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Factors Affecting Affiliate Station Loyalty Towards Broadcast Television Networks

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TELEVISION network prime-time audience shares have dropped 30 points since 1977, when ABC, NBC and CBS shared 92 percent of total viewing households (Auletta, 1991). As a result, the networks have re-organized their priorities and restructured their operations to maintain economic survival, while their affiliates struggle to keep pace with uncertainties. In particular, CBS's recent action to cut affiliate station compensation (Broadcasting, 1992) and the FCC's current inquiry into whether network-affiliate contracts should remain two years in length (Freeman, 1992) indicate that the future of network affiliate relations is at a crossroads (Bagdikian, 1990).

The present study examines factors that may influence the future ties between television networks and their affiliate stations. In particular, it examines affiliate loyalty, or willingness to maintain symbiotic relations with their affiliated network. Due to the sparsity of theories addressing network affiliate relations, several factors were broadly clustered—into financial, organizational and programming components—and developed as proxy measures to assess network-affiliate ties.

Broadcast economists (Besen, 1973; Litman, 1979a; Thomas & Litman, 1991) maintain that the networks constitute an oligopoly, and they display interdependent conduct characteristic of that market structure. In particular, the networks follow similar standards in the areas of program input costs, affiliate compensation, ad rates and program distribution costs. Hence, the relationships between the networks and their affiliates are also structurally similar.

Financial factors, however, remain at the heart of the network-affiliate relationship, affecting each party's economic gains and losses. Two widely researched facets of this particular aspect involve affiliate compensation and network program clearance, which are addressed in turn.

Despite recent uncertainty borne of competition from cable and other program carriers, affiliation with a national network remains a key asset for TV stations. Networks provide affiliate compensation in exchange for program clearance, with each spending from $100 million to $120 million per year in payments to affiliated stations (Moshavi, 1992). Individual station payments range from $50 on up to several thousand dollars per hour, in larger markets (Eastman, 1992). Affiliate compensation, in general, is more valuable to stations in smaller markets—accounting for up to 15% of revenues—than it is for large market stations, where it may only amount to 3% of a station's total revenue (Besen & Hanley, 1975; Head & Sterling, 1990).

Bagdikian (1990) notes that such compensation traditionally enabled stations to exceed 25% profit margins, depending on transmission and market factors, with independent station margins ranging somewhat lower. CBS's plan to impose affiliate charges, only recently aborted, sent shock waves through the broadcast industry (Freeman, 1992). All three major networks opted instead for a reduced compensation package, coupled with more local availabilities for their affiliates. Even so, as one disgruntled affiliate noted, such moves "could break down over time the very fiber of the network-affiliate relationship" (Moshavi, 1992, p. 3). In particular, stations may be less likely to clear network fare in the absence of strong compensation incentives.

According to past examinations of affiliate program carriage, clearance levels exceeded 95% of network programming through the early 1980s, before falling below 90% in recent years (Haldi, 1989). Preemptions are most likely to occur when stations feel they could generate higher ratings with a substitute, or run more commercials in a popular syndicated program (Osborn, Driscoll, & Johnson, 1979). Also, station managers may seek to preempt network fare that's offensive to local viewers, or to substitute local programs for "public service" purposes. Alternatively, paid programs (e.g., religious fare or "informmercials") can also motivate station preemption of lowly-rated network programs.

When clearing programming, stations must consider local availabilities for advertising provided by the three networks, which appreciate in value with higher-rated programs. These availabilities range from three minutes per hour, during prime time, to seven or eight minutes at other times (Eastman, 1992). In cases where stations do not feel well-served by network programming or affiliation terms, they're likely to "defect" from lower to higher rated networks. This type of affiliation turnover increased dramatically as competition between the networks intensified during the late 1970s (1979a; 1979b), but has stabilized in recent years (Auletta, 1991).

As inter-network rivalry was reduced by competition from new video media alternatives during the 1980s, affiliates reasserted themselves by pushing for higher compensation. The networks countered by reducing local advertising time to affiliates, basing compensation on local ratings and cutting compensation down to zero, in some cases (Moshavi, 1992). In response, affiliate preemption of network programs reached all-time highs by decade's end (Haldi, 1989). Stations were quick to take advantage of alternative syndicated program fare, as their dependence on network program sources was eased by new technologies (e.g., satellite distribution). Several of these changes have proven costly to networks and affiliates alike, further straining an already precarious relationship. Thus, both affiliate compensation and clearance of network programs are key elements relevant to station loyalty to its network.

