
JMM – The International Journal on Media Management



Editorial – The Impact of Financial Markets on Media Management Practices

The financial markets have been called the media industry's "Third Market." In recent decades, the competition for investment capital among the major me-

dia corporations arguably has become as much a focus of management effort and strategy as the competition for audience and advertisers.!

Dear Readers,

Welcome to volume 5 issue 4 of the JMM – The International Journal on Media Management.

To prepare this issue focused on "The Impact of Financial Markets on Media Management Practices," we have worked closely with prof. C. Ann Hollifield from University of Georgia, USA. We would like to express our gratitude for Prof Hollifield's great involvement and support throughout the whole cycle of its preparation. In the guest editorial Prof. Hollifield introduces all articles accepted for publication.

November has brought sad news for JMM – Prof. Axel Zerdick from University of Berlin, Germany serving at JMM Editorial Board since its inception in 1999 has passed away. We pay tribute to him in the obituary written by Prof. Peter Glotz, his good colleague.

In 2003, the journal and its editorial team entered a new generation of its development and executive work: Yingzi Xu has joined the team as executive editor and also as a doctoral student at the University of St. Gallen. We hope that with an enlarged team, we will be able to deliver even better issues of the journal.

At the end of 2003, Media and Communications Management Institute of University of St. Gallen, the publisher of JMM, has signed a cooperation agreement with commercial publisher Lawrence Erlbaum Associates Inc. This cooperation aims to increase the journal's visibility and professional subscription service to our readers. Starting in 2004, all subsequent issues of JMM will be produced and distributed by Lawrence Erlbaum Associates Inc. In 2004, the JMM will be published in two double issues. This arrangement is necessary in the initial period of the cooperation. From 2005 JMM will be published in four issues per volume.

Apart from research articles, you will find interesting book reviews, new calls for papers, and a conference calendar. We hope you will enjoy this issue. For the latest news and submission instructions, please log on to www.mediajournal.org. Once again our warmest thanks to Prof. C. Ann Hollifield for her generous assistance and support.

The Editorial Team:

Beat F. Schmid, Peter Glotz, Andreas Herrmann, Bozena I. Mierzejewska and Yingzi Xu

Among media scholars, practitioners and even the public, this development has been a source of concern. Many critics have argued that as the industry has matured, consolidated and come to be dominated by publicly held corporations, media managers have started focusing on short-term financial performance rather than the quality of the content their organizations produce; becoming controlled by the need to serve investors' and consumers' preferences rather than the public interest (Bagdikian, 1992; Cranberg, Bezanson & Soloski, 2001; Crouteau & Hoynes, 2001; Underwood, 1993).

But this assertion is, in itself, not uncontroversial. Some industry executives, management experts and even regulators counter that the increased focus on financial management is a response to declining profit margins brought on by increased competition and the fragmentation of the media market. Consolidation and diversification are, therefore, strategies necessary both for media corporate survival and high-quality content production, according to this argument.

The debate over the question of how financial management impacts media performance is far from purely academic. Media corporations are demanding further deregulation from policymakers around the globe on grounds of their need to improve their financial performance in a changing market. Dominating the industry's priority list is the desire to further consolidate and diversify. Public interest groups are fighting back, arguing that the current level of industry consolidation and public ownership has resulted in homogenization of content, a decline of the watchdog function of journalistic media, and the marginalization of populations that advertisers view as less economically valuable.

This issue of the International Journal of Media Management revisits this debate by presenting some of the most

recent research on media financial management strategies and their impact on media management. Four of the articles in this issue deal directly with the relationship between financial management and media practice, while the remaining three articles speak to closely related issues.

From the scholarly perspective, addressing this debate over the relationship between financial markets and media management is a complex enterprise. The complexity stems from several sources. First, issues of financial management are often intertwined with those of ownership. In the 1980s and '90s, the questions addressed in this special issue were most commonly framed in terms of the effects of group or corporate ownership on media performance. But even that issue was complicated by the realization that organizational size might be responsible for some of the effects attributed to ownership structure. Even more recently, scholars have come to suspect that the issue is less one of either size or group ownership than it is of public vs. private ownership. Public ownership increasingly is being held responsible for increased emphasis on profit margins, cost cutting, and the reduction in both the quantity and quality of newsroom staffs (Cranberg, Bezanson & Soloski, 2001; Crouteau & Hoynes, 2001).

Even then, however, there is contradictory evidence. Some publicly held media corporations have been credited with successfully resisting pressure from financial markets (Cranberg, Bexanson & Soloski, 2001). That suggests that the relationship between global financial markets and media organizational behavior is less deterministic than critics sometimes presume. It also suggests that the role of individual leaders as a factor in organizational behavior may need more study.

The second complicating factor comes from the need to define 'media performance.' As McQuail (1992, p. 2) noted,

'it is impossible, in general, to say when and where the activities of mass media belong to the public or to the private sphere.'

