

7 The corporate governance and administration of the PRS

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7.1. In this chapter we look at the way in which the PRS is structured, directed and managed.

The object of the PRS

7.2. The main object for which the PRS is established is set out in Clause 3(a) of its Memorandum of Association (given in Appendix 7.1) as follows:

To exercise and enforce on behalf of Members of the Company, being the composers of any musical works or the authors of any literary or dramatic works, or the owners or publishers of or being otherwise entitled to the benefit of or interested in the copyrights in such works (hereinafter called 'the proprietors') all rights and remedies of the proprietors by virtue of the Copyright, Designs and Patents Act 1988, or otherwise in respect of any exploitation of their works.

7.3. In the UK the owner of the copyright in a work has the exclusive rights, as set out in section 16(1) of the 1988 Act, to:

- (a) copy the work;
- (b) issue copies of the work to the public;
- (c) perform, show or play the work in public;
- (d) broadcast the work or include it in a cable programme service; and
- (e) make an adaptation of the work.

These are referred to in the Act as the 'acts restricted by copyright'. The right to authorize or refuse any of the restricted acts is exercised by the holder of the copyright of the work concerned: this may be a creator of a work, the estate of a deceased creator, a publisher, or an individual or organization (such as the PRS) to which the copyright of the work has been assigned. In effect this means allowing or not allowing any of the restricted acts and determining under what conditions performance or use will be permitted. The remedies are those available to the copyright owner set out in Chapter VI of the 1988 Act dealing with the infringement of the rights of the copyright owner, relating mainly to the award of damages and the obtaining of injunctions.

7.4. The services supplied by the PRS to its members are set out in its Deed of Assignment, its Articles of Association and by means of special directions issued by the General Council of the Society. Subject to exceptions set out in the Articles, the PRS administers the performing right in musical works for the benefit of its members as defined in section 16(1)(c) and (d) of the 1988 Act and as listed above. The Society also administers film synchronisation rights (as defined in Chapter 3) in any musical work written specially for a film by its writer members. The PRS grants users licences under a variety of tariffs for which payment of a fee or royalty is required, monitors and identifies many of the works performed, and then distributes the copyright royalties.

The General Council

7.5. The governing body of the Society is the General Council by which 'the business and operations of the Society shall be conducted and managed' (Article 43). The members of this Council are the directors of PRS Limited (Article 35) and are bound by the normal rules applicable to such persons. Under the Articles, as amended on 18 May 1995, the General Council shall now consist of not more than 28 directors, of whom not more than 12 shall be publishers and not more than 12 shall be writers (Article 35), but further changes are proposed (see paragraph 7.7). Furthermore, 'no person who is not a full Member shall be appointed or act as a Director, except in the capacity of a non-voting Consultant Director' (Article 41). A publisher director must be 'an executive director, proprietor, partner, principal shareholder or manager or other officer' of a full-member publishing company or firm. Article 62A provides that if a director changes employment from one full-member publisher to another full-member publisher without a hiatus, then that director remains in office at that time but is required to stand for election for reappointment at the next AGM. The Society may by Ordinary Resolution remove any director before the expiration of their period of office (Article 60).

7.6. A Chairman and two Deputy Chairmen (one publisher director and one writer director) are appointed by the General Council for three- and two-year terms of office respectively. The post of Chairman normally alternates between a writer director and a publisher director. The present (November 1995) Chairman is a writer director, and the Chairman-elect due to take office on 1 January 1996 is a publisher director.

7.7. It was agreed at the AGM held on 14 September 1995 that there would be a reduction in the number of writer directors and publisher directors from 12 to 9, with a General Council of 22 including two external directors and two executive directors- 'Senior Executives in the employ of the Society'. The reductions from 12 to 9 will take place in stages over the next two years.

7.8. The General Council of the Society deals with matters that typically would be within the remit of the Board of Directors of a commercial company. However, since the suspension of PROMS by the General Council in December 1992 and its formal abandonment in April 1993, Council members have considered it their right and obligation to be far more involved in details of the PRS's operations than would be common business practice. There is a very wide constituency of members ranging from representatives of large publishers to individual writers, all of whom know about the music industry, but few of whom have had experience in the running of a financial enterprise of the scale of the PRS. In its evidence to us the PRS stressed that the Society was a private company operating for the benefit of its members and that, as such, it was fundamentally different from a normal service company: 'it is controlled by those to whom it provides the service and is answerable to them, rather than to a group of external shareholders'.

7.9. The PRS told us that while there was a fairly good representation of members active within their particular spheres, the more successful writers had difficulty in finding the time to deal with the large volume of information and lengthy meetings, particularly if they were also involved in one or more of the 12 committees. During May 1995 two writers announced their resignations from the Council. Another said that he would not seek re-election at the September AGM due to pressure of work. Publisher members suffer less from this problem, since a company can nominate a member of its Board or staff for election as a director.

7.10. It was put to us that virtually all members of both the General Council and of the Distribution Committee might have personal or company financial interests in the outcome of many types of decision made by these bodies (see paragraph 11.6, for example). Indeed in the PRS there is each year a fixed sum of money to distribute and the more that is allocated to one member, the less is available for another. The PRS stated that all writer and publisher directors themselves had an interest in the decisions of the General Council and its Committees including distribution, costs, and licensing. Article 56(a)(viii) requires that a director must declare an interest in any contract with the Society, other than a contract in respect of any musical, literary or dramatic works in the copyright of which such director or company is interested. The PRS told us that an example of the latter would be a Deed of Assignment, and added that being a membership society, writer and publisher directors would always have a financial interest in the Society. Checks and balances were maintained by equal representation of writers and publishers on the Board, and were expected to be strengthened by the appointment of external and executive directors for which provision had now been made.

7.11. The PRS added that the writers' and publishers' level of economic participation in the Society was reflected in the tiers of membership with higher-earning members having more votes. Governance of the Society was restricted to full members, with no provision for associate members to become directors. The PRS maintained that although it was a members' organization it existed to undertake a commercial activity and it was important that its directors were those with a reasonable financial interest. We noted that the age range of the current General Council is from 33 to nearly 70. This means that the majority of younger popular and classical composers and writer members are not represented on Council by members of their own age group: we note that a number of popular musicians in particular have reached their major earning capacity, and hence their major contribution to the PRS's income, at an early stage in their careers. While the PRS told us that its role was not that of a professional institution, we have noted that such institutions often do include limited direct representation by younger members on their governing bodies and acknowledge the importance of their contribution at that level.

