people consumed news that came from Murdoch's newspapers or from BSkyB, and it considered that this had a major impact on plurality. The BBC also expressed its concern over the possibility of News Corporation having authority to appoint and dismiss Sky News directors and making the editorial aspect subject to the dictates of its dominant shareholder. The Trinity Mirror group's comments were along similar lines, and it even asserted that there was a well-documented culture of interference by News Corporation's owner in the editorial line of its media, which could diminish pluralism. It therefore considered that there would be a decline in the number of news providers and in the diversity of voice.One month before the Ofcom report was released, *The Guardian* published a news item (2010) in which it asserted that the BSkyB Board had also sent a report to that organisation, in which it had expressed that it was against Murdoch's offer because it could threaten the future of Sky News and jeopardise plurality. In the same news item, *The Guardian* also referred to the creation of an alliance of competing groups, among which were Channel 4, British Telecom, the *Daily Mail* and the Guardian Media Group itself. All of them called upon the Secretary of State for Business, Innovation and Skills, Vince Cable, to ban the operation. In general, all of the contributions that Ofcom received in response to the public consultation were against News Corporation taking over BSkyB. On grounds of plurality, there were also a number of business reasons put forward by the groups that were manifestly against the takeover. For example, they considered that the operation might give News Corporation a dominant position in the media market in the United Kingdom. In order to understand the fears of the media class a little better, analyst Dan Sabbagh explained, in an op-ed, the advantages that News Corporation would obtain in terms of self-promoting and exploiting the mutual support from its main newspapers and from its control of BSkyB, otherwise known as 'bundling':What the newspaper groups fear is that News Corp could use its extra wealth to cross-promote television and newspapers, a simple concept known in the media industry as "bundling". Lord Puttnam, the filmmaker who is now deputy chairman of Channel 4, says: "Not only could it be possible for Sky subscribers to be offered print copies of *The Sun* or *The Times* cheaply – but there is the scope for massive discounts on electronic services that you or I haven't even thought of (Sabbagh 2010a).

