Chapter 1
The Centrality of Media Firms

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Media firms are central to questions involving media economics, yet limited research in the field has actually focused on the company level since scholarly inquiry in the field began to flourish three decades ago. The literature of media economics is replete with studies at the industry level and with theoretical examinations of companies and their behaviour, but only a small portion explores media from the perspective of real firms and real choices.

This narrowness has perhaps resulted from an overreliance on industrial organisation studies focused on industry structures, national market analyses, and local market studies that asked broader questions about consumer and advertiser demand, industry performance, and competition issues. It has also been influenced by the fact that much research has concentrated on identifying conditions that exist in media industries and markets and providing evidence about the structures and forces at work in media and communications industries.

These approaches have been appropriate because the research of past years has been building a foundation of understanding of media economics and media as business entities, and much research was intended to provide evidence of industry conditions for policy purposes.

The dominant approaches, however, are limited and do not effectively explain how and why individual media companies behave as they do and how their choices and decisions create or respond to the conditions and forces found in the industry. Increasing interest in questions about these issues is a consequence of the foundations laid by industry- and market-oriented research of past decades and the interest they have generated in understanding company options and choices.

Questions about individual companies are important because they provide a clear picture of market dynamics and the pressures that lead company executives to make economic choices and choices about the ways their companies will be structured, the activities they will undertake, and the performance that is subsequently produced. They also help explain why certain market structures emerge and why media and communications industries exist in various forms and produce different results.

Analyses at the market or industry levels, then, provide collective pictures of media but through their focus on the overall situation miss the pressures, constraints, and choices faced by individual firms. Analyses at the company level reveal how managers wrestling with these factors pursue different responses, how internal differences in company cultures and traditions, organisations, and resources produce different choices, and why there is such a wide range of performance among firms.

COMPANY STUDIES EXPLORE DIFFERENCES IN FIRMS

Companies are central to media economics study because they individually raise capital, create facilities, employ personnel, create media products and services, sell them in the market, and grow or wither. Together, these companies create the media and communications industries, which have some common interests and issues, but they operate individually, facing individual economic and managerial challenges, making individual choices, and pursuing individual strategies.

The theory of the firm asserts that the primary goals of commercial firms are maximising profit and company value (Williamson & Winter, 1993; Demsetz, 1997). These goals and the pursuit of these goals have been explored and developed by economists during the past three centuries (An excellent collection of classic works in the development of the theory of the firm is found in Putterman & Kroszner, 1996).

A weak understanding of the theory of the firm has led numerous media observers who do not take a company perspective to make sweeping generalisations about how media companies operate, without discriminating between companies that make very different choices in pursuing profit and company values. These ignore many of the complexities of company organisation and governance (Jenson, 2001), assume a simplicity in firm structure, operation, and performance, and present a deterministic view of the ability of managers to fully control firms and their performance.

At a very basic level, firms differ widely in the ways they balance the desires to produce profit and to increase company value. Companies rarely attempt to pursue both simultaneously with equal vigour. Decisions of which to pursue more strongly at a given time are driven by company goals, resources, operational needs, and environmental factors. A company may place an emphasis on short-term profit, for example, and do little or nothing to enhance overall company value. Conversely, a company's managers may seek to increase value by sacrificing profit in the short term.

Companies thus differ in terms of their goals, in the expectations of owners, managers, and employees, and in the means by which choices are made internally. These issues are at the basis of what has been called a behavioural theory of the firm (March & Cyert, 1992).

How company executives make choices and guide company behaviour is also affected by wide differences among companies that are often ignored when industry-level analyses are made. These differences are critical, however, and constrain or direct the choices made for companies and the ways that they are structured and operate. At the broadest level, issues of size, ownership, and location produce important differences among companies.

Large and small firms—whether measured by income or number of employees—pursue different missions and goals, have different organisational structures, operate with different levels of resources, face different opportunities and threats, and encounter different sets of economic and financial pressures. As a result, one has to take size into consideration when attempting to understand company choices.

Similarly, the type of ownership makes a difference. Privately owned and publicly owned companies typically encounter different types of goals and pressures from their owners, have different financial resources available, and are able to undertake different levels of business risk.

Geographic location creates significant differences among firms. Metropolitan and small town media, for example, face unique levels of competition, operate differently, typically receive most of their income from separate sources, and encounter varying levels of performance expectations from their owners.

In the end, however, one cannot be deterministic about companies based solely on factors such as size, ownership, or location. The philosophies, strategies, and goals of owners and managers produce widely differing choices among media firms of similar size, ownership, and geography.

These factors result in media firms choosing different patterns of diversification, selecting different business models for products or services in the same medium, and pursuing divergent approaches to company growth (Penrose, 1995). The factors lead to companies creating individual modes of horizontal and vertical integration, implementing separate levels of specialisation, and coordinating and cooperating with others firms to varying degrees. These choices are compelled and constrained by economic factors (Besanko, Dranove, & Shanley, 1999; Baye, 1999) and a variety of internal and market factors (Jenster & Hussey, 2001).