Although the management literature is rife with examples of organization factors influencing generalized business applications (Ansoff, 1984; Eastman, 1992), little research has addressed the relations between affiliate general managers and network management personnel. It is helpful, then, to import organizational communication concepts to study this particular type of "organizational structure"—which is based on a symbiotic arrangement between two independent entities.

Besen (1973) was among the first to cast affiliate stations as semi-autonomous "exhibitors" in an extended network hierarchy. The organizational communication literature suggests that communication in an organization can maintain relationships and promote member integration (Farace, 1977). Evidence from field studies suggests that most subordinates prefer to establish a personal relationship with their superiors, as it allows them to develop interpersonal relations and facilitate sharing of information within the working relationship (Jablin, 1987; Thomas & Litman, 1991). As a result, effective communication between the network and station general managers — who are in charge of the day-to-day operations at a local station — would help facilitate affiliate satisfaction with the network organization (Stearns, Hoffman, & Heide, 1987). By implication, the longer the general manager tenure at a particular station, the more loyal the general managers might be due to their long-standing working relationship with the networks. In tandem with general manager tenure, length of affiliation should also encourage affiliate loyalty, as the "intra-organizational" relationships become more firmly entrenched over time (Jablin, 1987).

In cross-sectional analyses of industrial management, organization members are found to be more satisfied with managerial competency when they believe that communication is open and unambiguous (Redding, 1972). Evaluations of worker satisfaction are also higher when organizational management or leadership skills are perceived as strong (Ansoff, 1984). As a study of commercial TV station general managers suggests, affiliate satisfaction results when such "intra-organizational" linkages protect stations from adverse effects of environmental complexity and scarcity (Stearns et al., 1987). The authors further noted that environmental uncertainties in the marketplace have a negative impact on station profitability. Thus, it's reasonable to assume that general manager loyalty toward his/her network should be positively related to perceptions of their personal relationship with the network, general manager's tenure, length of affiliation and network management efficiency (or competence).

Management factors aside, networks are also judged on their ability to deliver programming support. Consistent with their "shared monopoly" market structure, the networks operate in an interdependent and uniform manner in the area of programming (Freeman, 1992). Researchers found evidence of increasing homogeneity and decreasing diversity among program formats from 1953 to 1974—a period of oligopolistic coordinated conduct and unrivaled prosperity for the networks (Domonick & Pearce, 1974). Though that "cooperative" behavior broke down during a competitive period in the mid-1970s (Jablin, 1987; Litman, 1979a), limited "cooperation" was restored by decade's end (Thomas & Litman, 1991). Nevertheless, program diversity has continued to increase since the mid-1980s, with audience erosion from cable freeing the networks to pursue more specialized program formats (Adams, Eastman & Lewine, 1992).

Given that affiliate stations are "exhibitors" for network programs, they're concerned with the quality (or economic value) of their network's product. Because low-rated network programs at a local level mean lower advertising revenues and network compensation, lackluster network offerings generate affiliate dissatisfaction and occasionally even "defection" (Litman, 1979a; 1979b). Although network programs might be classified in many ways, they can be subsumed under three general categories: news, sports and entertainment programs (Head & Sterling, 1994).

The perceived value of entertainment programs is perhaps most telling, as it influences station profitability, clearances and the like. Network news programs are also deemed important by local stations, as they rely on the networks to help cultivate their own news station image and supply national or international news coverage and public affairs programs. Similarly, the emergence of national sports programs on television since 1970—including football, basketball, baseball and the Olympics—likewise suggests a key network product desired by its affiliates (Eastman, 1992). Thus, it is reasonable to assume that positive evaluations of network program quality, given its economic value to the station, should also encourage station loyalty toward their affiliated network.

