

Capital and Control: Consequences of Different Forms of Newspaper Ownership

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Abstract *Debates over the effects and efficacy of different forms of newspaper ownership are rising. This article elucidates the debates by exploring private, public, not-for-profit, and employee ownership using economic and managerial theory about ownership and control of enterprises. It shows the managerial and economic conditions that emerge under the different forms of ownership, their implications, and the advantages and disadvantages of each. The article concludes that there is no perfect form of newspaper ownership.*

Form of ownership became a significant concern of newspaper industry observers and social critics after publicly traded newspaper firms emerged 3 decades ago and since bought up the majority of mid-sized and large privately owned newspapers in the United States (Bagdikian, 1983; Compaine, 1982; Ghiglione, 1984; Picard, Winter, McCombs, & Lacy, 1988; Squires, 1993).

Today, however, alternative sources for news and information and changing consumer demand have altered the economic and financial environment of newspapers. They are now making newspapers less attractive to many institutional investors, spurring the return of some papers to private ownership and leading to calls for not-for-profit and employee ownership of papers. The sale and breakup of Knight-Ridder in 2006 and the sale of the Tribune Co. in 2007, and discussions of sales of other public companies, have increased interest in private ownership by individuals, partnerships, and small family-owned newspaper firms (Carr, 2006; Picard, 2006) and led to efforts to establish not-for-profit and employee ownership (Newspaper Guild-Communications Workers of America [CWA], 2005).

In recent months, a group of local business leaders has sought to buy the *Baltimore Sun* (Ahrens, 2006); former General Electric head, Jack Welsh, and advertising executive, Jack Connors, have tried to buy the *Boston Globe* from

the New York Times Co. (Bailey, 2006); and entertainment executive, David Geffen, and businessmen, Eli Broad and Ronald Burkle, expressed interest in purchasing the *The Los Angeles Times* (Fabrikant & Waxman, 2006; Fitzgerald & Saba, 2006). Some see these efforts as portending a trend away from publicly owned newspaper companies (Fitzgerald & Saba, 2006).

Some observers may see the difficulties faced by publicly traded companies as an advantageous movement away from corporate journalism, but changes to other forms of ownership are not without difficulties and each form produces different challenges. These issues result from the nature of capital, firms, and constraints faced by organizations operating in both commercial and non-commercial environments. Changing the ownership form does not in itself necessarily produce conditions or benefits absent in corporate ownership.

Previous literature on newspapers ownership has focused primarily on mere structural forms and much past research on performance involving forms has compared private ownership versus group ownership, usually public ownership. This article goes beyond those fundamental studies by focusing on underlying structures that influence behavior and performance. It focuses on the ways ownership is exercised and driven and the constraints of ownership forms on performance.

To develop a better conceptual understanding of the potential benefits from changing the form of newspaper ownership, this article focuses on newspaper firms; their ownership forms; and the varying economic, financial, and control issues that each encounter. Four primary forms of ownership exist—private, publicly

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traded, foundation or not-for-profit, and employee—and each produces different operational and performance contexts. Understanding those contexts is crucial for determining which of the type of ownership is theoretically likely to produce better behavior and performance in terms of the financial strength of firms, new investments, social service, exercise of influence, and conflicts of interests.

Management and general business theory provide eight relevant factors for consideration regarding ownership and control. These are explained, applied, and discussed in this article. These important factors are (a) the degree of ownership and control separation, (b) agency costs for monitoring decisions and performance, (c) asymmetry of information between owners and managers, (d) ability to acquire capital, (e) ability to self-generate capital, (f) profit incentive, (g) value growth incentive, and (h) emphasis on long-term sustainability of the firm.

Theoretical Explanations of Firms and the Importance of Capital

Adam Smith (1776/1994) asserted that the division of labor creates efficiency and is an impetus for the creation of firms. Because workers specialize in doing a particular task, they become both independent from and dependent on each other and their efforts need to be coordinated. This coordination can be left to the market as long as the costs of conducting business in the market does not exceed the cost of doing so inside a firm (Coase, 1937). Firms are established to more effectively acquire and organize resources to produce goods and services when financial needs, size, and complexities of operations require efforts beyond those of single individuals and transaction costs in the market can be reduced (Foss, 2000; Williamson, 2002).