The results of the range of choices made by companies and their success in the market produce differences in the ability of firms to generate wealth, to respond to market changes, and to sustain themselves. This occurs because some media firms operate with lower costs and higher efficiency than others and because some firms produce low-cost products for large numbers of consumers, whereas others produce high-cost products for small numbers of consumers. It occurs because some produce more successful products and services than others and because some enterprises choose to regularly reinvest profits in their firms while others choose to remove profits from the company.

Media firms differ widely in their abilities to generate the resources they need, and the organisation of the firms and their behaviour is in great part dictated by their need to gain and utilise resources from outside the company. No company is independent of such pressures, and each is dependent and interdependent on outsiders for capital, supplies, and revenue to varying degrees.

As a result of environmental factors and the range of choices that are made within firms, no two companies are alike. Media firms are social organisations, and most involve complex structures that govern an array of activities that must be organised and controlled in order to produce their communication products and services and implement the business models that support those activities.

Firms are also important because their existence (especially in telecommunications, broadcasting and cablecasting), industry structures, ownership, and operations are directly tied to issues of policy decisions and regulation. This state intervention is an important economic force affecting media firms worldwide and often results from activities and initiatives of firms themselves.

A FOCUS ON MEDIA AND COMMUNICATION FIRMS

This book presents studies applying the company-level approach to media and communications firms. It explores differences among missions, strategies, organisational choices, and other business decisions. It reviews economic factors and pressures on media and communications companies and seeks to improve understanding of how these affect market and company structures, operations, and performance of firms.

The chapters were selected from papers on the theme of media firms presented at the 5th World Media Economics Conference held in Finland in May, 2002, hosted by the Turku School of Economics and Business Administration and *The Journal of Media Economics*.

The chapters, by leading scholars worldwide, address questions about how the introduction of new products and services has changed the dynamics of markets and industry structures, how strategic choices and business strategies have affected the ability of firms to compete and have altered industry, market, and company structures and performance, and how various economics and business analysis methods can be used to understand the activities and performance of media and communications companies.

Terje Gaustad presents a model for analysing the production and distribution activities of media firms and how transaction costs influence the structure and governance of companies and industries.

Allan Brown discusses the introduction of digital television in Australia and how leading media firms influenced policy decisions implementing this new form of broadcasting. He explores the impact of these processes on the television market, industry structures, and media companies.

How the number, types, and strategies of professional information providers are affecting that industry is explored by Richard van der Wurff. He reveals how prices, product differentiation, and innovation are influenced by the structural changes.

Angel Arrese and Mercedes Medina investigate how the development of new media opportunities changed the competitive environment of financial news and information providers and the strategies that have emerged as major players have responded to the new economic environment.

How the appearance of free daily newspapers has affected the industry, markets, and traditional publishers is studied by Piet Bakker. He reviews the strategies of market industry and the responses of existing publishers, and he suggests models of short- and long-term effects from the introduction of these competing publications.

Marina Pavlikova reveals the strategies and forces behind the development of the Internet in Russia, showing how economic forces, business concerns, and the interests of major media companies have influenced the scale and scope of Runet content.

Alan Albarran and Terry Moellinger explore the world's leading media firms, reviewing differences in how they developed, the types of products and services they provide, how they have structured themselves, and how they perform.

The forces and strategies that lead newspaper firms to internationalise their activities are explored by Jan Helgesen. He explores the economic and business reasons behind newspaper companies' choices to transform themselves into international entities, the methods that are used, and their implications for companies and the industry.

Li-Chuan Mai studies how differences in ownership, size, company structure, and costs and price strategies have affected satellite television firms in

Taiwan and the implications of these findings for traditional strategic analysis methods.

David Goff focuses on the development and strategies of four major European telecommunications companies, showing how their choices have been influenced by their economic environments and technological changes and how these strategies have altered their environments, potential, and performance.

Aldo van Weezel explores how issues of journalistic quality and productivity require managerial attention as competition increases. He reviews methods for monitoring these factors and how company managers in Chile view the need to do so.

The requirements of human capital for cross-media publishing are explored by Tasos Politis, who discusses how workflow changes created by digitalisation and cross-media activities affect companies and their employees. He then studies the Greek publishing market to determine the extent to which they are able to compete in cross-media publishing.

Finally, Mikko Grönlund focuses on issues of customer satisfaction in the graphic arts industry, discussing its influences on customer choices of firms, relationships with firms, and the financial performance of those firms. Using data from the Finnish industry, he examines the factors that influence demand and perceptions of firms and how these should influence strategic choices of firms.

The studies collected in this book provide an overview of economic and related managerial issues affecting the structures of markets in which firms compete, the operations of media and communications firms, and their financial performance. It thus expands the discussion of economic issues traditionally associated with the field because of the narrowed focus of earlier books in media economics, and it is hoped that it will induce additional avenues of inquiry regarding such issues.

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