On balance, uncertainty over the networks' future can be seen in recent affiliate realignments, which reflect instability in the otherwise long-standing patterns of affiliate relations. In South Florida, ABC dropped WPEC when WPBF offered to pay the network for affiliation. Such activity bears out earlier predictions that networks are reconsidering their program distribution/delivery structure (Atkin & Litman, 1986; Wirth & Baldwin, 1989), and may move to drop them altogether in favor of cable or satellite delivery methods (Auletta, 1991). Against this backdrop of change, it is expected that affiliate loyalty would no longer be taken for granted. Instead, it may become a function of affiliate satisfaction with the financial, organization and programming factors.

Based on the above discussion and review of literature, it is expected that affiliate loyalty levels will be positively related to: (1) financial factors (i.e., compensation and clearance levels), (2) organization factors (i.e., network management, personal relationship between the general manager and network management, general manager tenure, length of affiliation) and (3) programming factors (i.e., entertainment, news and sports programs).

METHODS

Study data were based on a mail survey representing a census of affiliate general managers for the three major commercial networks (ABC, NBC and CBS) throughout the U.S. (including Alaska and Hawaii). Station affiliations, general manager names and addresses were taken from *Broadcasting Yearbook* (1993); network owned stations were excluded. Those secondary affiliations that received programming from more than one network (according to the *Yearbook*) also did not receive a survey: The response rate was 41% (N = 213) for the data base reported here. While this level compares favorably with that of other national mail surveys of business managers and other national surveys (Wackman, 1987), results should be interpreted within those response rate limitations.

Operational definitions for all the variables studied are described below. Financial factors involve two dimensions: (1) average weekly network program clearance level, assessed by a six-point scale (ranging from "less than 2 hours" to "more than 15 hours" of program preemption) and (2) satisfaction with network compensation level, measured by a five-point scale (ranging from "very dissatisfied" to "very satisfied"). Organization factors include the following three variables—satisfaction with (1) network management competence and (2) the general manager's personal relationship with network management establishment (measured by the same five-point scale mentioned above). The other two organization factors—general manager tenure and length of affiliation—were reflected by the number of years in place. Programming factors consist of three elements—satisfaction with the quality of (1) network entertainment programs, (2) news programs and (3) sports programs—in terms of their economic value (measured by the same five-point scale mentioned above).

General managers were also asked to identify their station's loyalty level to its affiliated network; this variable was measured on a four-point scale (1 = "very loyal" through 4 = "not loyal").[2] In profiling the sample, each of the networks was well represented, with NBC stations accounting for 38% of respondents, followed by ABC (31.5%) and CBS (30.5%).

Pearson product moment coefficient tests were conducted to test all hypotheses ($p \leq .05$). To further probe the network-affiliate relationship, all variables were entered as a block in a stepwise multiple regression procedure to explore their predictive strength in relation to the dependent variable, affiliate loyalty. In addition, intercorrelations among all independent variables are presented in an Appendix.

RESULTS

Pearson correlation results are shown in Table 1. With regard to financial elements, the findings provide some support for the predicted relationships. Affiliate compensation level is positively and significantly related to affiliate loyalty ($r = .34$; $p \leq .01$). The relationship between clearance level and loyalty ($r = .22$; $p \leq .01$) confirms expectations, suggesting that affiliates clearing more network fare feel more loyal to their affiliated network.

TABLE 1

Pearson Correlations and Multiple Regression Results

Loyalty Levels

	r	Beta	R	R2
Compensation Level	.34**	.28**		.10**
Clearance Level	-.22**	.24**	.40**	.16**
Network Management	.17	.06		
Personal Relations	.175*	.03		
General Manager Tenure	.22**	.16*	.43**	.19**
Length of Affiliation	.10	.09		
Entertainment Programs	.18**	.14*	.45**	.21**
News Programs	.06	.01		
Sports Programs	.06	.02		

* $P \leq .05$.
** $P \leq .01$.

In terms of organization factors, the hypothesis predicting a significant and positive relation between length of affiliation and loyalty ($r = .10$, $p \geq .05$) is not supported. However, the hypotheses asserting a positive association between loyalty and the remaining organization factors received weak to moderate support. Specifically, loyalty is positively correlated to satisfaction with network management competence ($r = .17$; $p \leq .01$), general managers' personal relations with the network management establishment ($r = .18$; $p \leq .05$) and general manager tenure ($r = .22$, $p \leq .01$).