The organizational forms of businesses allow enterprises to enter structured relations with owners of capital, workers, and suppliers, and to provide facilities and equipment and management necessary to effectively produce and distribute products and services. Among all these elements, the form of ownership and the nature of influence of the sources of capital are fundamental for understanding the behavior of managers and firm performance. Issues of financing firms would not be relevant if there were no incentive, information, or tax challenges (Modigliani & Miller, 1958). In practice, however, such issues exist in the real world, so studying the capital structure allows one to identify and comprehend incentives and information problems. These problems have different degrees of importance depending on the conditions associated with the capital, particularly the level of control.

All capital comes with conditions. These conditions are not neutral because they direct and constrain choices in firms and ultimately have an impact on the products or services provided. In private ownership those who provide the capital have a high degree of control. In publicly owned firms, those that generate the capital often have limited control, but those who manage collective capital invested in the firm may have significant influence on the firm (e.g., institutional investors such as pension funds). In foundation or not-for-profit ownership, those who contribute capital tend to have influence but less direct control. In employee ownership, capital contributed or distributed to employees may or may not include control over the firm.

Capital is important not only because of its ownership and control aspects, however. It is the fundamental, underlying asset that allows firms to operate, develop, and grow. Capital needs to be acquired, protected, used wisely, and increased if companies are to prosper. Capital is created and increased when financial resources are not consumed and saved for use in the future creation of goods and services. Firms wishing to carry out productive activities must have access to capital to procure goods, services, and labor necessary for that process. If they have previously accumulated capital by consuming less income than they receive, the self-generated capital can be used for the purpose. Otherwise, it must be obtained from other sources.

The significance of capital to companies is seen in the fact that the most important measures of the stability and performance use capital as a base factor. Measures of performance—returns on investment, capitalization ratios, price-earnings ratio, debt-to-equity ratio, and liquidity ratio—are linked to issues of capital, equity, and related assets. Sources of capital review these measures when providing loans and other financing to firms. In the case of public ownership, these measures are available to investors and affect the valuation of the company and possibilities for additional funding. Effective managers understand how their choices affect performance and act as stewards of the development of their firms.

Issues involving capital are relevant to all forms of newspaper ownership, not only to the more commercial forms.

Corporate Governance Issues and the Behavior of the Firm

Corporate governance is fundamentally related to issues of ownership and control of firms (Carlsson, 2001). Decisions in firms are based on a variety of factors beyond profit and value maximization. Questions of who directs, influences, and controls choices and the processes of

the decision making are basic to understanding activities in firms (Cyert & March, 1963). Corporate governance is concerned with the owner and management relationships, distribution of power, and accountability in corporations. Despite its importance to understanding firms and their management, governance issues in media firms traditionally have not been well explored (Picard, 2005).

The theory of the firm argues that owners' self-interests lead them to maximize profitability and company value (Demsetz, 1997; Ricketts, 1987; Williamson & Winter, 1993). Much of the literature of media ownership embraces a rudimentary view of company behavior but does not account for wide differences in company choices and values (Picard, 2002). Changes in forms of ownership and management have led scholars to a more refined view in which contemporary enterprises are seen as coalitions of interests that interact to set goals. This behavioral theory of the firm and these differing interests temper the significance of the basic economic theory of the firm as the driving force of companies (Cyert & March, 1963; Jensen, 2001).