In the months following the announcement of the operation, a media war broke out in the United Kingdom, with claims and counterclaims being fired back and forth between News Corporation media and other opposing media. The latter considered that the British Prime Minister, David Cameron, might be inclined to approve the agreement given his closeness to Rupert Murdoch, yet they also noted that such approval would almost certainly lead to cracks in the coalition government (Sabbagh 2010b). The case had political implications because the Conservatives' victory was partly due to the influence that newspapers like *The Sun* or *The Times* had had on British public opinion. Relationships between Murdoch and the political class, in both the United Kingdom and the United States, were a personal hallmark of the mogul (Tiffen 2012, 22; D'Arma 2011, 671). Hence, evidence of these close relationships soon made it into News Corporation's own media. This was made clear in the following editorial published in *The Time*s, which attacked the anti-Murdoch media lobby led by Mark Thompson, the then Director-General of the BBC:By lending his name to the campaign to prevent News Corp from purchasing those Sky shares that it does not already own, Mr Thompson has made a serious and surprising error. He has embroiled his taxpayer-funded organisation in a political and commercial battle that it should have nothing to do with […] The BBC has shown the force of the political pressure – party politics, media politics, BBC politics – that will bear upon Vince Cable… as he makes his judgment on News Corp's offer. *The Times* does not pretend to be able to judge this matter objectively. It simply expects that Dr Cable will do so, guided by the law rather than pressure group politics (*The Times* 2010).A day after *The Times* editorial, it was Kelvin MacKenzie, the editor of *The Sun,* who attacked all the other firms that opposed the operation, and described them as collaborators in a conspiracy to prevent News Corporation from injecting capital into Sky. According to MacKenzie, there was no reason for Vince Cable not to give the green light to the operation, since the issue was not "how to stop Mr Murdoch investing in Britain but how to encourage him" (*The Sun* 2010, cited by *The Guardian* 2010).Despite all the controversy, in March 2011, Jeremy Hunt announced the government's intention to approve the operation, although, in order to do so, Sky News would have to become a business unit independent from News Corporation. Thus, Murdoch's company would retain its 39.1% share of the news channel, but would not be able to increase that percentage for 10 years unless the Secretary of State gave permission to do so. In addition, in order to guarantee the editorial independence of Sky News, its Board would have to be formed by a majority of independent directors (*The Telegraph* 2011). A few months later, on 30 June, Cameron's government finally announced that it would approve the operation with Ofcom's consent. Jeremy Hunt then explained that the government had given the green light to the agreement because of the significant changes that had been made throughout the whole process. Jeremy Hunt was basically referring to the fact that plurality seemed to have been assured through Sky News' independence and Rupert Murdoch's promise not to interfere in it. Even though the phone hacking issue was floating around in the news atmosphere, the Secretary of State did not accept that it was a matter for consideration in the case (Watson & Hickman 2012, 168-169). Four days later, the scandal exploded and public opinion in the United Kingdom was shocked by the illegal spying practices carried out on journalists, politicians and police officers.Although the phone hacking issue had been bubbling under the surface for years, it was significant that it came to the public's attention shortly after the government had approved the News Corporation operation. It is also important to point out that it was *The Guardian*, one of the media against the agreement that revealed it on 4 July.In the history of British tabloids, there are many references to scandals that have tainted politicians, members of the royal family and anonymous individuals involved in scabrous events or stories. Some authors claim that the sensationalist press in the United Kingdom operates like a representation of culture and identity (Conboy 2002, 142). In other words, it could be said that a large percentage of the British population has been heading to the tabloids for many years to find sensationalist, political and sport-related news with a high dose of right-wing populism (McNair 2009, 89). The use of melodramatic narratives (Conboy 2002, 170-174), phone hacking and made-up news (Mullin, 2009: 45-50) are all parts of the popular press's range of resources in the United Kingdom. In fact, prior to this case, some journalists at the *News of the World*, *The Sun* and the *Daily Mirror* had been reported and, in some cases, arrested for using illegal journalistic practices. However, unlike the case in hand, the other media did not follow up these events; public opinion was aware of them, but society as a whole accepted them as part of journalism's dynamics (Fenton 2012, 4). On this occasion, however, the case had a major impact on British public opinion because of a conjunction of several elements. It involved a minor, Milly Dowler, who had gone missing several years earlier. During that time, her family had always hoped to find her alive partly because of the *News of the World*'s manipulation of the teenager's voicemail messages. The story was immediately broadcast by the BBC, which also suggested that there was political responsibility in the case. The story continued the following morning in *The Guardian* and *The Independent*, while Murdoch's newspapers allocated discreet spaces to it in their pages (Watson & Hickman 2012, 174). From then on, the social tide against the events began to swell; civil institutions such as the Press Complaints Commission and Labour politicians became involved and there was a major outcry via social media like Twitter. Surprisingly as a way of stopping "News Corp's wider commercial ambitions" (Watson & Hickman 2012, 179) the campaigning platform Avaaz managed to get 60,000 signatures to halt News Corporation's BSkyB takeover.Tom Watson and Martin Hickman (2012, 178-179) tell us that most of the media, with the exception of News Corporation's, did a feature on the events. On television, Channel 4 and particularly the BBC spoke about police corruption and, on the daily Newsnight programme, Paul McMullan, a former *News of the World* executive, began to appear almost continuously to confirm that phone hacking was a common resource used in journalistic practices.Among the dailies, it was undeniably *The Guardian* that did the lengthiest follow-up. For over a week, the headlines on the front page were about the phone hacking issue, while several pages were given over to explicit comment about the political implications of it, and how the case inevitably affected the BSkyB bid. In news items on the inside, on 6 July, *The Guardian* suggested that the scandal would jeopardise the culmination of the operation (*The Guardian* 6 July 2011, 4). A couple of days later, the newspaper also considered that the announcement of *News of the World*'s closure was actually a sacrifice that Murdoch's company had to make to rescue the agreement on the digital platform (*The Guardian* 8 July 2011, 2). At the same time, it referred to the fall in value of the company's shares due to investors' fears (*The Guardian* 8 July 2011, 10).Media pressure soon gave rise to political implications and, as a result, on 12 July 2011, the British government submitted the BSkyB takeover bid to the Competition Commission. This action meant that no decision needed to be taken for at least six months, and it also "left the culture secretary, Jeremy Hunt, free to pass on responsibility for deciding on the deal at a time of acute political pressure" (*The Guardian* 12 July 2011, 4).The way out of this tricky situation finally arrived on 14 July. After more than 10 days of intense campaigning on the phone hacking issue by the opposing media, and with public opinion very much against News Corporation's interests and a political class distanced from Murdoch, the mogul finally decided to withdraw the BSkyB takeover bid. On Thursday 14 July, *The Guardian* conclusively published the headline "Let's call the whole thing off" on its front page, which was accompanied by the sub-headlines "Murdoch surrenders BSkyB bid after outcry over phone hacking" and "Cameron says tycoon must give evidence at enquiry into scandal". The anti-Murdoch lobby in the United Kingdom had managed to halt the operation, thereby preventing News Corporation from securing the dominant position it would otherwise have had in the country's media market.