7.12. We were told that, as a result of resignations and lack of suitable candidates, those retiring by rotation who wished to continue to serve on the Council were generally able to do so, although there had been some exceptions in recent years. The PRS stated that some 60 per cent of the current directors joined the Council after the PROMS project was approved, ie since 1990.

7.13. In 1994 Professor Thomas Clarke, DBM Professor of Corporate Governance in the Faculty of Business at Leeds Metropolitan University, was asked by the PRS to report on its Corporate Governance. His interim draft (July 1994) and final (September 1994) reports are given in Appendix 7.2. He suggested, *inter alia*, that the General Council would benefit from the inclusion of two of the PRS's executives, and two external (ie not members of the PRS) directors possessing experience relevant to the PRS's activities. In his view, the inclusion of well-qualified and experienced non-executive, non-member directors would improve the capability of the Council to debate and take decisions on major business issues. Although we were advised that certain sections of the membership resented 'outsiders' intervening in the running of their Society, both proposals were agreed in principle at the EGM on 18 May 1995, and provision for such directors is now included in the latest revision of the Articles of Association (Articles 35(b) and 35(c)).

7.14. Professor Clarke's draft interim report to the General Council also stated that 'the General Council has resolutely refused any diminution in its authority in the past, and it is likely it would do so in future' and that 'A council of 24 people is good as a debating chamber, but can it readily perform the work of a board of directors? The General Council often seems more adept at fulfilling its representative function of attending to the needs of a diverse membership, than in fulfilling the responsibility of directing a large and complex enterprise.' His solution was to devolve more of the detailed debate to the committees, leaving a reduced General Council to resume its proper role of policy development. This view was reiterated in his final report which also concluded that 'The Council should seek to work out the strategic future of PRS, rather than be overwhelmed by operational matters'.

7.15. We ourselves examined the minutes of meetings of the General Council and Executive Committee over the period January 1992 to mid-September 1995. They showed that debates were lengthy and vigorous. The General Council seemed to deal with a comparatively large number of matters of detail, although the PRS told us that in fact such routine business was quickly dealt with. Debates on major projects potentially of fundamental importance to the PRS such as PROMS and the MCPS negotiations were held, but we saw scant evidence of the discussion of future policy and strategy that we would expect to be recorded in minutes of a

Board of Directors. However, as noted below, a Strategy Working Group of the Executive Committee has been meeting since January 1995.

General Council Committees and Groups

7.16. Article 44 provides that the General Council may appoint an Executive Committee to which it may delegate any of its powers. The PRS said that this was the most important committee. It meets once a month and comprises six writers and six publishers elected by the full General Council to transact the more routine business of the company, such as the approval of new tariff schemes; the acceptance of significant capital expenditure proposals; and the vetting of management reports on such issues as membership admissions, revenue collection and the progress of litigation. Before approving any licensing agreement or tariff with a potential revenue of over £5 million annually, the Executive Committee must normally consult the General Council.

7.17. The powers of the Executive Committee are the same as those of the former Executive Council which until 1991 used to conduct all day-to-day business, with the General Council itself exercising a supervisory role. Following the failure of PROMS, the General Council abolished the Executive Council. The current Executive Committee was set up in July 1992 and commenced meeting monthly from January 1993. The Society is now considering enshrining the terms of reference and the structure of the Executive Committee in the Articles of Association.

7.18. Article 67 states that the General Council and the Executive Committee may delegate any of their respective *powers* to Committees consisting of such director or directors as they think fit. In addition to the Executive Committee, the PRS told us that such delegation had been made only to the Audit Committee. On the other hand, the PRS stressed that the delegation of *issues* to committees was the only practicable way of developing policy proposals as envisaged in Articles 68 to 71 given that the General Council comprised busy, non-executive member directors.

7.19. A list of the various committees and working groups is given below and a description of their activities and current (November 1995) membership are given in Appendix 7.3.

Committees and Working Groups of the PRS General Council

- Executive Committee
- Distribution Committee
- Audit Committee
- Finance Committee
- International Relations Committee
- Donations & Awards Committee
- Music Classification Committee
- Rights Administered Committee
- Staff Committee
- Executive Committee Strategy Working Group
- New Technology Working Group
- Live Music Working Group

Many members of the General Council are involved in more than one committee or group. Indeed, its current Chairman chairs no less than seven committees in addition to overseeing the executive functions for some two years in the absence of a Chief Executive.

7.20. The PRS advised us that, as a rule, decisions taken by these committees and working groups had to go back to the General Council for ratification. However, certain decisions were traditionally deemed to be in the power of the relevant committees (eg membership, licensing decisions by the Executive Committee; loans, investments by the Finance Committee; salary matters by the Staff Committee). Others, especially those deemed politically sensitive (eg donations, rights administered), had to be endorsed by the General Council. Reports of all decisions and recommendations made by committees were routinely produced to the General Council.

7.21. The working groups shown in Appendix 7.3 are set up for specific tasks, and are not permanent, although in all other respects they can be regarded as committees of the General Council. Again, working groups consist solely of directors, but the PRS told us that they were also attended by management and, when appropriate, selected non-members. We noted that there is no provision for working groups as such in the Articles.

7.22. We observe that general business practice is that membership of such committees would normally include the executive management concerned with the particular topics, under the chairmanship of a relevant executive director or senior manager, and that these committees would have clearly delegated responsibilities, authorities and procedures. It is apparent that this is not the case with the current PRS committee structure: we noted that voting is limited to directors only in all committees and working groups, although relevant executive managers are often in attendance. Furthermore the PRS told us that, as the Board of Directors of the company, the General Council considered that it had full powers to revisit and overturn committee decisions unless a committee was specifically mandated to reach a decision on a particular point.

7.23. The PRS added that its committees frequently sought views from outside the PRS as well as calling on the PRS's management to assist in their deliberations. For example, Professor Clarke was involved when his report on Corporate Governance was discussed and there have been presentations of reports by IT consultants from time to time. While noting that outsiders, particularly consultants, have been present at General Council meetings to provide information or to present a report, the minutes which we examined disclosed little evidence of contributions to the debates by outsiders at General Council meetings. The PRS stated that both outsiders and management attend committee and group meetings in an advisory capacity, citing specifically the Distribution Committee and the New Technology and Live Music Working Groups.

