

# The Art of Mega-Deals: Rupert Murdoch and Pragmatic Foresight

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“What Murdoch offers – what Murdoch is offering here to you now – is a piece of the future. The man before you has this uncanny ability to make the future happen, in a way that almost no one in the world can. It is a future of ideas and visions that makes Murdoch almost irresistible to anyone with a spark of imagination . . . Murdoch in your face at Force Ten still takes your breath away, with his tantalizing, attainable view of a possible future. This is Murdoch in full seductive mode.” (Chenoweth, 2001: 132).

## Pragmatic Foresight as Strategic Architecture

Rupert Murdoch’s transformation from Adelaide newspaper proprietor to international media magnate is a case-study in how pragmatic foresight can be successfully applied in today’s global risk society. Two recent books provide a glimpse of Murdoch’s deal-making and existential challenges. The extensive interviews with the Murdoch clan in Wendy Rohm’s *Murdoch Mission* (2002) represents the ‘authorized’ version: a book-length ‘position audit’ of News Limited’s deals-in-progress (Gemstar and Sky Global), new markets (China and India) and succession planning issues. Neil Chenoweth’s *Virtual Murdoch* (2001) represents the ‘unauthorized’ version: an astute non-linear investigation into Murdoch’s feuds with other media icons, negotiation tactics and corporate near-collapses. Chenoweth and Rohm’s sometimes-conflicting accounts reveal why pragmatic foresight becomes a necessary strategic architecture in a media landscape where Merger & Acquisition deals are driven by ‘disruptive’ new technologies (Rohm, 2002: 106) and where ‘virtual’ appearances are everything (Chenoweth, 2001: 337).

## The *Telos* of Sky Global

News Limitedoration faced several deals-in-progress and challenges in early 2002 (Rohm, xi: 2002). The key ‘vision’ was the Sky Global network, which Murdoch had positioned as a career-crowning glory (Rohm, 2002: ix). He hoped to integrate North America into the \$110 billion global satellite network through Sky-DirecTV (Chenoweth, 2001: xi), a merger with the 200-channel DirecTV network (Rohm, 2002: 24), that would create \$8 billion cash for GM’s Hughes Electronics (Rohm, 2002: 28). England’s BSkyB satellite network remained the geostrategic ‘core’ of the Sky Global proposal (Rohm, 2002: 17). The mega-deal fell apart when Charlie Ergen’s Echostar outbid Murdoch for DirecTV (Rohm, 2002: 34-35).

The Sky Global proposal also relied on encryption technology developed by Israeli company News Data Security (Rohm, 2002: 223) and interactive television portals created by Gemstar-TV Guide (Rohm, 2002: 14). Although Murdoch was forced to take a write-down on Gemstar’s-TV Guide’s worth, he remained convinced that broadband t-commerce was the “killer app.” Since Gemstar’s founder Henry Yuen controlled 90 interactive television patents, Murdoch reasoned—despite counterclaims that Yuen was a “patent terrorist”—that leveraging this intellectual capital would achieve standards lock-in (Rohm, 2002: 102).

Leveraging intellectual capital was pivotal to Murdoch's global deal-making. News Limited's chief operating officer Peter Chernin had invested \$17 million in 1995 (US\$60 million by 1997) to hire top Hollywood writers and producers to create hit television series (Chenoweth, 2001: 253), Rohm, 2002: 63). Developing local content enabled Sky's satellite broadcasts to India, side-stepping government and regulatory issues (Rohm, 2002: 207). By honing these ploys in new contexts, Murdoch also created meta-patterns in which current problems had evolved from prior strategic moves. Murdoch's write-down of European sports-casting rights, for example, can be traced to battles between Fox, CBS and NBC in the early 1990s, which inflated bids (Chenoweth, 2001: 234) and sparked domestic turf wars (Chenoweth: 2001: 245).

## **Game Theory and Pragmatic Foresight**

Murdoch's style of pragmatic foresight was imprinted by his Oxford University friendship with Robin Farquharson, the Voltaire Society secretary who introduced him to game theory and mathematical modeling (Chenoweth, 2001: 19). From 1953 onwards, Murdoch deployed game theory in a series of market stratagems that created his gambling aura (Chenoweth, 2001: 32). His North American phase was described as "a series of Houdini escape acts" that focused on the future of television programming (Chenoweth, 2001: 131). Understanding how game theory shaped deal negotiations and inter-firm competition enabled Murdoch to also shed people and outgrow ideologies when they became barriers (Chenoweth, 35: 2001).