The split into two new companies

After the phone hacking scandal, Rupert Murdoch, his son and some *News of the World* journalist had to give evidence at the Leveson Inquiry for the purposes of public accountability. The mogul's intervention was based on denying that he had any knowledge of what had been going on, and of rejecting that his media were being used for political purposes (Watson & Hickman 2012, 268). Those same authors noted that while the scandal had almost certainly taken its toll on the company, Rupert Murdoch was still an important businessman with direct connections in the power of the state (Watson & Hickman 2012, 279).It is in this respect that I consider the *News of the World* case to be a major setback for News Corporation in the United Kingdom. Three years on, however, it is necessary to ask whether the repercussions of it actually represented a threat to the global company. As subsequent events have shown, I consider that News Corporation has managed to retain its position as one of the big global conglomerates, even though its business strategy may have changed somewhat since then. Thus, the crisis that News Corporation experienced was ultimately internalised as an opportunity to transform itself at a time when, as noted in the first part of this article, the media market's dynamics had changed. I agree with Valackiene and Virbickaite, who assert that while a crisis within a company may be dangerous, it offers the opportunity to become even stronger (Valackiene and Virbickaite

2011, 319). Those same authors note that when a crisis occurs, it is essential to create a new strategy in order to survive in the market (2011, 327).Hence, bearing in mind the change in the media industry's dynamics and the need to overcome the crisis triggered by the *News of the World* case, in 2012, Murdoch's company announced its intention to split into two large business areas. The operation was eventually carried out in summer 2013, with the emergence of the new companies: News Corporation and 21st Century Fox.The first of these two, News Corporation, which retained the name of the original company while changing the design somewhat, inherited the entire print media part. The new entity's Executive Chairman is Rupert Murdoch, and its Non-Executive Co-Chairman is his son, Lachlan Murdoch. Another son of his is also on the Board of Directors: James Murdoch. According to the 2014 Annual Report, the new News Corporation's operations are divided into six reporting segments:

News and Information Services: It includes all of the company's press publications distributed mainly in the United States, the United Kingdom and Australia. Its traditional newspapers are *The Sun* and *The Times*, as well as other big ones like *The Wall Street Journal* and *The Australian*.

- Cable Network Programming: It mainly includes Fox Sports Australia, with seven television channels distributed via cable, satellite and IP.
- Digital Real Estate Services: The company owns 61.6% of REA Group Limited, a digital advertising business specialising in real estate services, operating market-leading websites in Australia and Italy, and other property sites in Asia and Europe.
- Book Publishing: With HarperCollins as the English-language global publishing brand.
- Digital Education: It includes Amplify, the company that designs digital products and services for teachers and students, serving 50 states.