Voting rights and procedures

7.24. The total number of members of the PRS as at 8 November 1995 was 28,421. Members' voting rights vary according to their membership status based on current or past PRS earnings from performances and broadcasts of their works and hence the level of their contribution to the PRS's income: ie full membership with multiple votes for the highest earners, associate membership with one vote for lesser earners and provisional membership with no voting rights for those members having low or no PRS income arising from performances of their works. In July 1994 the figures for membership in different categories, together with details of voting power, were as shown in Table 7.1.

TABLE 7.1 Categories of PRS membership and ballot voting rights as at July 1994

	<i>Full (20 votes)</i>		<i>Full (10 votes)</i>		<i>Associate (1 vote)</i>		<i>Provisional (0 votes)</i>	
	<i>No</i>	<i>Votes</i>	<i>No</i>	<i>Votes</i>	<i>No</i>	<i>Votes</i>	<i>No</i>	<i>Votes</i>
Writers	527	10,540	1,925	19,250	8,796	8,796	12,159	0
Publishers	102	2,040	251	2,510	966	966	1,068	0
Owners/successors	0	0	33	330	1,243	1,243	13	0
Total	629	12,580	2,209	22,090	11,005	11,005	13,240	0

Source: PRS.

7.25. The PRS told us that the system of restricting voting on the PRS's affairs to those whose earnings from performing rights collected by the PRS have been significant at some stage, together with additional votes for polls or postal ballots for those accounting for relatively significant shares of the PRS's distributions as shown above, was devised after a constitutional review in 1978. By 1994 those who had been provisional members for at least one year and whose aggregate earnings over the previous three years had reached £880 (writer) or £4,440 (publisher) were promoted to the status of associate member with entitlement to one vote for polls or postal ballots. Members of the PRS with aggregate earnings from the PRS's distributions in at least two of the three preceding years reaching at least £6,150 (writer) in 1993 or £30,770 (publisher) in 1993 were promoted to full member status, with entitlement to ten votes on a poll or postal ballot. (All these earnings figures have since been increased by about 10 per cent.) An additional block of ten full member votes is allocated to full members meeting higher earnings criteria. Thus 20 votes are awarded to full members whose earnings from the PRS had exceeded either ten times the full membership criterion during the preceding 20 calendar years, or 20 times the full membership criterion in the preceding two years' membership. For example, to qualify for extra votes in April 1994 the 20-year aggregates required were

£61,500 (writer) and £307,700 (publisher), and the alternative two-year aggregates required were £123,000 (writer) and £615,400 (publisher). These criteria are revised annually, reflecting increases in the level of allocations of distribution revenue to the PRS's members. The minimum aggregate royalties required by a writer member to obtain additional votes in 1995 rose to £67,500, which could be attained by an average of £3,375 annually over 20 years.

7.26. In practice the effect of this voting rights structure was such that in September 1994, for example, full members, who accounted for 86 per cent of the PRS's revenue earned by all of the PRS's members during the previous year, controlled 76 per cent of votes, while associate members controlled the remaining 24 per cent. There were 629 full members with 20 votes each (527 writers and 102 publishers): these had accounted for 60 per cent of the PRS's distributions in the previous year but they controlled only 28 per cent of all votes. Full members' entitlement to a second block of ten votes is dependent on current earnings.

7.27. The voting procedure on a show of hands at an AGM or EGM permits every full member and every associate member present in person to cast one vote only. On a poll or a postal vote these members have the votes set out in Table 7.1. On a poll votes may be cast in person or by proxy (Article 29). No person shall act as a proxy unless he is entitled on his own behalf to be present and vote at the meeting at which he acts as proxy, or he has been appointed to act at that meeting as a representative for a limited company or a firm being a full or associate member (Article 30). The PRS told us that postal votes are *only* undertaken for deciding the eligibility for appointment of director candidates. Sometimes, under certain special conditions, voting on motions is formally segregated, that is writer members and publisher members are counted as separate constituencies, sit on opposite sides of the room at General Meetings and are issued with different coloured voting cards for any votes taken at those meetings on a show of hands. The PRS added that most resolutions did not require such segregation. It had taken place at the last two General Meetings because the Articles being amended required a special resolution under Article 26A to alter Articles 35, 43 and 54 which govern writer/publisher representation, the powers of the General Council and alteration of the rules. Otherwise there was no formal segregation of writers and publishers in this respect. Nevertheless, the evidence we obtained from the EGM in May 1995 and from the 1995 AGM indicated considerable tensions between writer members as a group and publisher members as a group which were not confined to differences of opinion on the procedural matters noted above.

7.28. Publishing companies which are subsidiaries of another company can be members of the PRS in their own right in addition to the main company, and many groups of companies therefore exercise multiple votes depending on their organizational structure. The PRS said that it had no way of ascertaining accurately the number of potential votes of a group of companies until it had been notified of which companies would be attending the meeting. We were told that in theory a majority of votes in any ballot could be achieved by 758 members, if all 'super' voters attended or sent proxies and cast their votes in the same way. The numbers cast in an actual ballot would depend on the number and voting entitlement of the members present. For example, at the 1995 AGM some 530 members were present or represented, holding some 5,200 votes between them, excluding proxies.

7.29. We have noted above that there are 629 'super' voters with 20 votes each and 2,209 with ten votes each. The major publishing groups hold approximately 1,000 votes between them. For example, at the 1995 EGM EMI, Warner Chappell and PolyGram cast 574, 281 and 125 votes respectively. On the other hand, some major companies being differently structured exercised only 20 votes each. The PRS's latest estimate of the total of votes castable is 46,420. In practice, voting tallies in ballots may run well below the theoretical maximum, for example at the PRS's EGM in May 1995, total votes on resolutions ranged from 5,670 to 5,880.

7.30. We also noted that whereas publishing companies can appoint anyone to attend as their representatives, individual composer members can appoint only other members. It was put to us that this distinction was obsolete in a situation in which many composers had agents or managers. The PRS told us that if a proposal for change were put to the General Council it would consider it.

7.31. The results of postal votes for the director candidates are announced at the AGM and the successful candidates appointed at the meeting. Elections to the General Council are administered by the Electoral Reform Society. The Chairman and the two Deputy Chairmen are appointed by the General Council.

Strategy and planning

7.32. A number of internal attempts to determine strategy and define individual aspects of policy have been initiated by staff over the last four years. These, however, have been hindered by two major proposals central to the operation of the Society, neither of which came to fruition but both of which required extensive management effort. These proposals were the attempt to install an integrated information handling system known as PROMS, and subsequently the proposed collaboration with the MCPS on data processing: they are described in Chapter 8. The PRS also told us that the lack of a Chief Executive during the last two years had had a serious impact on planning and action and that the 12-month MMC investigation which commenced in November 1994 had also had a major diversionary effect.