When owners do not manage firms themselves, managerial incentives in the theory of the firm are lessened and interests that conflict with absolute optimization are more likely to be pursued (Fama, 1980; Fama & Jensen, 1983). Separation of ownership and control was identified by Berle and Means (1932/2002) three-fourths of a century ago, but theory explaining the relationship between the owners of the capital (principals) and the managers who control the firm (agents) took another 40 years to emerge. Jensen and Meckling (1976) affirmed that if both parties—principal and agent—want to maximize their own utility functions, it is likely that “the agent will not always act in the best interest of the principal” (p. 308). Therefore, the principal must incur agency costs when monitoring the activities of the agent, and also must create incentives for the agent. Agency costs are defined as the sum of the monitoring expenditures by the principal, the bonding expenditures by the agent, and the residual loss. These agency costs are used by Jensen and Meckling to explain the ownership and capital structure of the firm, through the analysis of the trade-offs of equity versus debt. Jensen and Meckling calculated that if there are rational expectations that allow capital markets to be efficient, the prices of equity and debt will include the monitoring costs and, because of that, the agency costs will be transferred to the agent. Thus, the optimal proportion of funds obtained from equity versus debt will result in the point where there are minimum total agency costs.

A variation of the agency literature that emphasizes challenges caused by asymmetries of information about the firm between managers and owners was begun by Myers and Majluf (1984). As owners give up day-to-day

roles in the firm, they also give up information about the firm's activities and managers gain better understanding of its challenges and activities. Thus, it takes more effort for owners to understand and influence the firm appropriately.

When seeking more capital to finance new projects, managers will prefer riskless debt (e.g., a bank loan) when they know that the project is more valuable than the debt because this type of debt will not dilute the value of the company. Myers and Majluf (1984) assumed that managers are acting on behalf of the shareholders because they hold equity themselves (Hart, 2001). If that is not the case, agency assumes that managers might behave opportunistically.

Thus, the form of ownership affects the optimizing behavior of firms (Demsetz, 1983). As control over business operations shifts from entrepreneurs to family members to management professionals, the incentives and goals of managers change and firms must align the differing interests, risk and reward preferences, goals, and information of managers and owners to avoid significant conflicts (Eisenhardt, 1989).

The various forms of ownership are also influenced by costs of market contracting and costs of ownership such as monitoring, decision making, and risk bearing (Hansmann, 1988). A particular form of ownership may be selected to achieve benefits for the owners other than to merely maximize profit.

Economic and behavioral theories of the firm thus provide significant explanation of incentives in different ownership settings and the types of behavior that they are likely to produce. They are thus important in considering how the changes in newspaper ownership may affect papers and journalists in the coming years.

Drivers and Constraints in Different Forms of Ownership

Worldwide, newspaper ownership is nearly 60% private ownership by families, 3% publicly traded, and 4% employee owned. Most of the remainder is government owned (Djankov, McLiesh, Nenova, & Shleifer, 2001). In the United States, the publicly traded firms own about 40% of all newspapers—including most mid- and large-sized newspapers. Employee-owned and foundation-owned papers each account for less than 1% of all daily newspapers. Privately owned newspapers are the predominant form, but most are small enterprises owned by individuals and families, although a few notable exceptions exist.¹

Although all the forms of ownership are affected by economic and behavioral forces and influences, the

nature and strength of those factors are affected by the type of ownership.

Private Ownership

Private ownership exists when individuals, partners, families, or privately held corporations hold the ownership rights of a firm. In these arrangements, owners exercise control over the enterprise by either acting as managers or closely monitoring and directing the behavior of hired managers. Most newspapers were founded by entrepreneurs, and some of them are still owned or managed by descendants of their founders.

Until the fourth quarter of the 20th century, most daily newspapers in the United States were privately owned. The situation changed when some firms went public and used capital obtained in the stock market to acquire the majority of mid- to large-sized newspapers in the country. Today, the economic incentives for publicly traded ownership are changing, and some papers are now returning to private ownership by individuals, partnerships, and private equity firms (Picard, 2006).

Individuals seeking newspaper ownership today tend to have acquired their wealth in other industries; tend to be entrepreneurs with ties to the geographic area in which they are seeking to purchase a newspaper; and tend to have been involved in civic, political, and philanthropic activities there. These new private owners are typically taking on high debt loads to purchase papers from publicly traded newspaper companies. This debt adds significant expenses that must be covered by profits generated by the enterprise, thus placing strong financial pressures on the firms and their managers.