The problems of defining media performance are highlighted in the articles that address the theme of this issue. Within this collection of studies, the concept of media performance is variously defined either implicitly or explicitly as journalistic quality and editorial independence (Edge), financial performance or economic efficiency (Jung; Vogt & Kolo), and the success or failure of news organizations in maintaining an employee ownership structure (Fedler & Pennington).

Marc Edge uses historical methods to present a detailed case study that illustrates why so much attention is now being focused on the financial management of media corporations. In his article *The Good, the Bad, and the Ugly: Financial Markets and the Demise of Canada's Southam Newspapers*, he examines the Southam newspaper company's evolution from a family owned newspaper chain to a publicly held corporation that became the subject of hearings in the Canadian Senate on media corporate ownership and editorial independence.

Also directly addressing the theme of this special issue are Jaemin Jung's article, *The Bigger, the Better? Measuring the Financial Health of Media Firms*, and Patrick Vogt's and Castulus Kolo's article *Strategies for Growth in the Media and Communications Industry: Does Size Really Matter?* Both articles ask whether size and diversification improve media corporations' financial performance, but they reach somewhat contradictory conclusions.

Jung and Vogt/Kolo's articles are very timely because, despite the media industry's current enthusiasm for consolidation and diversification, financial management scholars and consultants in other industries are raising doubts

about the effectiveness of such growth strategies. Economists and management scholars have long recognized that corporate growth can generate diseconomies of scale, resulting in a net reduction in financial performance. Research in the field of finance over the past two decades has provided a growing body of evidence that corporate financial performance is improved not by diversifying, but by focusing on a narrow area of operations in familiar lines of business (Stern & Chew, 1992; Copeland, Koller & Murrin, 1991). It is now generally conceded that owning multiple lines of business has proven financially successful for only a handful of exceptional companies, and even some of those are currently narrowing the scope of their operations and focusing on core businesses.

As one team of researchers and consultants noted, 'In the final analysis, the net effect of size, integration and diversification is often negative; the tax it imposes can be a net destroyer of value' (Copeland, Koller & Murrin, 1992, p. 17).¹

But whether this experience from other industries will prove relevant to the financial management of media corporations remains unknown. Information products differ substantially from many other types of goods in terms of their underlying economic characteristics (Priest, 1994). Specifically, information products are public goods and have high production but low reproduction costs. There is a high-level of uncertainty and risk in the production of each new information product or concept; a high level of variability across consumers in terms of their relevance to individual buyers; and a limited ability to test market a new product such as a book or movie before incurring most of the costs involved in producing the entire product.

In combination, these economic characteristics would seem to favor portfolio management strategies designed to capture scale economies and maximize reproduction and distribution across

multiple geographic markets and media platforms. However, given the experience of other industries, the question remains whether further consolidation and diversification by media companies will prove counterproductive. Jung's and Vogt/Kolo's articles provide some new evidence to fuel that debate.

Fred Fedler and Robert Pennington's comparative case study of the development and fate of employee-owned daily newspapers in the United States over the past century also addresses the question of how financial priorities impact media organizations. Critics of corporate media often argue that 'when MBAs rule the newsroom' (Underwood, 1993), a fundamentally different set of values begins driving management decisions. Too often, the story goes, editorial quality and independence become stepsisters to profits, something that presumably wouldn't happen if journalists were in charge. However, in their article *Employee-Owned Dailies: The Triumph of Economic Self-Interest Over Journalistic Ideals*, Fedler & Pennington present evidence that, despite such romantic illusions, the blood of homo economicus runs through the veins of journalists no less than it does investors, MBAs, and the family heirs to media fortunes.

Although Wayne Fu's article *Applying the Structure-Conduct-Performance Framework in Media Industry Analysis* does not directly address financial management, his work does speak to the issue of how mass communication scholars measure media performance. In an article that was recently recognized with the Stephen Lacy Award for Outstanding Faculty Research by the Media Management and Economics Division of AEJMC, he points out the SCP model often is used in research where media performance is defined in terms of the public interest. He argues the model's validity when applied to non-economic definitions of organizational performance is untested.

Two other timely and important articles round out this issue of the *International Journal of Media Management*. Walter S. McDowell and Steven J. Dick re-examine the inheritance effect on the ratings of broadcast primetime programming. They question whether in an era of competition, VOD technology, and the remote control, the dominant assumptions underlying broadcast programming strategies still hold. Their findings are quite striking and call into question whether the viewing behaviors of broadcast audiences have

changed as much in recent years as some have argued.

Finally, George Sylvie looks at the organizational and leadership culture at the New York Times and the role it played in the recent scandal at the paper involving reporter Jayson Blair. Based on documents from the Times' own internal investigation, Sylvie's study raises fascinating questions about the dynamics of leadership, followership, and entrenched organizational cultures in times of industry and organizational change.

I am confident that you will find the work of these outstanding scholars interesting and valuable. I also would like to take this opportunity to thank all of the reviewers who contributed their time and expertise to this issue. And finally, very special thanks go to Bozena Mierzejewska and the editorial team at JMM. It was a pleasure and a privilege to work with them on this issue of the journal.

C. Ann Hollifield, University of Georgia

Endnote

¹ Emphasis supplied.

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