'Towards 2000'

7.33. The last strategic review within the PRS took place in 1991/92 whilst the PROMS project was still being pursued. The report, issued in January 1992, entitled *Towards 2000, a Strategic View of PRS by Top Management*, listed the Society's Fundamental Aims as:

- (a) to maximize the net royalty income from broadcasting, cable and public performance in PRS domestic territories;
- (b) to distribute to the membership and to affiliated societies the revenue, net of administration costs, collected in PRS domestic and agency territories;
- (c) to maximize the earnings of PRS members from affiliated societies' territories by running an effective overseas documentation and follow-up service; and
- (d) to conduct such ancillary activities as are considered appropriate: these included, *inter alia*, copyright reform campaigns, financial support for musical causes, donations and prizes, and public relations `in line with the Society's objectives as set out in its Memorandum of Association'.

7.34. These aims were, in effect, a summary of the main objects of the company as set out in its Memorandum of Association, Clause 3. Apart from listing these aims, the only reference to strategy as such in the report was to some `strategic objectives for the nineties'. Three of these deal directly with aspects of the PRS's strategy:

- to secure the full potential of administration savings made possible by new IT (starting with the implementation of PROMS);
- to generate further real revenue growth; and
- to increase member satisfaction through better service.

7.35. The remainder of the objectives were concerned with specific tactical aims and the desired perception of the PRS by others rather than overall strategic direction. Both the Society's national and international roles were described in general terms. Included in the national role was a statement that `The membership will be provided with a written commitment to levels of service *on a measurable basis*' (our emphasis). The report did, however, include a summary of plans for the years 1992 to 1994 provided by the three directorates-Membership Services, External Affairs and Administration-and by the Public Affairs Department. These described their separate aims and objectives in terms of what needed to be done, together with a list of `Priority Targets 1992-1994' and key financial assumptions: these are shown in Appendix 7.4.

7.36. `Towards 2000' was basically a discursive document rather than a planning instrument, and it was not formally approved by the General Council. Its underlying assumption was that PROMS would succeed and be extended. When the General Council decided to abort the PROMS programme in 1992, the status of `Towards 2000' declined. However, no other corporate strategy or plan for the PRS has been produced since that time, nor has there yet appeared the proposed written commitment to members to give them a level of service on a measurable basis.

Business Process Review

7.37. Early in 1993, after PROMS ended and coincident with the discussions with the MCPS, a BPR was carried out by staff. This was, in essence, a bottom-up study of operational details. Its scope was defined as the 'core business areas' of membership, licensing, performances and repertoire. The terms of reference were, in summary:

- to assemble overview data which will establish the critical success factors (CSFs) and current goals for the organization and each business area within the scope of the project;
- to present estimated and, where possible, accurate costs of business outputs and benefits generated;
- to portray graphically the major business processes that flow through the organization and assemble data on historic trends; and
- to identify where and how administration costs may be reduced and/or improvements in service levels achieved.

An important aspect of the review was to consider the simplification of business processes and to identify tasks that were inessential or obsolete with a view to their probable elimination. It was also envisaged that changes to the Society's policies and rules might be recommended.

7.38. The Review Team carried out 'activity audits', produced 'process maps', developed a 'costs/benefits matrix' and compiled a table of 'primary duties' which ran to some 55 items and from which a large number of CSFs were derived. A great deal of information was obtained on the Society's operations in the selected areas and presented in the 11 appendices of the report.

7.39. The BPR team's report, issued in April 1993, summarized the conclusions of the investigation as follows:

- As a business we are not good at measuring things, or defining what the correct measurement should be.
- The over-riding objectives of the Society are not clear and therefore the company is not focused on these.
- The business is too complex, both in policies and procedures.
- It costs too much to administer the business.

These were important and far-reaching criticisms of the Society's operations but there does not seem to have been an in-depth debate on the BPR by directors either in Council or committee. The PRS told us that the final BPR report was circulated to the Council and discussed at the Executive Committee meeting of 12 May 1993 but, judging by the minutes of this meeting, the discussion following the presentation by management appears to have been cursory. However, the committee adopted a recommendation, among others, 'That this work be concluded within the framework of a coherent, planned quality initiative of Total Continuous Improvement'. The report on this Executive Council meeting was circulated to the General Council, who, at their meeting on 23 June 1993, approved the decisions and recommendations therein including those on the BPR, although apart from two statements by management on administrative matters no debate on this is recorded in the minutes of this meeting.

7.40. We were informed by the PRS that the General Council received frequent updates on progress by management in the first half of 1994, but reference to the relevant minutes revealed little discussion by directors of the implications of the BPR following such updates. Thereafter there is little reference to the BPR in Executive Committee or General Council minutes. It does not appear that the membership was informed of the report's contents or given the opportunity to consider its conclusions, although one of the minuted comments made by directors at the Executive Committee meeting on 12 May 1993 urged that 'the mission statement should include member input with consultations taking place outside of the building'. The PRS in its evidence to us stated that 'It is difficult to see how the membership could be sensibly and realistically involved

in the BPR. Eventually, depending on the nature of the recommendations, proposals for major change would be reported to them or proposed for approval at a general meeting.'

7.41. The review did not, nor was it intended to, address overall company policy or strategy formulation. However, in a section entitled 'Proposed Future Strategy' the need was identified for 'A resource to address strategic initiatives and the impact on PRS of developments in the industry. This work would complement the largely internal focus of the self-analysis programme.'

Quality management

7.42. Following the BPR, the quality of the PRS's operations was examined in detail and a programme of evaluation and training, known as the Total Continuous Improvement Plan (TCI), was proposed in December 1993. The plan comprised 'a comprehensive framework for improving quality in all aspects of PRS' activities', and listed goals for TCI at the PRS of which the main ones were:

- improved customer/supplier relationships;
- lower administration costs (including the BPR initiatives); and
- better service to membership, including the development of service standards.

7.43. We did not find evidence of a debate on the TCI as such by the General Council although in endorsing the relevant minutes of the Executive Committee the Council would have noted the TCI quality initiative. A specific training programme for staff was put in place and Improvement Priority Teams were set up to examine a number of 'matters of higher priority', initially performance-matching and financial enquiries. Criteria listed for measuring the success of the TCI included increased customer satisfaction, fewer members' queries, evidence of less reworking, reprocessing, adjustments, checking and inspection and mutual respect between the PRS and members and music users, the latter group having received but scant acknowledgement up to that point in most of the PRS's planning documentation.