In assessing programming factors, the postulated relationship between perceived value of entertainment programming (in terms of economic value) and loyalty ($r = .18$; $p \leq .01$) is supported. Loyalty is not, however, significantly related to perceived value of news programs ($r = .06$) and sports programs ($r = .06$), leaving these two hypotheses without support.

The multiple regression results (Table 1) accounted for 21% of the total variance in the dependent variable, affiliate loyalty. Affiliate compensation is the strongest significant predictor (B = .28), as those receiving better compensation indicated higher levels of loyalty. Clearance level is also a significant predictor (B = .24), suggesting that those who clear more network programs are more loyal toward their network. General manager tenure is the third strongest predictor for affiliate loyalty (B=.16)—signifying the importance of "intraorganizational" working relationships between the key personnel in charge. This is followed by "perceived value of entertainment programs" (B = .14), a predictor that's sensitive to program ratings.

DISCUSSION

The present study set out to examine how affiliate loyalty is influenced by selected network programming, organization and financial factors. Results from hypothesis testing confirm the importance of network entertainment offerings in the network affiliate relations. Such a finding is consistent with conventional industry wisdom (Adams et al., 1992), as entertainment programs bring in compensation as well as a large chunk of local advertising revenues for a station.

The impact of network news programs on affiliate loyalty, however, seems negligible. This is perhaps due to the fact that network news programs primarily provide a station with prestige and symbiotic reliance more than economic gains. Having a number-one network newscast on the schedule is satisfying and perhaps profitable. However, some stations have opted for popular first-run syndication fare (e. g., "Wheel of Fortune"), delaying the network newscasts to earn better ratings. An increased number of affiliates has also started to reduce their reliance on affiliated networks for national and international news by using syndicated news services that can provide news items without any stringent conditions attached.

On the other hand, network sports programs have not been a strong revenue generator for either networks or affiliates (unless a home team or special event of national interest is involved). For instance, CBS was not able to break even with its national baseball league coverage; NBC was equally incapable of turning profits when covering recent Olympic events. The national football league's contract with cable and Fox's nascent network also undermines the "Big 3's" network dominance in this, the best sports revenue generator in recent years. But most importantly, viewer interest in sports is primarily local in nature. Due to satellite technology, affiliates may look to syndicated regional sports networks for sports coverage of local interests. It is thus not surprising to find them irrelevant to affiliate loyalty.

By contrast, organization factors appear to be more essential in network-affiliate relations as compared to programming factors. Concerns about network management acumen may have their origins in the mid-1980s, when outside competition increased (Auletta, 1991), and each network experienced tumultuous changes in ownership and thus management structure. Adding to that impact were the many ownership and management changes at the station level. These transitions were further compounded by changes in network-affiliate contract length and terms, which destabilized a bond between both parties—one that had been taken-for-granted. It is thus not surprising to find that length of affiliation is unrelated to affiliate loyalty levels.

As a result, affiliate concerns with network management competency in garnering ratings increased, as network profits and affiliate compensation declined. The working relationship between the network and station—handled primarily through interpersonal contacts between the station's general manager and network management—also became more crucial in striking a satisfactory network-affiliate contract. As proven by the present finding, veteran general managers who have long-standing working relationships with the network management establishment tend to be more loyal towards their affiliated network.

The most explanatory variables in the regression model, aside from the network management measure, are those related to economics: program clearance and affiliate compensation. Few would dispute that affiliate loyalty will suffer as affiliate compensation is cut further. As Haldi (1989) notes, this trend seems immutable in light of skyrocketing program costs and declining audiences. Hence, it will be incumbent upon the networks to provide a satisfactory explanation about those costs to affiliates and advertisers alike. This is especially true given evidence that stations and advertisers don't concern themselves with the variables and risks involved in those cost increases (Cohen, 1987).

If the upward spiral in program costs does not abate, compensation may eventually be sacrificed to cover rising program expenditures. This should have a further adverse effect on affiliate loyalty. In cases where loyalty subsides, the negative relationship with clearance levels suggests that such activity will also accelerate. As one analyst noted, CBS's move to cut compensation "is setting up the business to encourage preemption" (Osborn et al., 1979, p. 11). It is not difficult to imagine that clearance will become conditional upon other sorts of mutually beneficial arrangements in the future. One need only look to radio to find a historical parallel.