Private equity firms are also increasingly becoming involved in creating privately owned firms. In many cases they are used because more traditional capital sources are unwilling to provide capital. Private equity is a very expensive form of finance (Fried, 1999), and thus puts significant financial pressures on newspapers acquired. Private equity firms may become interested in acquiring a media company when there is an excess of free cash flow. Jensen (1986) argued that managers might prefer to make the company grow even if they do not invest in the most profitable projects because their compensations are usually related to the future sales price of the firm. Thus, a leveraged buyout (LBO) can take place because the free cash flow may be used to service the debt employed in the acquisition. An LBO reduces agency costs, allowing the alignment of managers with owners.

Private equity firms worldwide are increasingly interested in newspapers, as shown by the Avista Capital Partners purchase of the Minneapolis *Star-Tribune* in 2006 (Freed, 2006). Frank Ahrens (2006) of *The Washington Post* observed that, although "private ownership extracts

newspapers from the constant growth demands placed on a publicly traded company, the private equity world is populated by corporate breakup artists who zero in on ailing businesses and ride them to the ground" (p. D1).

Some observers have recognized that private ownership is not a panacea to the social performance problems in newspapers. "Some of the worst newspapers in the country were locally owned," reminds industry analyst John Morton. "They were beholden to local establishments and sacred cows. A lot of that has gone away with chain ownership" (Fitzgerald & Saba, 2006, p. 41).

This occurs because large amenity potential, such as political and social influence, is acquired through media ownership (Demsetz, 1989; Demsetz & Lehn, 1985). The use of newspapers to serve personal interests, such as serving as platforms for personal opinions and viewpoints of owners, are most likely when private individuals own newspapers. These conflicts previously induced efforts to create "newsroom autonomy"—a separation of editorial control from owners (Schwoebel, 1976)—especially in Europe, where politically motivated owners such as Robert Hersant, Axel Springer, and Silvio Berlusconi developed large media enterprises.

Meyer (2004) argued that private owners of local newspapers in the past may have preferred to maximize influence rather than profitability. This was, in part, because of a sense of social responsibility to the readers and also because they were thinking with a long-term view of the newspaper business. However, Meyer and Wearden (1984) noted that sometimes editors and publishers have the same opinions about journalistic issues as commercially minded individuals.

Because publicly traded newspaper ownership has been the norm for a generation, many observers seem to forget that many private owners of newspapers had previously been vilified for the poor quality of their papers, for poor public service, and for using papers for their self-interests. Many journalists and industry observers seemed caught by surprise, for example, when five editors and columnists for the Santa Barbara (California) *News-Press* resigned in 2006, accusing Wendy McCaw, the paper's owner, of interfering with its content. It was observed that earlier.

The newspaper's journalists reacted with relief, even euphoria, when McCaw purchased the paper from the New York Times Co. They welcomed the ascension of a local owner—known for her environmentalism and philanthropy—over an investor-owned chain that had made sharp cost-cutting and layoffs routine. (Rainey, 2006, p. A1)

The paper's popular publisher, Allen Parsons, told the *American Journalism Review* at the time that he was excited to embrace the future with McCaw (Paterno, 2007). A columnist of the paper, who had been there since 1960, also said "The New York Times brought professionalism, and that was good [but this] is a move ahead of

corporate structure of distant owners. She cares; that the big word. She's got this local passion" (Silverstein, 2000).

The virtues of family-owned newspapers—another form of private ownership—have been extolled by some observers, but they are not a panacea because they are dependent on the pecuniary and social values of the family and because they face significant internal pressures and risks (Picard, 2004). Succession issues plague family ownership, caused by lack of suitable or interested offspring to become future managers. Further, family-owned media tend to be more conservative in the investment and development of their firms and have many ties to local social and political establishments that may lead to conflicts of interest in new coverage. Ultimately, family-owned media are fraught with complex tax issues, especially estate-tax issues, which played major roles in the rise of the public ownership form a generation ago (Dertouzos & Thorpe, 1982; Ghiglione, 1984). The fundamental tax challenges have not been removed since that time.