7.44. The PRS told us that approximately 60 additional improvement actions had been identified as a result of the TCI process and as of October 1995 savings of some £1 million a year were estimated to have been made and that a further £1.2 million savings a year were envisaged.

7.45. Quality was defined in the TCI as 'Impressing our customers by always meeting agreed requirements, and continually seeking to improve upon them'. As it stands this does not contain any specific targets or lead to any specific actions-it describes an attitude rather than defining criteria. The PRS told us that it considered that the widely accepted standards for quality management-BS5750/ISO9000-were 'too bureaucratic' for their purposes, and provided a copy of a paper produced by management for consideration by the Executive Committee which sought to differentiate between Total Quality Management (TQM) and the requirements of approval against the BS/ISO standards for TQM. It is generally recognized by industry and commerce that the main benefit of working towards these standards lies in the disciplines that need to be imposed for compliance to be achieved, a view which had been expressed to the PRS during its discussions on the subject with other enterprises.

Mission statements

7.46. In the section of the BPR report entitled 'PRS Mission Statement' it was suggested that the existing statement was inadequate and a new version was proposed. The existing statement as quoted was: 'To work for the creators and publishers of music to collect as much money as possible for the performance of their music, whilst spending the minimum necessary to succeed'. The alternative proposed at that time concentrated on client relations: 'Our mission is to be recognised by creators and publishers of music as an indispensable service, a service which is helpful, efficient and effective'.

7.47. We asked the PRS whether it recognized any obligations towards the music user. It stated that 'as a membership society our primary customers are our members and affiliates but in our capacity as a rights licensing body, the licensee can be seen as a customer'. The PRS added that members and licensees (as users) have almost opposite requirements, ie the collection of maximum royalty versus the desire to pay a minimum amount, if at all. The PRS did not accept that the ultimate music user, the listener, was its customer.

7.48. The PRS said that within its TCI programme it tried to produce a purpose or mission statement (or vision) using the following guidelines for a successful mission statement which we quote below:

- are always customer oriented
- should define wider responsibilities to the community in which we operate
- should be supported by a statement of principles and values which further set out PRS' responsibilities and intended behaviour to customers, suppliers and employees, between management and employees and between employees themselves
- should also have a definition of success, profit and key performance indicators

7.49. The TCI plan of 1993 included the following statement setting out the PRS's mission as: 'we will be:

**Pre-eminent amongst international Music Rights organisations;
Regarded by members as an efficient and indispensable service;
Seen as fair, prompt and accurate by music-users and affiliated societies.'**

This seems to us to be, in effect, a statement of public relations aims rather than mission for the business: it has no specific business aims or targets and no specific business actions are set down. The PRS said that its goal of 'being recognised in the international rights industry as being outstanding' was an attempt by the TCI team to reconcile the requirements of members and users. This statement appears, with minor variations, in the latest (April 1994) edition of the Members' Handbook in the section on 'PRS Organisation' under the heading of 'Total Continuous Improvement'. The PRS told us that the General Council has not endorsed this mission statement but accepts the need for one.

7.50. However, the following description of the PRS's function, which has appeared for some time in its annual Yearbook (on page 1 of the 1995/96 issue), more nearly approaches what is conventionally accepted as a mission statement than any other statement by the PRS: 'The essential function of the Society is to do collectively what creators cannot effectively do for themselves-that is, to administer for their benefit the non-dramatic public performance, broadcasting and cable diffusion rights in their copyright musical works.' Nevertheless, the PRS does not have a corporate mission statement as such at present.

Strategy Working Group

7.51. The PRS told us that since the adoption of 'Towards 2000' in 1992, changes in Council, in top management and the immediate problems of recovery from the PROMS episode had forced it to postpone any further reviews of its strategy. There had been a further hiatus in strategic planning while the abortive joint service operation with the MCPS was under consideration and it was only recently, following the cessation of the negotiations with the MCPS, that member directors had started to 're-think the business'. Operating plans have continued to be produced on an annual basis, but without the necessary underlying strategic thinking this approach has necessarily been short term and reactive.

7.52. Late in 1994 a new Strategy Working Group was set up within the Executive Committee. Composed of six selected General Council members headed by the Chairman, it is charged with 'pulling together the new strategy'. Initial thinking by the group has concentrated on 'Re-focusing the business in line with the main income streams, ie those from Public Performance, Broadcasting and International' stating that 'PRS has to concentrate on maximising, within external constraints, revenue as the primary objective'. So far this group has concentrated on organizational change rather than strategy. The PRS told us that the group considered corporate structure to be a key aspect of strategy and an area in which it could get a relatively quick payback from improvements. Currently, the preferred option for organizational restructuring envisages three business directorates each with an Executive/Managing Director in charge, plus a fourth stream to cover central administrative support and a fifth for legal matters. The PRS estimated that this restructure *per se* would cost about £150,000 to implement (additional payroll costs for the executive director posts plus some recruitment costs): the overall effect on the business and related benefits remained to be assessed. Recently the group has also been giving consideration to its 'vision' of how the PRS would operate in the year 2000, has been comparing this with an initial working draft document on IS strategy, and has started to examine the structure of the Council committee. At this time, however, the corporate strategy from which the

organizational structure would normally derive has yet to emerge. The PRS advised that a longer-term plan is to be commissioned from the new Chief Executive in 1996.

The Chief Executive

7.53. The PRS told us that it recognized the need for a strong Chief Executive capable of carrying out the strategy and policies agreed by the General Council by formulating and applying clear operating guidelines flowing from them in consultation with senior staff. However, as already noted, the position has now been vacant since January 1993 (except for a few months in the summer of 1993). Although we were advised that since December 1993 the current Chairman had not been granted by the General Council the powers accruing to the position of Chief Executive, he has nevertheless in the interim undertaken many of the tasks normally carried out by a Chief Executive, devoting a large amount of his time to this with the approval of most of his co-directors: the General Council recognized his efforts in a tangible way. In effect the present Chairman has largely filled the role of Chief Executive over the last two years. At a late stage in our inquiry (at the 1995 AGM) the Chairman announced that a new Chief Executive had been appointed and he took charge with effect from 6 November 1995.