The combination of game theory and pragmatic foresight shaped Murdoch's deal-making ruses with other media players: "there is always a second strand running below the public transaction, known only to insiders, and then there is a third strand running under that again which no one ever sees." (Chenoweth, 2001: xv). This combination makes Murdoch "more than just a clever dealmaker or financial tactician" and were crucial to his 1980s creation of Fox Networks, his 1990s creation of BSkyB and his constant reinvention (Chenoweth, 2001: xiii).

The 1994 acquisition of Ron Perelman's New World Communications, which "transformed Fox into a fully fledged network" (Chenoweth, 2001: 131), illustrated these three layers to a deal (Chenoweth, 2001: 133). The \$2.48 billion stock deal was fixed on 14 July 1996 at US\$27 per share (Chenoweth, 2001: 134). Murdoch knew that Perelman was negotiating another deal with King World Productions (which had increased the share offer by \$366 million), that Australian fund managers would hate his buy-out and that they would likely dump the stock (Chenoweth, 2001: 135). Although rumors of Murdoch's tactics were circulating amongst the financial press on 16 July 1996 the deal was signed the following day. Murdoch's influence on the preference voting stock meant that New World's value fell by \$344 million over the next week, canceling out Perelman's gambit (Chenoweth, 2001: 137). Murdoch's true reason for going short on Perelman's gambit was that he had taken out a A\$373 million loan in March 1996 to buy-out his sisters' stake-hold in Cruden Investments and control News Limited's succession planning (Chenoweth: 2001, 138).

## **Surviving the October 1987 Crash**

When Rupert Murdoch became an American citizen on 3 September 1985 to offset the Reagan Administration's stance on foreign ownership, his 'virtual' nationality hid financial and legal problems with the Australian Tax Office (Chenoweth, 2001: 52). Murdoch gave different testimony to the Federal Communications Commission and the U.S. Securities and Exchange Commission about his 1985 purchase of Metromedia television stations (Chenoweth, 2001: 53). He had formed a strategic alliance with junk bond dealer Michael Milken, who devised a \$1.15 billion preference issue for News Limited to purchase Metromedia (Chenoweth: 2001, 62-64). Repaying Milken's debt was tied to News Limited's future stock price.

Murdoch missed News Limited's annual general meeting in Adelaide on 16 October 1987 (Chenoweth, 2001: 77). He was attending producer David Brown's book launch and a *Forbes* 400 party (Chenoweth, 2001: 78-79). Black Monday, on 18 October 1987, would cost Murdoch \$1.7 billion (Chenoweth, 2001: 80). His fateful decision to remain in New York City would stall News Limited's crisis management.

The fallout from Black Monday and Milken's preference issue combined on 6 December 1990 to bring News Limited to the dissipative edge of corporate oblivion. News Limited was due to pay A\$1 billion debt (a 187-88 deal for Queensland Press Limited) and its executives were negotiating a loan rollover. The Pittsburgh National Bank had syndicated A\$10 million of the debt and demanded payment (Chenoweth, 2001: 69). News Limited therefore faced a scenario, at a time when it "needed to reschedule \$7.6 billion of debt held by 146 institutions" (Chenoweth, 2001: 71), that Pittsburgh's decision would stonewall a Debt Override Agreement, trigger a lender crisis and liquidate Murdoch's empire (Chenoweth, 2001: 72-73). Murdoch's survival depended on a conference call to "an unknown bank executive in Pennsylvania." (Chenoweth, 2001: 74). Pittsburgh backed off and Citibank stonewalled the other minor lenders. News Limited executives rarely spoke about the Pittsburgh near death experience. The 'smoking gun' was that Murdoch had used his New York City penthouse as collateral for the Queensland Press Limited loan (Chenoweth, 2001: 82).

## **The Battle of Wapping**

The other major coup of 1985 was Murdoch's computerized newspaper plant at Wapping, England. Over the next year, Murdoch would face-off the Society of Graphical and Allied Trades (Chenoweth, 2001: 50) in a union battle that changed Britain's labor union landscape. Murdoch's shift from newspaper compositing to computer pagination created "an archetypal technology war" (Chenoweth, 2001: 59).

The Battle of Wapping created a 'domino effect' that would change the media's ownership structure and political economy across three continents. To pay for his acquisitions (Twentieth Century Fox, Metromedia and launching Fox) Murdoch hoped to save \$150 million a year from his Wapping plant, yet the confrontation also triggered a dramatic shift in the Australian publishing industry (Chenoweth, 2001: 87). The deals occurred at the height of the 1980s M&A frenzy and risk management climate. Their recursive effects also highlighted the complexity of off-balance-sheet accounting practices and forward-looking investment statements. Finally, they created the 'risk landscape' that led to the Pittsburgh National Bank incident.