Private ownership is thus not without financial and economic pressures. Individual owners can be terrible or exemplary in their behavior and commitment to communities and public service.

Publicly Traded Ownership

Publicly traded firms obtain capital by selling ownership shares on stock markets.² As the size of newspaper firms has grown through acquisitions and mergers, the need for capital has increasingly forced companies to seek new capital from stock markets.

Purchasing shares is not the ultimate goal of investors. Their goal is effective returns on their investments and growth in the companies in which they place capital. The inability of newspaper managers to use much of the capital effectively in recent years has disappointed investors and is contributing to the flight of capital from, and the declining share prices of, newspaper firms in recent years (Picard, 2006). The growth of newspaper chains and their consolidation in large public companies was primarily driven by high-value growth, technology, labor costs, and inheritance taxes (Neiva, 1996; Picard et al., 1988). Those factors are collectively less relevant today.

It has long been recognized that dispersal of ownership through traded shares reduces the direct influence of owners by separating control from ownership and creating new mechanisms and loci of control (Berle & Means, 1932/2002). This change is represented in publicly owned firms as managerial capitalism—in which management is separated from ownership. Managers are given control of the firm and incentives to promote long-term growth and company stability (Chandler, 1977). Hired

managers tend to be more conservative regarding risk than private owners (Knight, 1921), and this tends to hamper innovation and change.

A better understanding of the separation of ownership and control requires distinguishing among types of investors because they exert control in different ways. Picard (1994) distinguished three major categories of investors in newspaper companies: individual investors, insiders, and institutional investors. Individual investors are persons who invest on their own. Insiders are directors, officers, and managers of firms that have investments in a firm. Institutional investors include banks, pension funds, and insurance firms that manage funds belonging to others. These investors provide the bulk of capital available in stock markets. The influence of institutional investors in media firm ownership has raised concerns about their investment strategies and influence on firms (Blankenburg & Ozanich, 1993; Cranberg, Bezanson, & Soloski, 2001; Meyer & Wearden, 1984; Picard, 1994). Criticisms of loss of journalistic independence and control, reductions in resources, and diminishment of quality and public service have regularly been raised (Croteau & Hoynes, 2001; Iggers, 1999; McManus, 1993; Underwood, 1995).

Research has established that publicly owned newspaper firms pursue different managerial goals than privately owned firms. Blankenburg and Ozanich (1993) revealed that public ownership and outside control led to short-term financial aims and emphasis on higher return on equity and earning than found in privately owned papers. These findings were later supported by Lacy, Shaver, and St. Cyr (1996), Chang and Zeldes (2002), and Lacy and Blanchard (2003). In contrast to those results, An Jin and Simon (2006) found that institutional ownership is negatively correlated to the subsequent year's profitability. They explained that the high level of debt, the characteristics of the newspaper industry, and the usual two-tier equity structure—such as the classified stock controlled by the family trust at the *New York Times*—prevents these owners of being too active and risky. Although it is clear that large newspaper firms have squeezed newspapers financially in recent years (Picard, 2006), some previous research found that large media corporations have been more likely to provide autonomy to newsrooms, place more emphasis on quality, and promote diversity more than other companies (Demers, 1991, 1996, 1999).

Whereas individual and family owners of local newspapers have had to face the pressure of their communities to produce papers that addressed community issues, corporate owners face the pressure of professional investors. Thus, looking for higher profit margins in the short term, corporate owners might be forced to reduce quality, geographic coverage, and the number of journalists (Meyer, 2004).

Some large family-owned newspaper companies—such as the New York Times Co. and the Washington Post Co.—sought benefits of additional capital in the stock market but attempted to limit financial pressures through classified stock that provided majority voting rights to the family. This mechanism has not fully protected the firms from the pressures of investors, however. The New York Times Co. has been struggling with institutional investors in recent years, and there are concerns that private equity investors might buy out and consolidate the publicly traded shares to gain more leverage against the family owned shares (Lowry & Fine, 2006).