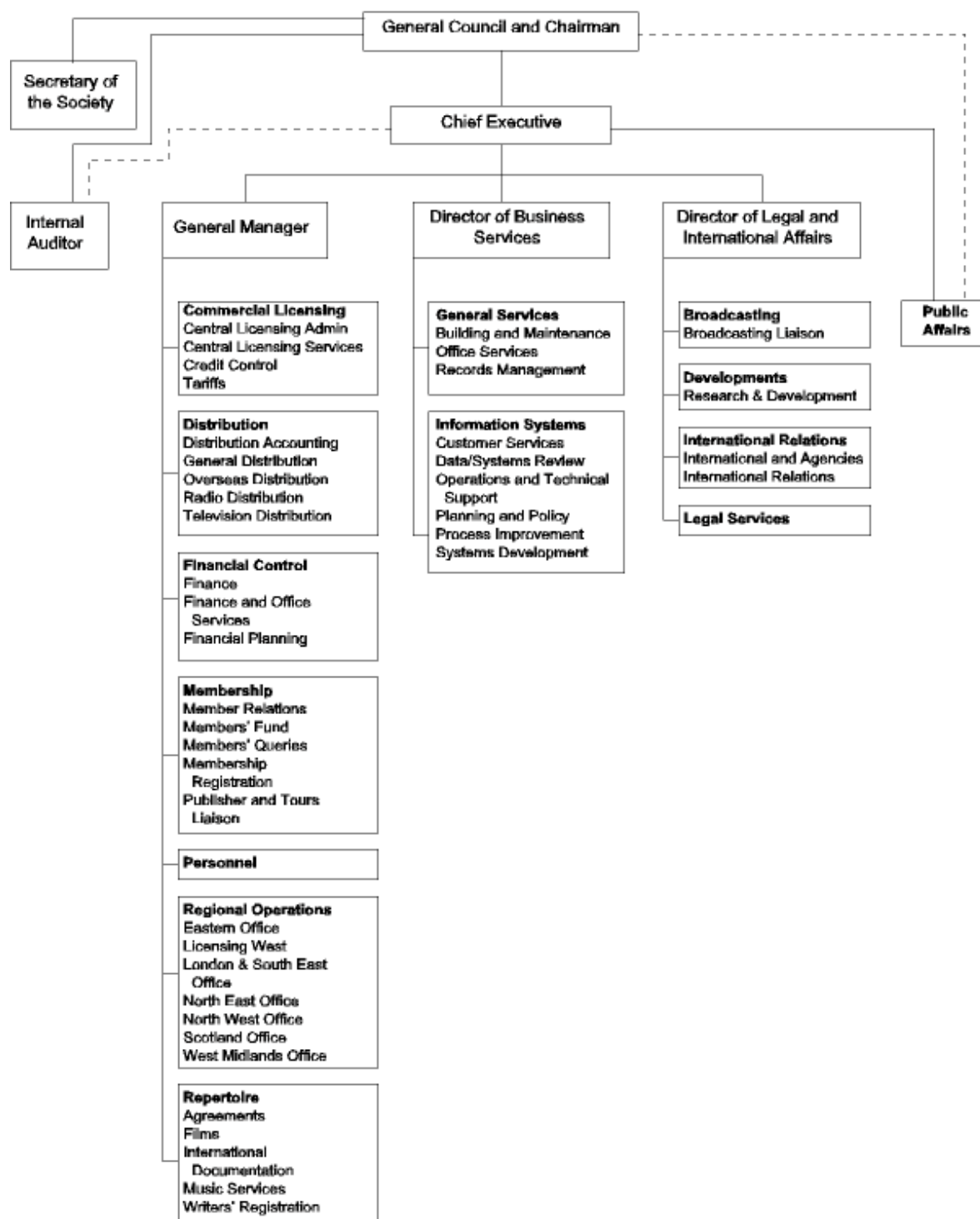
Operating divisions

7.54. The current structure of the PRS is based on divisions which match its major operations. Thus there are major divisions dealing with works registration, membership, licensing and distribution, among others, all reporting to the General Manager. There are also two support directorates: Business Services (including Information Systems), and Legal and International Affairs. Figure 7.1 shows the structure in diagrammatic form.

7.55. Although the PRS has made considerable use of computer processing in individual operations, there is still a large amount of manual work involved. The quality of the data received from the users of its repertoire, and occasionally its writers and publishers, is often incomplete or incorrect and this leads to difficulties which have to be overcome manually. The PRS is attempting to improve data input from these sources but there is a long history of inaccurate and incomplete records in respect of both the members' works and particularly their performances.

FIGURE 7.1

PRS organization chart (alphabetic sequence), as at 1 November 1995



Source: PRS.

Note: This chart represents reporting lines and does not reflect grades.

7.56. Posting performances of members' works is another area where a large amount of manual effort is necessary. While some of the biggest users such as the BBC can and do provide performance information on disc or tape, many others such as local radio do not. The logging of live performances both at significant venues and other locations where the PRS is provided with details of events by composers, performers, promoters and hall or site managers in a variety of formats currently involves a large amount of manual sifting and verification before it can be included in the running database of performances of the PRS repertoire on which the distribution of that source of revenue is largely based.

Staff

7.57. At the present time (November 1995) there are 678 PRS staff, compared with over 800 in late 1992/early 1993. Of these, four are classified as top management, ie the Chief Executive, the General Manager, the Director of Business Services and the Director of Legal and International Affairs. There are 66 other management positions in Head Office, and in the regional offices.

7.58. There have been a considerable number of staff changes in recent years. Most divisions have decreased in numbers since 1989, for example Licensing from 216 in December 1989 to 184 in December 1994, and Distribution from 185 to 177 over the same period. However, the Legal Services function has increased by about 50 per cent due to the transfer of debt collection staff from the Licensing Division. A number of senior managers, including Chief Executives, have been replaced and some posts abolished. The PRS stated that it was likely to move to a flatter, broader structure with fewer grades and job families.

7.59. Manpower plans are included as an item in the annual budget. Managers are required to set out in their budget submissions the anticipated workload and consequent changes in their staffing requirements: the PRS told us that considerable discussion and modification has taken place during the budget review process. In addition, formal approval from top management is required before any additional staff are recruited and any proposals for increased staffing are considered by a weekly establishment meeting. If approved the recruitment process can then begin. Requests to fill existing vacancies are considered in the same way. Generally all vacancies are advertised internally. The PRS told us that, at higher levels, the majority were filled by internal appointments, but those at the clerical levels were mostly filled from external sources.