By switching his political allegiance, Murdoch had anointed British Prime Minister Margaret Thatcher's rise-to-power. Yet the Battle of Wapping also placed the Labour Party in a double-bind between News International's brazen tactics and protester's street violence (Chenoweth, 2001: 62). This created the ideological void for the subsequent rise of Tony Blair and adviser Anthony Giddens. Blair shifted his political allegiance to Murdoch in a 1995 speech at the Sun Valley entertainment economy conference (Chenoweth, 2001: 123). Blair backed Murdoch's efforts to create BSkyB (Chenoweth, 2001: 273) and not join the European Monetary Union. Murdoch consequently supported Blair's 1997 election campaign (Chenoweth, 2001: 277) and received payback when Blair opposed a predatory pricing amendment to the Competition Bill passed by the House of Lords (Chenoweth, 2001: 279). The power of Murdoch's trans-national media empire on British politics, which political analyst and speech-writer Irwin Stelzer noted in the late 1970s, would change "industries in one country to provide a benefit in another . . . the Murdoch effect has rippled from country to country around the globe." (Chenoweth, 2001: 295). *Third Way* redux.

## **Chameleon Ideologies**

Murdoch's shift from Thatcher to Blair exposed his study of political ideologies and social trends. He thrived in Britain by understanding its class structure and social contract, whereas he thrived in the U.S. by accelerating the extremes of popular culture against the Establishment (Chenoweth, 2001: 20). Murdoch disputed claims by closed markets that he was using cultural imperialism (Rohm, 2002: 6).

Blair's friendship with Murdoch was paralleled in Republican Party mastermind Newt Gingrich's ascension to power in 1994 (Chenoweth, 2001: 186). The conservative perspective on information technology, which was shaping mid-1990s telecommunications deals, was influenced by George Orwell's dystopia *Nineteen Eighty-Four* and fears of a surveillance society (Chenoweth, 2001: 188). Murdoch countered with views given by the Manhattan Institute's analyst Peter Huber, whose book *The Orwell Palimpsest* rewrote the Big Brother scenario and its moral dimensions (Chenoweth, 2001: 192-193). Gingrich's touting of information technology and Huber's optimistic rewrite enabled Murdoch to outmaneuver the Federal Communications Commission (Chenoweth, 2001: 194). A House ethics committee investigation into tax-free donations later cost Gingrich a \$4 million book advance from the HarperCollins publishing company and created a furor about Murdoch's political ambitions (Chenoweth, 2001: 198-199). Murdoch knew how to play the Prisoner's Dilemma. When Gingrich's power waned he was shed.

## **Feuding Moguls: Turner v Murdoch**

Farquharson's introduction of game theory likely shaped Murdoch's "tit-for-tat" strategies with other media moguls. Murdoch created strategic alliances with Microsoft's Bill Gates and AOL Time Warner's John for the interactive television market. His long-running feud with Cable News Network cofounder Ted Turner revealed how pragmatic foresight made the profiling of media moguls easier.

Turner drunkenly humiliated himself during the closing press conference for the 1977 America's Cup yacht race (Rohm, 2002: 208). Murdoch controlled *The New York Post* yet refused to publicly comment about the incident (Chenoweth, 2001: 31).

The real genesis of Turner's feud with Murdoch occurred during the 1983 Sydney to Hobart yacht race. Turner's maxi *Condor* was run aground on 29 December 1983, just six miles from the finishing line, by *Nirvana*, a Murdoch-sponsored yacht (Chenoweth, 2001: 40). A few hours later in New York City, Steve Ross closed a Warner Communications deal that prevented a Murdoch take-over (Chenoweth, 2001: 41). In retaliation Murdoch attempted to buy CNN (Chenoweth, 2001: 45).

The 1983 incident determined "the chemistry between the two fierce competitors for two decades." (Chenoweth, 2001: 37). Although both moguls had vastly different temperaments and backgrounds they both shared pragmatic foresight about media trends (Chenoweth, 2001: 36). Murdoch's purchase of Twentieth Century Fox was counter-pointed by Turner's bid for CBS (Chenoweth, 2001: 46), Murdoch's purchase of Metromedia stations by Turner's buy-out of MGM (Chenoweth, 2001: 47). Murdoch launched Fox News in 1996 to counter CNN (Chenoweth, 2001: 146). During the 1997 cable wars Turner referred to Murdoch as "the schlockmeister" (Rohm, 2002: 46), a reference to News Limited's content and sports-casting.

