

QUALITATIVE APPROACH FOR EVALUATING THE EFFECTIVENESS OF STRATEGIC DECISIONS: A CASE STUDY OF NATIONAL FILM CORPORATION FOR FILM DISTRIBUTION IN SRI LANKA

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INTRODUCTION

The National Film Corporation (NFC) was established by the Parliament Act No: 47 of 1971. The NFC was made the sole distributor of films in Sri Lanka. But early in 2001 as stipulated by the national film policy and guidelines provided by the Government Treasury Department, the NFC allocated film distribution to the private sector. Accordingly four private film distributors were recognized. The NFC made a strategic decision to have its own distribution unit named Rithma Enterprise and also remained as the regulatory body for film distribution. The NFC holds responsibility for strategic decisions for the betterment of the film industry. The NFC has controlled private film distributors with regulatory and decision making power, making strategic decisions. Films are major entertainment products, used in the creative economy (Bakker, 2008). The NFC could enhance the competitiveness of business opportunities to the film industry to strengthen the creative economy from Sri Lankan films. This study is to evaluate the strategic decisions for film distribution in Sri Lanka for the period 2002 to 2012. The research question explores, “Have the NFC’s strategic decisions ensured competitive advantage for key players?” The objective is to determine the effectiveness of the NFC’s strategic decisions for film distribution from 2002 to 2012. The NFC must have appropriateness of its strategic decisions for film distribution as the regulatory body of the film industry. The study approach is qualitative, based on responses from the relevant authority personals of the film industry. Besides, the study effort is based on tacit knowledge of qualitative facts. Key players of the film industry are film producers, distributors and exhibitors. Their experiences and perceptions were used in this study to make useful recommendations for the NFC.

METHODOLOGY

This is a case study adopting a Grounded theory approach to develop explanations. Grounded theory refers to a set of systematic inductive methods for conducting qualitative research aimed toward theory development (Charmaz, 2009). Qualitative in-depth interviews were carried out with officials of the NFC, film producers, distributors and exhibitors. The face to face interviews were undertaken. Some of the exhibitors in rural areas were interviewed using the telephone mode. The duration of the interviews varied between 30 to 90 minutes. The interviews were recorded with the consent of the interviewee. Total 50 respondents granted time for the in-depth interviews, face to face as well as via phone and summarized in Table 1.

Table 1. Sample of respondents who provided qualitative facts at the in-depth interviews

Category of Interviewee	Representation of Sample size	
The NFC Officials	7	Top, Middle, Operational Level of the staff
Film producers	10	Art House, Commercial, Blockbuster
Distributors	17	Top, Middle, Operational Level of the staff
Exhibitors	10	9 provinces and addition 1 from Western province
Industry Experts	6	First/Former NFC chairman, Well-versed actors

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Besides the interviews, documents were used to supplement the evidence. The main documents used were official circulars, legislation acts, organizational documents from film distributors, regulations and guideline documents of the NFC. Then the interview transcripts were analyzed manually for contents in the interview guide using thematic analysis. Based on the grounded theory approach, qualitative hypotheses were induced from the research and continued to analyze concepts and insights of the key players.

The main research question explored is;

Have the NFC's strategic decisions enabled to ensure competitive advantages for key players? The objective is to determine the effectiveness of the NFC's strategic decisions. To meet the effectiveness, the NFC's strategic decisions should provide competitive environment for key players. With respect to the objective of the study and insight of the NFC, hypothesis 1(H₁) was developed.