Administration

7.60. With the exception of licensing, the activities of the Society are based at its offices in Berners Street, London W1, where currently 583 employees, including 37 in the separate London & South East Regional Licensing Office, are located. The mainframe computer is located in Birmingham where it is operated and maintained under a facility maintenance contract. Regional offices for licensing have been set up outside London as described below, and these account for a further 98 employees.¹

Regional offices

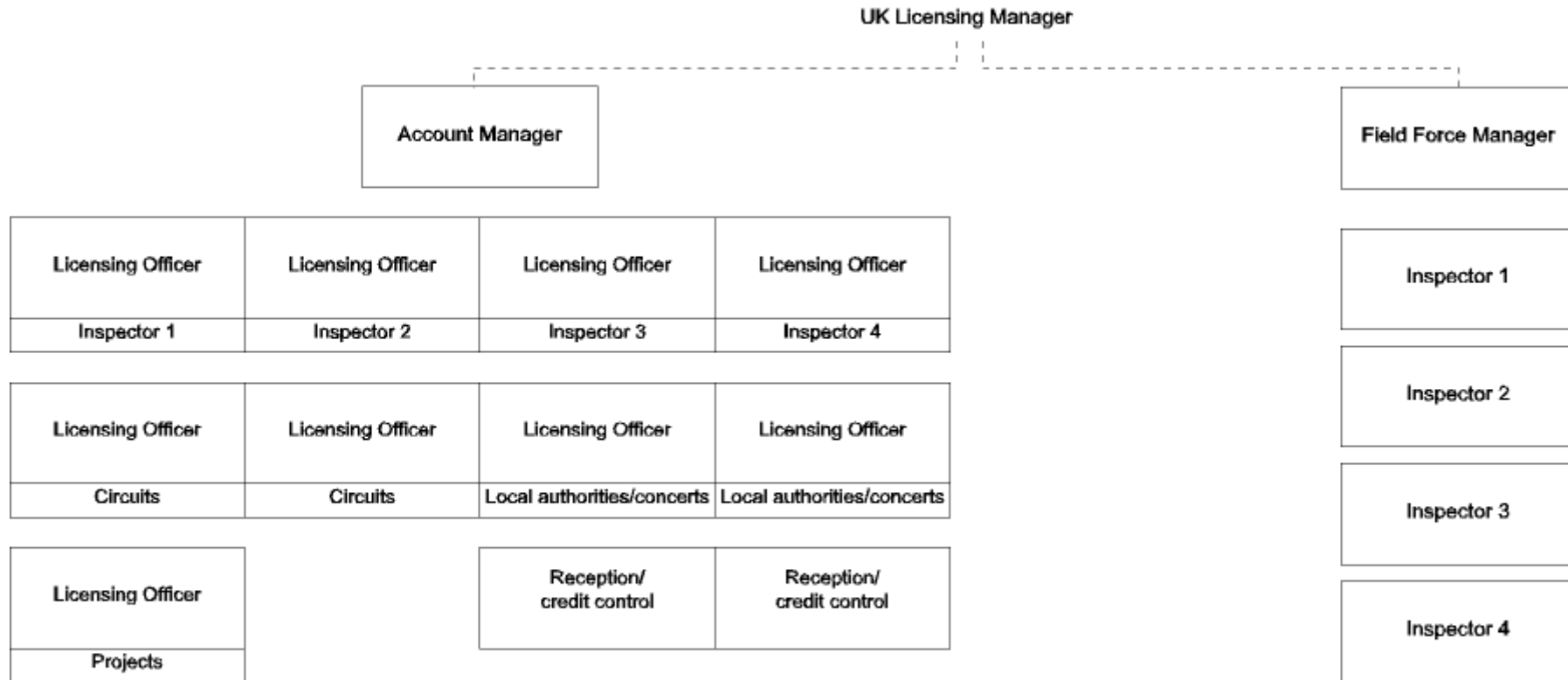
7.61. In 1992 the Licensing Division of the PRS produced a paper on its development strategy and reorganization. It was stated that by the middle of 1993 it would be likely that more of the administration of the licensing function would be handled outside London than in Berners Street. The policy to decentralize had commenced in effect in 1984 with the establishment of the Edinburgh office, and there had been a separate Irish office in Dublin since 1977. The PRS told us that the basic philosophy behind the move was a recognition that initial licensing of a large number of venues where music was used was a sensitive business which benefited from local knowledge and contacts and a closer contact with its field force.

7.62. Each regional office comprises a number of licensing officers together with credit control and administration staff reporting to the Account Manager. Following a recent reorganization Inspectors now report to Field Force Managers. A typical regional office structure is shown in Figure 7.2. The remit

¹Excluding IMRO, the Irish performing right organization, which since 1 January 1995 has been independent from the PRS, although the administration function continues to be provided by the PRS at the present time.

FIGURE 7.2

PRS organization chart—North East region



Regions covered by Inspectors:

1. West Yorkshire and North Yorkshire (west of A1, south of A684).
2. Cleveland, County Durham and North Yorkshire (east of A1, north of A684 and north of York).
3. Tyne & Wear and Northumberland.
4. South Yorkshire, North Humberside and York.

Source: MMC based on information from the PRS.

of the local Inspectors is chiefly to initiate new business at users' premises and the function of the regional offices is to provide the necessary support. Licensing Officers provide the telephonic, correspondence and existing licensing reassessment support at these offices. Also, the renewal of licences at a local level is reckoned to be more effective and efficient than if it were performed by the London office. In addition to improved customer contacts and local knowledge resulting in quicker and more accurate licensing operations, there had been estimated savings on office staff costs of about 15 per cent, compared with the central London operation, due to higher productivity and lower wages.

7.63. The direct costs of local Inspectors, usually five to six per region, have been given as typically £32,000 a year gross each, and the cost of each visit of an Inspector to a site is estimated as £40 to £50. The nature of the calls they make requires diplomacy and patience and this means that, due to the length of time spent with potential licensees, the Inspectors on average achieve five to six calls a day, leaving little time for dealing with existing members' problems unless they become serious. The target is for the Inspector force to contribute £5 million new gross income a year.

7.64. The management of existing accounts and other ongoing requirements in respect of licensing within the region are dealt with by the local office staff, typically 13 to 15 persons, although it is considerably larger in the London & South East Regional Office which has 8 inspectors and 30 other staff reflecting the high intensity of licensable music use in this region. The new Bristol office which will cover Wales and the West of England will also be a relatively large office. Regional offices have full responsibility for the whole licensing operation in their areas with the exception of infringement proceedings and debt collection at the litigation stage. In addition to individual local licensing, regional offices also deal with the headquarters of major retail and other national chains located within their regions in respect of multiple licences for public performances. The PRS told us that this now accounted for over one-third of all its revenue for public performance of music.