## **The Specter of Michael Clinger**

One reason that Murdoch survived where other moguls didn't was that he refused to play by Wall Street's quarterly-earnings focus and instead took a long-term view of investments (Rohm, 2002: 42). He foresaw in 1987 that cryptography would be the "killer app" for delivering content across cable networks (Rohm, 2002: 86). In 1988 when Hollywood studios refused to license him content, Murdoch invested \$3.6 million in News Datacom Research Limited, which had licensed the Fiat/Shermin algorithm and RSA encryption from Israel's Weizman Institute (Chenoweth, 2001: 92-93). Murdoch's management team hired American security expert Michael Clinger to oversee their operations. This decision haunted them.

Clinger had left the U.S. for Israel because he faced class-action suits over the August 1986 collapse of laser distribution company Endo-Lase Inc (Chenoweth, 2001: 96). The SEC issued an arrest warrant on 8 November 1990 for Clinger's arrest on 51 counts of insider trading and fraudulent accounting (Chenoweth, 2001: 100) just months before the BSKyB merger and Citibank's latest Debt Override Agreement.

The international fugitive had cut a deal with Indian supplier Bharat Kumar Marya to supply NDS with smart cards, which were then resold to BSKyB and DirecTV (Rohm, 2002: 92). Clinger was pocketing half of BK Marya's profits and feuding with BSKyB chief Sam Chisholm (Chenoweth, 2001: 103). When Murdoch's team arranged to buy-out the Israeli's NDS share they used their knowledge of Clinger's criminal background to force his 'exit strategy' (Chenoweth, 2001: 104-106). While Clinger fought with business partner Leo Krieger about Clinger's ex-wife, Israeli socialite Niva Von Wiesl, private investigators tracked Clinger's money "through the Netherland Antilles, the British Virgin Islands, the Channel Islands, Bermuda, Liberia and Panama." (Chenoweth, 2001: 159). Clinger retaliated against Krieger and NDS in October 1996 when *Mas Hachnasa*, Israel's tax office, raided NDS offices

(Chenoweth, 2001: 161). Clinger gave video-link testimony in *U.S. v Michael Clinger* (Chenoweth, 2001: 314) but Justice Bailey ruled against him and awarded \$50 million damages to NDS (Rohm, 2002: 97). Clinger's reign was more than a failure of pragmatic foresight at the executive level. It was a side effect of News Limited's 75 holding companies and off-shore tax havens (Chenoweth, 2001: 290).

## **Pat Robertson and the Dotcom Bubble**

While Murdoch had shaped the early 1990s media landscape with BSkyB and Hong Kong's Star TV, a series of late 1990s mega-deals by competitors, including AOL Time Warner, Viacom, Walt Disney Corporation and Vivendi, threatened News Limited's competitive advantage (Chenoweth, 2001: 120). Wall Street financiers interpreted this climate as the consolidation of new media. Murdoch's pragmatic foresight and News Limited's entrepreneurial spirit were crucial aspects of its business model (Rohm, 2002: 44).

During the 1997 turf wars Murdoch jockeyed Michael Eisner, Gerry Levin and John Malone for status. He cut deals for Fox News, Fox Sports, Fox Kids and the Dodgers (Chenoweth, 2001: 258). One of the most intriguing deals was how Murdoch became involved with evangelist Pat Robertson and the Family Channel. Although by late 1996 the Family Channel had become "one of the top ten television brands in the world" (Chenoweth, 2001: 213), the international press was investigating allegations that Robertson's relief agency, Operation Blessing International, had become a front for Zaire's diamond mining. Murdoch approached Robertson to run Fox Kids on the Family Channel (Chenoweth, 2001: 219). The \$643 million deal included investments by John Malone's TCI and News Limited (Chenoweth, 2001: 220). Revelations in April 1997 that Operation Blessing's three Caribou aircraft had been used for diamond mining, not for humanitarian purposes, complicated Robertson's \$150 million share in the deal (Chenoweth, 2001: 224-225).

Robertson's deal finally cost News Limited \$1.7 billion (Chenoweth, 2001: 227). The deal was overseen by Goldman Sachs, which played a major role in the U.S. dotcom bubble. The inflated price became a palimpsest for other tech stock deals.

Murdoch wanted to 'colonize' a different future to the information superhighway: he had invested in geostationary satellites rather than fiber-optic cable or wireless technologies (Chenoweth, 2001: 264). News Limited's short-term cash needs and long-term investment plans made Internet advertising models a poor option for sustainable revenue growth (Rohm, 2002: 173).