Other: It includes general corporate overhead expenses and the Creative Group. Oddly, this segment includes costs related to illegal hacking and inappropriate payments by the now-defunct *News of the World*.Indeed, another part of the 2014 Annual Report also refers to the risks that the company faces. Specifically, News Corporation expresses its concerns about the adverse effects that the phone hacking issue could have on its reputation and financial conditions, but it identifies the problem and is prepared to make provision for the necessary funds to meet any potential claims and actions brought against it (Annual Report 2014, 31). Particularly striking in this respect is that, as part of the separation agreement, 21st Century Fox will indemnify payments arising out of civil claims. Despite the fact that it acknowledges that the issue may damage the company's prestige, the report refers to it simply as one of several risks that the company faces in terms of the development of its businesses. The phone hacking issue is seen as a past event, which, rather than being hidden, is responded to in a defensive manner, based on the changes that have taken and will continue taking place. Fulfilling the basic principles of a company in times of crisis, News Corporation adopts a philosophy of change as a way of growing, as noted by Valackiene and Virbickaite:The changes in a company can become the essential point to seek for the leader's position in the market because the results are closely related to the success of changes. Companies are often faced with radical changes, so it is very important to understand the essence of them. Management of changes solves the problems of business management related to falling rates and inefficiency of company performance as well as it stops the growth of crisis situation and helps avoid the crisis itself (Valackiene and Virbickaite 2011, 320).Thus, News Corporation seems determined to carry on in the print sector, though its directors make their commitment to digital transformation very clear (News Corp Annual Report 2014). One of the company's first business strategies was to acquire Storyful in December 2013. It is a social media news agency providing filtered and verified content. Several months later, in May 2014, News Corporation expanded its publishing business by acquiring Harlequin in order to increase its presence in the non-English-speaking market. The company's latest moves have also centred on acquiring other types of online business, such as property websites like Move.com in the United States and PropTiger.com in India, which is translated as an attempt to focus part of the company on the emerging digital sector. The second of the two split-off companies, 21st Century Fox focuses on the audiovisual business and includes cable networks, pay TV, production, the film and entertainment business, and satellite platforms. Its scope of action extends to the United States, the United Kingdom, continental Europe, Asia and Latin America (Marketline 2014, 3). This new section of Murdoch's former company has decided to concentrate mainly on the audiovisual media and entertainment business under the Fox brand as the most attractive business asset. Created in June 2013, the company is third in the global ranking of media conglomerates. At the helm of the company is Rupert Murdoch as Chairman and Chief Executive Officer and, on the Board of Directors, we find two of his sons, Lachlan and James, which means that the Murdoch family continues to retain control over one of the world's biggest media businesses, just as it does – as we have already seen – over the new News Corporation. Carrying on with its sustained growth plans in the audiovisual sector, one of the first operations that the new 21st Century Fox announced was the sale of 57% of Sky Deutschland and 100% of Sky Italia to BSkyB. This acquisition should be understood as a way of exploiting internal synergy (Kolo & Vogt 2003, 258), since it is worth recalling that 21st Century Fox actually owns 39% of the platform in the United Kingdom. A satellite television giant has therefore been created in Europe under the BSkyB brand, which aims to compete with Liberty and other technology companies: The merger better positions BSkyB to compete with John Malone, a longtime Murdoch rival who is building Liberty Media into Europe's largest cable television business with control of Virgin Media and a slice of ITV in the UK. It also provides a buttress against the growing distribution might of Apple, Google, Amazon and Netflix, which are using the internet to build multibillion-dollar video businesses (*The Guardian* 2014).As can be seen, it is a matter of business reorganisation in order to retain a dominant position in a market – that of pay TV in Europe in this case. Along similar lines, the option of reaching agreements with other companies is also contemplated in the 21st Century Fox global group strategy. As a result of this aspiration, in autumn 2014, its subsidiary Shine Group entered into a joint venture with the Apollo group, which, in turn, comprises Endemol and Core Media Group, to create a powerful alliance in the television content production sector. However, the most resounding evidence of the ongoing strength of the Murdoch empire, through its attempts to exploit the concept of internal synergies, is undeniably the offer that 21st Century Fox made several months ago to acquire Time Warner. Although 21st Century Fox eventually withdrew the bid, it would have represented the creation of a mega company with a significant position in the American audiovisual market. Some analysts considered that, if it had been formed, the new company would have led the film entertainment sector, and prestigious cable channels like HBO and TNT would have been added to that (Rushe 2014). Furthermore, it would have enabled control over one third of the production of series and increased sports rights, such as those for the National Basketball Association (NBA) league. Together, these would have given it a significant position, "including the power to broker better deals with the cable companies and the new generation of web-based TV services like Netflix and Amazon Prime, and save money on distribution in film" (Rushe 2014). For all of these reasons, most experts considered that the operation made strategic and financial sense. Although it did not eventually take place, future negotiations cannot be ruled out. We can therefore see that the split has produced good results for both resultant businesses, which, moreover, have maintained ties with each other. It is also a telling sign that even the analysts mix up or continue referring to 21st Century Fox as either News Corporation or Murdoch's company, as has happened in the most recent business operations. In other words, despite the fact that the former company was split into two businesses, the umbilical cord between both remains intact; intercommunication between them is also assured by Rupert Murdoch. Moreover, in late 2014, *The Economist* published an article entitled "Sailing through a scandal" which analysed the News Corporation Group's scandal. The latter coincided with our approach in that *The Economist* claimed that "the Murdoch clan's resilience point to an overlooked reality in Business: sometimes a loss can turn into an unexpected win". The article continued to suggest the advantages of the division into two companies subsequent to the phone hacking scandal, which was analysed by the Sandfor C. Berstein research firm, who "reckoned that even after the $500m or so in legal fees and other costs incurred over the phone-hacking scandal, shareholders probably made around $2.6 billion more than if the Murdochs had pursued the BSkyB deal instead.".The positive economic data from the new News Corp. and 21st Century Fox also upholds this approach to the opportune resolving of the Murdoch company's internal crisis. Then, in August 2014, 21st Century Fox declared incomes reaching 8.42 billion dollars as against the 7.2 billion of the previous year. As for News Corporation it earned 8.57 billion dollars in 2014 – somewhat less than its 2013 earnings of 8.89 billion. Taking into account the outlay involved in compensation paid out for the phone hacking scandal, there does not seem to be a serious business setback but rather a temporary situation for the group. In that sense it would seem interesting to point out that both companies continued to make money a year after their separation and with no losses.Despite leading to the *News of the World*'s closure and to the mogul being subject to public scrutiny, the phone hacking scandal therefore seems not to have had any impact on the global dimension of the company, which, while now operating via two apparently distinct businesses, continues exerting a global influence as a whole.