7.65. The setting up of the Edinburgh office was not immediately followed by others. The General Council required the benefits to be demonstrated before giving consideration to further devolution. Furthermore, there were other major concerns during the second half of the 1980s, notably tariff restructuring, which demanded greater priority. However, starting in 1989 with the West Midlands, further regional offices were set up in the ensuing years. With the opening of the Wales and West of England Region Office at Bristol in September 1995 this year, all the PRS's licensing in the UK will now be carried out by the regional offices with only a relatively small support staff remaining within Head Office to cover licensing research, programme co-ordination, cash reconciliation and statistics.

7.66. We were also told that there was no immediate intention to move other PRS functions into the regional offices, although consideration might be given to transferring certain other activities such as performance posting following the completion of the regional licensing programme with the opening of the Bristol office. A map of the regions as at mid-1995 is given at Figure 7.3.

7.67. In late September 1995 the PRS announced that it would be closing its West Midlands Regional Office at Sutton Coldfield in December 1995 and transferring the bulk of its functions to the Peterborough office. The PRS informed us that the reasons for this were the unsuitability of the existing buildings, the need to replace computer and telephone equipment, the restructuring of regional licensing boundaries and the availability of space at Peterborough. Although Peterborough is some 90 miles distant from Sutton Coldfield and located at the extreme eastern edge of the Midlands conurbation, the PRS said that this did not indicate a change of policy, 'merely a realisation that it could operate regionally with fewer than the seven UK offices originally envisaged'.

Head Office, Berners Street

7.68. The PRS occupies a complex of offices of varying age and condition in Berners Street, London, as shown below.

FIGURE 7.3

PRS licensing territories in 1995



Source: PRS.

Note: Heavy lines mark the boundaries of the Irish, Scottish, West Midlands, North West, North East, Eastern and London & South East Offices, and Licensing West Department.

The Berners Street offices

Maidstone House	Ground floor plus six upper floors
28 Berners Street	Ground floor plus five upper floors
Copyright House	Ground floor plus six upper floors
St Andrew's House	Two floors
Michelle House	One floor

7.69. The original reason for the Berners Street location being chosen was its close proximity to the music publishing industry. The PRS has remained at this address for over 30 years under a long-term arrangement with the Lord Berners¹ estate; the cost of this accommodation (as shown in paragraph 7.68) at the present time was given as approximately £13 a square foot including rent and rates which would be difficult to match elsewhere in London or the South-East, or indeed in many other parts of the country which might be considered suitable for relocation. The PRS said that there was no possibility of moving Head Office until an integrated information handling and processing system was fully up and running since the current operation required considerable manual input from experienced staff who would be unlikely to accept relocation. A further complication is that, technically, the ground floors of the buildings are designated as showrooms and the current dispensation by the planning authority in favour of the PRS is not transferable: also there are further restrictions placed on the use of the existing buildings by the Berners Trust.

7.70. On the last occasion when the matter was debated by the General Council in 1994, it was decided that there was no case for a complete move by the PRS from Berners Street at that time. However, the PRS told us that by the end of 1996, the space released by moving most of the licensing activity to regional offices and from other reductions in office space requirements should enable them to vacate the floors currently occupied at both St Andrew's House and Michelle House realizing estimated savings of £505,000 a year and £73,500 a year respectively.

7.71. The PRS also provides rent-free accommodation (estimated value £12,760 a year) to the composer organizations APC, CGGB and BASCA ('the Guilds') at Hanway Street, London, and for the Members' Fund at Berners Street. Hanway Street was purchased in 1987 for a total price of £343,000 (£250,000 plus £93,000 renovations). The PRS estimate of interest foregone as a result of purchasing the building is £23,000 a year. The Guilds are responsible for all outgoing and internal decorations but the PRS pays for building insurance and for structural work. A 'desk' is also provided for the part-time staff of the British Copyright Council whose meetings are all held in the Council Room of the Berners Street office.

Contracting out

7.72. The PRS has no formal policy or guidelines as such on contracting out or market testing, nor is there a formal general contract administration procedure. There is no specific General Council instruction on this subject. Nevertheless the PRS has contracted out two major activities and a number of service activities using normal contract procedures. The PRS maintains that in certain areas, eg performance logging, it would be difficult to find the specialist musical and music business expertise outside the PRS, and that in others, eg works and agreements, there are confidentiality requirements with potential legal implications to be taken into account when considering contracting out. Licensing and distribution were two areas where, because sensitive handling of the members was essential, having operations carried out by third parties could bring problems. The PRS said that fewer than 12 members of staff were involved in contracting out. Procedure was informal but was constrained by the checks and balances of the small management team.

7.73. Certain activities considered by the PRS to be less sensitive have in fact been contracted out. These include a number of non-core services and two major functions: the running and support of the mainframe computer and personal computer (PC) servicing. Contracting-out proposals are initiated by staff, considered by the relevant committee and authorized by the General Council. The responsibility for managing the contract for outsourced services, including quality, service and cost control, is shared between line and senior management, and this is supplemented by financial monitoring through the management accounts.

¹Lord Berners was a composer of note during the first half of this century. His best-known work is probably the ballet *The Triumph of Neptune*.

7.74. Facilities management, ie the running and support, of the mainframe computer in Birmingham has been contracted out since 1990, with an estimated direct saving of £1.4 million a year. This also released office space in the London complex. The maintenance of the PRS computer is contracted out. The latest contract has achieved significant savings. The other major contract is for servicing the Society's PCs and has been placed with a computer servicing company. Outsourced financial services also constitute a major item of expenditure. Currently outsourced non-core services include cleaning, security, heating and air conditioning, photocopier maintenance, external meeting arrangements and training services.

7.75. The PRS is also considering the possibility of contracting out sampling services, using electronic data-gathering software, but we were told that this was a prospect that was more for the medium to long term when equipment was available to track digital signals and internationally recognized codes such as the International Standard Recording Code (ISRC). However, the PRS needed first to complete its plans for a products and recordings database linked to the PRS repertoire of works.

7.76. The PRS added that, despite the difficulties, in principle, virtually all its operations could be contracted out, provided sufficient expert management was retained to specify and control the resulting contracts. The main barrier to contracting out the PRS's core activities at the present time was the insufficient extent and robustness of its data input and related data-handling systems. However, initial registration was already handled by the MCPS through the joint registration arrangement whereby the MCPS obtained the relevant information and forwarded it to the PRS. On the whole this had been successful. The PRS added that it incurred extra costs due to further checks and data handling for performing rights that were not required for the mechanical rights business.