James and Lachlan Murdoch pressured their father to explore Internet opportunities (Chenoweth, 2001: 304) and he founded a U.K.-based Internet division called News Network (Rohm, 2002: 235). However this was a "non-core" investment as News Network and News Digital Media mainly negotiated content repurposing and minority shares in a portfolio of sites. The March 2000 tech meltdown affected BSkyB's share price and halted Sky Global's initial public offering (Chenoweth, 2001: 329). His deal structures meant that Murdoch was relatively protected against losses. A \$10 billion strategic deal with Healthon, for example, was cutback to \$250 million in shared content and advertising (Rohm, 2002: 242). Murdoch was more threatened by the

AOL Time Warner merger, annoyed that after 1996 advice from Bill Gates, he had not bought AOL when he had the opportunity (Chenoweth, 2001: 323-324).

## **A New Damage Done**

For Murdoch the real territory were China and India: the largest media markets of the 21<sup>st</sup> century (Rohm, 119: 2002). Murdoch had been shunned by the Chinese government after his 2 September 1993 speech that reinterpreted Orwell and Huber's rewrite that global telecommunications threatened any totalitarian regimes (Chenoweth, 189). The Chinese government touted its "correct propaganda" and Web guerillas in the face of the Internet's stratospheric growth (Rohm, 2002: 156).

The strategic vision had to be radically changed. The first layer was exemplified by James Murdoch's defense that his father always had a truly international vision (Rohm, 2002: 120). Murdoch's public relations stance was that this was the logical outcome of his Australian heritage. The second layer was Murdoch's ploys to appease the Chinese government. He adopted an anti-British stance when NATO accidentally bombed China's embassy in Belgrade (Chenoweth, 2001: 288), dropped the *uber-critical* BBC World Service from Hong Kong's Star services (Chenoweth, 2001: 190), cancelled HarperCollins U.K.'s book deal with Hong Kong's last governor Chris Patten (Chenoweth, 2001: 282) and adopted a cultural relativist stance on China's human rights record (Rohm, 2002: 261). Finally, the third layer was Murdoch's application of pragmatic foresight to track China and India's socio-economic growth. These deals included co-developing the Chinese electronic guide CCTV (Rohm, 2002: 160) and tracking how rising incomes will influence the future projections of India's television market (Rohm, 2002: 202). China and India represent more than just new markets—they are unparalleled opportunities to influence the trajectory of two emerging civilization systems.

## **The Uncertainty of Succession Planning**

Rupert Murdoch came to power through the sudden death in October 1952 of his father Keith Murdoch (Chenoweth, 2001: 25). The family trusts that Keith Murdoch left shaped the Murdoch family's balance of power for decades (Chenoweth, 2001: 109). The success of his 1990s deals enabled Murdoch to offer his sisters a \$500 million buyout offer, through Cruden Investments, and gain total control of News Limited's legacy (Chenoweth, 2001: 6). The 1992 deal featured an escalation clause that was linked to News Limited's share price (Chenoweth, 2001: 116). Murdoch's foresight meant that Anna Murdoch's 1998 divorce petition (Chenoweth, 2001: 307) and his subsequent marriage to Wendy Deng (Chenoweth, 2001: 309) did not lessen his leveraging power or control.

Despite Keith Murdoch's influence, Rupert Murdoch denies that his family has a patriarchal lineage (Chenoweth, 2001: 12). Yet underlying his pragmatic foresight and mega-deals has been an increasing focus on his sons. Lachlan Murdoch was mentored during the Dodgers deal by Peter Chernin (Chenoweth, 2001: 231). James Murdoch rose to prominence in News Digital Media by his Internet stocks (Chenoweth, 2001: 304), and appears to be the most avowedly futurist-oriented (Rohm, 2002: 77). Murdoch's end-game is really family-focused: "The Murdoch succession arguably

represented the largest transfer of wealth and global power of the late twentieth century.” (Chenoweth, 2001: 299).

Murdoch remains a key player in ‘colonizing’ the 21<sup>st</sup> century’s media. Chenoweth’s forensic journalism and Rohm’s business interviews shed light on how Murdoch has integrated pragmatic foresight—through an understanding of stakeholder psychology, game theory, emerging technologies and the global risk society—into his daily life. Pragmatic foresight has given Murdoch the key to launch acquisitions, face-off competitors, fast-track new technologies and create new markets. His insights are applicable to risk management strategies. And for those opposed to Murdoch’s vision, understanding pragmatic foresight offers hope of ‘decolonized’ zones in the one-click media wars of the beckoning future.

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