Public ownership has the advantages of increasing access to capital and providing more stability to firms, but it is accompanied by significant financial pressures, separation of ownership from management, and increased organizational size and complexity. Public ownership can be both good and bad for newspapers and journalism, depending on how it is exercised and the corporate values pursued.

Foundation, Charitable, or Not-For-Profit Ownership

Ownership by trusts, charitable organizations, or not-for-profit corporations is often advocated among those critical of the profit motivations of corporate and private owners. They often point to papers such as *The Guardian* in the United Kingdom, the *St. Petersburg Times*, and the *Christian Science Monitor* in the United States as stellar examples of the results of these types of ownership.

Because there has been limited research on such forms of newspaper ownership, evidence that not-for-profit ownership produces papers such as those mentioned is anecdotal and ignores other papers in such arrangements that are not so commendable. Although these forms of ownership may lead to promotion of values other than short-term profit, they do not necessarily do so. Papers may or may not pursue quality depending on the will of their managers and the availability of resources.

Even managers of leading not-for-profit publishers recognize the limitations. Nonprofit ownership “doesn’t guarantee journalistic excellence,” says Karen Dunlap (*News in the Public Interest*, 2004, p. 22), president of the Poynter Institute that owns the *St. Petersburg Times*. “It’s an arrangement that frees you from the pressures of Wall Street, but it can bring you other pressures” (*News in the Public Interest*, 2004, p. 22). A foundation or other charity, for example, may want high dividends from a newspaper it owns to fund other social or cultural activities.

Nonprofit forms of ownership face a variety of legal issues posed by tax codes to ensure that they are truly for the public benefit rather than a mechanism to benefit

operators of the organization. U.S. tax rules, for example, limit the amount of ownership that a foundation can have in a single enterprise.

Financing not-for-profit organizations presents difficulties not experienced by for-profit enterprises because many traditional lending institutions are reticent to provide loans. This forces many organizations to obtain capital through donations and by self-generating capital, placing it in endowments or reserve funds for future expenses and reinvestments. Many not-for-profits are unable to do so effectively, and many are regularly on the financial brink because inadequate attention is paid to the financial management of the organization.

Few general circulation daily newspapers are operated as not-for-profit enterprises. Most not-for-profit newspapers tend to be non-dailies. Where dailies are owned by non-profit entities, they are primarily operated as profit-making enterprises for those entities. Some not-for-profit newspapers are published by religious, ethnic, and special interest groups, but few are general circulation newspapers; and criticisms have been leveled at them for their biases or practices. Papers such as the *Christian Science Monitor* and the *Washington Times* have been disparaged for bias in coverage of topics about which their owners have religious and ideological positions.

Managerial and economic theory and research are also applicable to issues of not-for-profit ownership. Agency theory leads to expectations that such companies will be inefficient compared to other firms because they lack oversight from investors, funds from capital markets, and are less driven by pecuniary motives. It has been shown that not-for-profit firms providing public services face challenges in corporate governance, quality and cost control, and finance, and that these tend to limit risk taking (Bennett, Iossa & Legrenzi, 2003). Part of the problem is that the performance of such firms is not monitored by owners but less effectively by donors and those who benefit from their services (Fama & Jensen, 1983).

Non-profit organizations face governance challenges because board members are often heterogeneous, interested parties. They face managerial incentive challenges not found in for-profit companies because typical pay-for-performance incentives such as stock options are not available. They lack access to equity capital, limiting their financing options, and tend to be more risk aware and averse than for-profit firms (Bennett et al., 2003). Research has found, however, that when family trusts or foundations own for-profit companies, the profitability and growth of those firms are not necessarily worse than companies with dispersed ownership or family ownership and that there are some performance advantages related to family control and long-term business strategy (Thomsen, 1996, 1999; Thomsen & Caspar, 2004).

