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

**SECTOR OVERVIEW**

- The media sector encompasses companies involved in producing, communicating and distributing information and entertainment, as well as entities offering platforms for content distribution. The goods provided by the sector include many kinds of printed, audio, visual and audio-visual content, which are distributed to consumers through a wide range of channels such as the Internet, television, newspapers, magazines, books, video games, film, radio and social networks.

- This sector is changing, reflecting the rise of social media and the increased blurring of the boundaries between the media sector and the advertising, telecommunications and technology sectors. This blurring demonstrates the challenges presented to ‘traditional’ media businesses (newspapers, television, radio) by new communications technologies, the low cost of content generation, and the rise of social media.

**SECTOR TRENDS**

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

- **Free Content but New Revenue Models.** Recognising the threat to their existing business models, many traditional media companies have sought to develop an online presence, whether on their own or in conjunction with technology partners. However, they have struggled to develop profitable online businesses, as an increasing number of consumers now expect to be able to access media anywhere, anytime free of charge. For example, videos can be watched on YouTube, music is distributed through streaming software such as Spotify, and more news is being read online. Despite the free content trend, new revenue models are developing, such as paying for downloaded media applications or extra features within social network games. Media companies are able to benefit from technology by reducing operating costs, and some media outlets have successfully established online pay-services, either directly or through the use of third-party applications. The success of these ventures is often based on the perceived quality of the information provided.

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

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Mobile cellular subscriptions</th>
<th>Fixed telephone lines</th>
<th>Fixed broadband subscriptions</th>
<th>Internet users</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>260 billion</td>
<td>1.3 billion</td>
<td>270 million</td>
<td>1.3 billion</td>
</tr>
<tr>
<td>2001</td>
<td>270 billion</td>
<td>1.4 billion</td>
<td>275 million</td>
<td>1.4 billion</td>
</tr>
<tr>
<td>2002</td>
<td>280 billion</td>
<td>1.5 billion</td>
<td>280 million</td>
<td>1.5 billion</td>
</tr>
<tr>
<td>2003</td>
<td>290 billion</td>
<td>1.6 billion</td>
<td>285 million</td>
<td>1.6 billion</td>
</tr>
<tr>
<td>2004</td>
<td>300 billion</td>
<td>1.7 billion</td>
<td>290 million</td>
<td>1.7 billion</td>
</tr>
<tr>
<td>2005</td>
<td>310 billion</td>
<td>1.8 billion</td>
<td>295 million</td>
<td>1.8 billion</td>
</tr>
<tr>
<td>2006</td>
<td>320 billion</td>
<td>1.9 billion</td>
<td>300 million</td>
<td>1.9 billion</td>
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<tr>
<td>2007</td>
<td>330 billion</td>
<td>2.0 billion</td>
<td>305 million</td>
<td>2.0 billion</td>
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<tr>
<td>2008</td>
<td>340 billion</td>
<td>2.1 billion</td>
<td>310 million</td>
<td>2.1 billion</td>
</tr>
<tr>
<td>2009</td>
<td>350 billion</td>
<td>2.2 billion</td>
<td>315 million</td>
<td>2.2 billion</td>
</tr>
<tr>
<td>2010</td>
<td>360 billion</td>
<td>2.3 billion</td>
<td>320 million</td>
<td>2.3 billion</td>
</tr>
</tbody>
</table>

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

- **Newspapers / Television / Internet**

Companies in the media sector tend to be involved in a whole variety of activities, including content generation, content distribution, advertising and marketing, technology development, and social networking. This variety limits investors’ ability to analyse the investment implications of environmental, social and governance (ESG) issues for the sector as a whole, or even for subsectors. Instead, investors must consider the business implications of ESG issues at the individual company level.

This table, which has been developed based on a series of detailed discussions with corporate responsibility managers within the sector as well as relevant stakeholders, presents the ESG issues that are most commonly cited as being relevant to the sector. For each of these issues, the table provides examples of how they may impact on companies. It is important to stress that the inclusion of these issues in this table is not intended as a comment on whether these issues are financial material or not for individual companies, or even whether the business impacts are positive or negative.

**ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES**

- The blurring of the boundaries between news, PR and entertainment may result in news and information providers producing material that does not meet the criteria of independence, impartiality, integrity, reliability and credibility.
- The principle of freedom of expression suggests that there should be unrestricted and unencumbered inclusion of views and opinions in media output, media companies face practical limitations.
- Balancing trade-offs. For example, does freedom of expression justify the publication of inappropriate content? How can freedom of expression be reconciled with other human rights (e.g. children’s rights)? How can freedom of expression be reconciled with social and cultural norms in particular societies?
- Complying with regulations in individual countries. For example, internet censorship affects both companies hosting media platforms such as blogging sites or video hosting (as they may be asked to deploy country-specific filters or deactivate accounts), and content providers (who may not be permitted to create, store or transfer content). In 2011, the Open Net Initiative reported network filtering by governments in over 40 countries.
- Commercial pressures to adopt a particular editorial line. While the implications of national regulation for freedom of expression are well recognised, there are a range of other, frequently hidden, pressures for media companies to self-censor. These may include peer pressure, the desire not to offend particular clients or advertisers.
- The production of news content raises serious ethical issues, many of which have come to the fore in the recent controversies around Wikileaks and around phone hacking in the UK. These include:
  - The question of the identity of anonymous sources. This is a basic principle for journalists and is underpinned by legislation in several countries. The removal of this protection would undermine the willingness of many whistle-blowers to report wrongdoing.
  - In turn, a lack of the right of anonymity and potential wrongdoing (e.g. when information is confidential or unlawfully obtained). The rights of individuals to a private life, a principle that was clearly ignored in the phone-hacking scandal and, more generally, in the media harassment of many celebrities.
  - The impact of the issues on the way in which information is protected. For example, some online media platforms have been acquired by online service providers (e.g. YouTube by Google), raising concerns that the personal information on these platforms may be used for purposes other than those originally intended.
  - The question of government requests to hand over private customer data. That is, how are tensions between individual civil liberties and national issues such as security, trade and defence to be managed? The companies may be required to make up-front investments in information technology to meet the requirements.
  - The media sector accounted for 1.7% of global greenhouse gas emissions and 3.2% of global electricity use in 2002.4 Companies in the sector can have an important influence on the public’s awareness of, and opinions on, environmental and social issues, and, through advertising, on purchasing decisions and consumption patterns.

**KEY CHALLENGES**

- If an information or news provider is not perceived as trustworthy, it may lose customers to other providers or it may find itself subject to regulatory scrutiny. Reductions in the number of advertising followers may, in turn, jeopardise the company’s ability to attract advertisers.
- News and information providers can enhance their trustworthiness by:
  - Taking measures to ensure the quality of the information that they are spread.
  - Clearly delineating between facts and opinions, and between exclusive content and content that is available through other providers.

**BUSINESS RISKS & OPPORTUNITIES**

- Being responsive to the ability to protect their content and customers, data and systems from outside interference and unauthorized personnel.
- Privacy refers to the ability to protect individuals’ personal and social information and confidentiality. The media sector faces a series of complex and interrelated issues around security and privacy, including:
  - The rights of individuals’ personal data and information is properly protected? In perhaps the most high profile case, private photographs of Facebook founder Mark Zuckerberg and revealing personal information, has been used for purposes other than those originally intended.
  - The need to respond to government requests to hand over private customer data. That is, how are tensions between individual civil liberties and national issues such as security, trade and defence to be managed? The companies may be required to make up-front investments in information technology to meet the requirements.
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- Social networking and user-generated content sites create a plethora of risks, as software developers and media companies may end up distributing unlicensed copyrighted content, with the consequent risks of litigation for breaches of intellectual property (IP) law. For example, the wrangles surrounding music exchange have generated extensive copyright claims not only over Napster’s music download service.
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- Media companies should seek to offer balanced content that ensures a fair and accurate representation of views. Media companies can play a valuable role in broadening the content that is available through, for example, catering to the interests of minority groups and offering content that is not available elsewhere.
- The provision of diverse content may result in an increase in customers by providing information and material that is not available elsewhere. Offering diverse content may also enable media companies to have better relationships with regulators and other important stakeholders by enabling them to demonstrate that they are socially responsible, that they deliver on their public service obligations, and that they can be relied on to self-regulate.
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- Increasing content diversity may result in increased costs and may have the effect of weakening the company’s brand or even alienating some of its existing customers (who may not be interested in accessing new or unfamiliar content).

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1. BHFW
2. BFW
3. BFW
4. BFW
Alma Media: A Sustainable Media Project

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

Reed Elsevier: Improving Access to Information and Providing Universal Content

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

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4. Smartphone shipments (as a percentage of total mobile phone shipments) are reported to have exceed 50% in both North America and Europe in 2010. Mary Meeker, “Internet Trends,” Kleiner Perkins, Caufield & Byers, 2011. www.kpcb.com/internettrends.

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This sector report has been compiled by:

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