H₁: The NFC's Strategic decisions have enabled to ensure competitive advantage for key players

The null hypothesis was developed based on "Key players" perspectives, and it is;

H₀₁: The NFC's Strategic decisions have not enabled to ensure competitive advantage for key players

RESULTS AND DISCUSSION

The NFC has played a dual role as a governance body and the distribution circuit at the same context. There are conflicts with strategic decisions made by the NFC. To perform this analysis and evaluation, hypothesis 1 is utilized. Question: Have the NFC's strategic decisions ensured competitive advantage for key players? Two key conflicts, having negative effects on the industry emerged as foci during the discussions and they are as follows;

I. The NFC's strategic decisions vs. key players

Many leading film producers do not agree with recent decision to limit copies of films to 35. The NFC has used the regulatory power to limit film distribution as a solution to the deficiency of exhibition halls in the island. As a result, blockbuster films faced restrictions of film copies during 2011-2013. Film producers and distributors took their grievance to court. Case 1: Film, *Sri Siddhartha Gotham Vs NFC* (2013), Case 2: Film, *Sri Parakum Vs NFC* (2014) can be considered as practical implications. "The root cause of the conflicts is the strategic decisions made on privatization" foremost chairman (NFC) highlighted. "Before privatization, the NFC had a mechanism to prioritize films and the lineup of film distribution as per film genre", Assistant General Manager (AGM, NFC) explained. There were five distribution circuits under the NFC monopoly, which distributed different genres of films prior to privatization. The foremost mistake was the transferring of five distribution circuits under the NFC to private distributors and allocated cinema halls to them to make distribution circuits. Reduction of cinema halls were evident in 2001, the NFC could decide to privatize two or three distribution circuits. Most of the key players expressed that the NFC's governance had made strategic decisions based on personal interests.

II. The NFC's business operational strategies vs. key players

Making a remarkable change in the film industry during the first ten years after privatization remained a major challenge. Most of the film producers believe that profits are the primary motive of the film industry. Key players are facing difficulty to maintain the film distribution as a business at the operational level. Having identified the two major conflicts, the four main strategies of the NFC were examined. They are; a) Pricing strategy, b) Profit sharing strategy, c) Merging practice and d) Film removal strategy.

a) Pricing strategy

The key determinant of revenue in film industry is the pricing strategy. As explained by former Manager (MPI, NFC), he introduced the „pricing strategy“ to the NFC in 1981. Most of the leading film producers argued that, the pricing strategy had no meaningful benefits to the key players after privatization. The reason is the ticket price. It grows with inflation as per the „pricing strategy“. Film distributors/exhibitors justify their need and request to enhance ticket price in exhibition halls. If film distributor requests to enhance ticket price, the NFC has to provide written permission to distributor to enhance ticket prices. When ticket price is high cinemagoers have difficulty to watch films. Most of the key players highlighted the argument and explained in Table 2.

$$\text{Film exhibition hire} = \text{Ticket price} - (\text{Levy} + \text{Entertainment Tax share})$$

Table 2. Example of comparing ticket price for NFC's Pricing strategy

1977 ticket price of Rs.8.00	2010 ticket price of Rs.600.00
Ticket price: Rs. 8.00/=	Ticket price: Rs. 600.00/=
First share: The NFC Levy Rs.6.50/=	First share: The NFC Levy Rs.6.50/=
Ticket price-Levy =Rs(8.00-6.50) = Rs.1.50	Ticket price – Levy = Rs (600.00-6.50) =
Second share: Entertainment Tax ratio: 7.5% (Rs.1.50x7.5) /107.5= Rs.0.10/=	Rs.593.50/=
= Rs 8.00- (6.50 +0.1)	Second share: Entertainment Tax ratio: 7.5% (Rs.593.50x7.5) /107.5= Rs.41.41/=
Film exhibition hire = Rs.1.40/=	= Rs.600.00- (6.50 +41.41)
	Film exhibition hire = Rs.552.09/=

However, former Manger (MPI, NFC) concluded that „pricing strategy“ should be streamlined after privatization. The strategy provided is tactless for key players. The „Levy“ is counted at first, from the ticket price. Then the entertainment tax ratio is exempted from the ticket price. The last share is film exhibition hire, which is used for profit sharing for key players.