Although the predictors used in the regression model are not exhaustive, they do underscore the relative saliency of certain key network-affiliate relationship variables. Putting those results in perspective, perceived value of program quality seems relatively insignificant in comparison to compensation. Yet, despite the negative implications of network compensation cuts, relatively stable patterns of network affiliation persist. It remains to be seen just what "critical mass" in compensation cuts will prompt affiliate defections. For the present, affiliate general managers remain generally supportive of their network, even in the face of future uncertainties. As one veteran general manager in a Top 12 market noted in response to CBS' recent compensation cuts, further service reduction and retaliatory preemption would benefit neither party:

> CBS is our major partner. I'm very proud to be associated with CBS...They are dedicated to the preservation of free broadcasting, and I applaud them. We'll be looking to replace lost revenue in a way that does not hurt our relationship with CBS, or hurt CBS (Freeman, 1992, p. 12).

Loyalty notwithstanding, compensation should continue to spiral downward in the years to come. The recent turmoil in network-affiliate relations has certainly prompted affiliates not to take network support as a "given". In fact, since compensation is the strongest determinant of affiliate loyalty, the predictive relationship between affiliate clearance level and loyalty further underscores this trend. Such "independent-mindedness" is also fostered by the proliferation of new program sources, which present viable revenue alternatives for stations, reducing their dependency on network backing.

As Ansoff (1984, p. 329) observes with strategic planning, anytime a business environment undergoes a "discontinuous" change, "the historical success model becomes the major obstacle to the firm's adaptation to the new reality." It may well be that the exogenous "shock" of new video competition represents such a discontinuity, and the future of both networks and affiliates will be hindered if they adhere to old practices.

Both partners will have to learn to expect less from each other, as loyalty levels are likely to be put to even more strenuous tests in the turbulent multichannel arena. But only through ready adaptation to these competitive threats can either party be expected to prosper in the coming years. The economies of scale that lead to the rise of networking—realized by both parties—are still present; each will likely continue to depend upon the other, at least for the time being.

Toward that end, it will be interesting to see how general manager evaluation of network-affiliate relations is affected by subsequent changes in the competitive video environment. In particular, future changes in audience measurement techniques, high definition TV, cable system expansion (to several hundred channel capacity) and telephone entry to the video media industry present great economic challenges and opportunities for broadcasters. Further research may need to take all these factors into account when examining the future state of network-affiliate relations.

APPENDIX
Intercorrelations Among All Independent Variables

	1	2	3	4	5	6	7	8	9
1. Compensation Level	—								
2. Clearance Level	.02	—							
3. Network Management	.18*	.03	—						
4. Personal Relations	.33**	-.02	.32**	—					
5. Manager Tenure	.18**	-.05	.10	.18**	—				
6. Affiliation Length	.13	.10	-.06	.02	.07	—			
7. Entertainment Programs	.11	-.00	.42**	.45**	.06	-.03	—		
8. News Programs	-.02	-.05	.17*	.19**	-.03	.01	.30**		
9. Sports Programs	.05	-.09	.05	.08	.03	-.03	.12	.28**	

* P < .05.
**P < .01.

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1. An ordinal scale was selected in favor of a ratio scale in order to better accommodate weekly variability in program preemption levels. Most (51.4%) of affiliates preempted fewer than two hours of programming per week, while 31.1% preempted from two to five hours and 16.4% more than five hours. The Chi-square test indicates that there is no significant difference in affiliate preemption level by network (X2 = 15.5; p = .12).

2. Identical proportions (46.9%) of network general managers indicated that they were either "very loyal" or "loyal", while five percent were "somewhat loyal", and none of the respondents selected the "not loyal" category. On balance, NBC affiliates were most loyal, with 48% indicating they were "very loyal," compared to 33% of CBS affiliates and 19% of ABC affiliates. NBC affiliates were also most satisfied, with 97.6% at least somewhat satisfied, followed by ABC (81.5%) and CBS (38.1%).