Conclusions

As set out in the presentation of this article, the aim of this study was to demonstrate that the split of News Corporation into two businesses was not simply a consequence of the phone hacking scandal. In reality, the former company's response to the case fell within a context of change in the media industry's dynamics on a global scale. Compared to the big mergers and excessive growth, in recent years it has been shown that media groups prefer internal structures that are more flexible, and that they seek to focus on certain market niches. This new business philosophy has led to the restructuring, resizing and splitting of businesses, which has not, however, undermined their global influence. Under these new circumstances, the split of Murdoch's conglomerate, which has also internalised the case of illegal phone hacking by his *News of the World* newspaper, should be understood as a crisis moment that was necessary for changes to be made so that it could retain its dominant market position. It cannot be denied that the tabloid scandal took its toll on the company's reputation, but I actually understand it more as a means for its competitors to halt News Corporation's BSkyB takeover bid. The account of the events shows that, shortly after David Cameron's government had approved the operation, the case was drawn to the public's attention via the pages of *The Guardian*, one of its main competitors. The controversy eventually became a public and politically important issue, which led to the *News of the World*'s closure. As an immediate effect of Murdoch's poor reputation in the United Kingdom, the mogul also decided to withdraw the bid for the digital platform. While the scandal affected the company at that particular time, it did not undermine its power. In fact, in the months that followed, Rupert Murdoch's businesses entered into a new stage. Instead of operating as a single company, the mogul took advantage of new business trends and the need to make internal changes in response to the crisis, and created two new brands: News Corporation and 21st Century Fox. The first company concentrated on the major print media business in the United States, the United Kingdom and Australia, but it incorporated digital transformation as a sign of the new times. The second company focused on the audiovisual sector, film entertainment and television. While the fundamental scope of action was the United States, it actually had global reach. News Corporation therefore made the most of the internal crisis situation on the one hand, and of new trends in the media market on the other. Even though some people believed that Rupert Murdoch would be facing serious difficulties, the mogul has actually managed to adapt in less easy times, and continues to manage – with an iron fist – a reorganised company that has retained its global dominance in the media industry.

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