b) Profit sharing strategy

Profit sharing strategy is the share of revenue, from film exhibition hire (Circular Act GM/GEN/01, 2002). However, profit share comes after tax and levy collection by the government. Both exhibitor and producer directly pay taxes to the government upon publicity/promotions through municipal councils. The ratio of the publicity campaign tax varies from (10-15) % depending on the divisional secretaries. Most of the key players have to pay direct and indirect taxes in the film distribution process. It creates dissatisfaction with the profit sharing strategy. Distributors take (5-10) % of the „profit share“ without committing to the tax involved in promotional campaigns. As a result, some of the producers and exhibitors have decided to leave the film industry. Leading film producers and exhibitors shared their experiences and views. Film producers expect more than 45% from the profit share. They maintain the argument to expect (45-50) % for satisfying their investment. All the produces agreed and pointed that distributor's share could be reduced as distributors had no taxes for promotional activities.

c) Merging practice

AGM (NFC) expressed that the NFC wanted a temporary solution to the lack of exhibition halls in the island. Thus, the NFC did not regulate „merging practice“ in film distribution process. The NFC expects to satisfy the key players to generate more film exhibition revenue. As a result, AGM (NFC) agrees that „merging practice“ is used by all the distributors. Sometimes, they use it as a competitive strategy to gain competitive advantage. For example, the box office revenue generated film „Kusapaba“ (2012) was exhibited via EAP, hiring other exhibition halls from LFD, MPI distribution circuits. Some distributors use „merging“ as a „collaboration strategy“ to gain competitive advantage in the film industry. For instance, the

NFC exhibited „*Vijaya Kuveni*“ (2012) hiring other exhibition halls from LFD, MPI and CEL distribution circuits. Therefore, they should make sure that „merging practice“ provides win-win situation to all the key players in the agreement. Distributors should have mutual understanding of agreement on profit sharing to avoid conflicts with exhibitors. Most of the film exhibitors shared their views. However, Chief Executive Officer (CEO) of EAP, CEO of LFD and Manager of Rithma (NFC) agree that their prime objective is to facilitate cinemagoers, providing the expected level of coverage of film exhibition requested by the producer. Conflicts are created among exhibitors to merge with preferred distributors for popular films. No exhibitor can decide on the film or distribution circuits. These conflicts are created due to desire to achieve expected revenue. All the key players interviewed, expressed “merging practice is an attempt we use to survive in the film industry.”

d) Film removal strategy

The major victim is the producer due to the “Film removal strategy” (Circular Act OD/GEN/187, 1997), where the NFC stipulates a minimum 25% seating capacity to continue screening films. If not, the films are withdrawn. “The film removal strategy has not been adjusted for today’s needs of film distribution”, most of the key players revealed. Most producers who make “art house films” are victimized. Leading film producers of blockbuster films believes that art house producers cannot expect the number of cinemagoers within a certain time period compared to commercial or popular films. The reason is high utility expenditure. As a result, no exhibitors would like extension of exhibition period of art house films. CEO (LFD) argues that „Seating capacity“ is not a reliable measure on deciding the film removal. Most film distributors do not consider the genre of the film. “There should be a justification for film removal strategy for art house films; or else no art house film producers will remain in future”, leading film producer (Art house films) explained.

CONCLUSIONS/RECOMMENDATIONS

Analyzing “key players” experiences, it is clear that the NFC’s strategic decisions have not met their expectations. Hence, H_{01} cannot be rejected. The merging practice can give a temporary competitive advantage to the distribution circuits. In addition, it gives a threshold limit for both distributors and exhibitors to exist in the industry. Unfortunately, there is a pattern of merging which depends on the rapport of distributors, while no exhibitors can be proactive in mergers of their choice. On the other hand, the NFC has no obligation to this practice and allows as a temporary solution to the insufficiency of cinema halls. However, cinemagoers can benefit from the merging practice. At least, it would facilitate a popular film to be exhibited for cinemagoers in many exhibition halls. Also, it is evident that an exhibition hall with 800 seats cannot justify the art house film to be removed by 25% of filling seating capacity. The reason is art house film demand is different from commercial films. If the art house film is screened in an exhibition hall with 250 seats, then the decision can be changed. Therefore film removal strategy should be streamlined for film genre.

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