As noted earlier, research about newspapers and media owned by trusts, foundations, or other charitable organizations is scarce. A study of performance of newspapers under different forms of ownership in Sweden found that foundation-owned papers did not show important performance differences from those of privately owned firms (Bjuggren & Bohman, 2005). A study of the not-for-profit news magazine *Big Issue* in the United Kingdom found that readers rarely bought it merely for its content but for the social initiatives it supports (Hibbert, Hogg, & Quinn, 2002). A study of scholarly journals published in the United Kingdom by nonprofit societies found that one third made no surpluses, only 42% used surpluses for reinvestment, and only one fourth put them in reserves or endowments (Morris & Oliveri, 2004). These latter two studies highlight challenges in content and management that appear in many not-for-profit publishers.

Anecdotal evidence in the United States indicates the mixed nature of performance of papers in this type of ownership. Although some nonprofit newspapers are praised, papers such as the *New London (Connecticut) Day* or *Anniston (Alabama) Star* are not equally admired for their performance. The *Houston Chronicle*, which was owned by a trust set up by former owner Jesse H. Jones, was relatively poorly managed and sold in 1987 to the Hearst Corporation, whose pecuniary interests led to better performance financially and journalistically.

Forms of non-profit ownership can—but do not necessarily—provide some advantages in terms of financial pressures for profit. However, they also create or expose newspapers to other constraints and issues that require significant managerial attention.

Employee Ownership

Employee ownership has been urged as an alternative to private and corporate ownership, particularly by labor activists and critics of excesses of capitalism. In such arrangements, employees own all shares in the company or participate through employee stock ownership plans. Employee ownership is seen as empowering employees, promoting editorial independence, and producing better labor relations within the firm (Rosen, Case, & Staubus, 2005; National Center for Employee Ownership, 2006). The extent of these benefits in newspapers has not yet been shown because of highly limited research on the topic.

During the sale of Knight-Ridder Inc. in 2005 to 2006, the Newspaper Guild-CWA (2005) suggested the creation of employee stock ownership plans and purchases of its papers by members as an “employee-friendly” strategy. Advocates of employee ownership have been inspired

by papers such as the *Omaha World-Herald*, the largest employee-owned newspaper in the United States.

Advocates for employee participation in company decision making, however, recognize its limits in improving content and journalistic performance—one of the primary rationales of proponents for change in newspaper ownership. “It does not follow that the consumer will be exposed to a greater variety of ideas and information through greater employee control and participation in decision making” (Nielsen, 1984, p. 339).

It has been argued that increased information sharing and involvement in employee-owned firms should make such firms more effective than other firms. However, it is recognized that employee ownership creates group rewards that may negatively affect individual incentives and produce issues of optimal monitoring by employee owners. There is evidence that employee ownership does not effect profitability and productivity overall (Blasi, Conte, & Kruse, 1996).

Although commitment to their own employment may temper employees’ desires for short-term profit taking or high wage and benefit demands, significant growth in the value of the firm can create problems for continuation of the ownership. Employees’ self-interests and desire to benefit financially can force sales of the newspaper to other types of owners, as it did at the *Peoria (Illinois) Journal Star*, which was once held up as an exemplar of employee ownership. When it becomes apparent that the value of selling their firm will reap extraordinary profits, employees do so—just as would most private owners (Morton, 1995). A decade and a half before the *Peoria* sale, employees at the *Kansas City Star* and *Tribune* were similarly motivated by a high sales price and sold their employee-owned company to Capital Cities.

Even when there are high levels of solidarity, the desire to reap individual gain may outweigh desires to remain employee owned. In Wilkes Barre, Pennsylvania, in 1978 during a prolonged strike, members of the Newspaper Guild established the *Citizen’s Voice*, which became a full-fledged competitive daily under employee ownership until its employees sold the paper in 2000. Employee ownership also does not immunize firms from financial pressures. For example, debt loads that funded employee ownership at the *Milwaukee Journal-Sentinel* grew so high that it limited the company’s working capital and the company had to become publicly owned to reduce the debt (Morton, 2003).

Although employee ownership reduces information asymmetry, monitoring costs, and short-term profit incentives, it does not shield newspapers from economic self-interests or ensure effective leadership and management. Thus, employee ownership produces its own challenges that must be effectively managed, if this form of ownership is to be successful and endure.

Discussion

There are clearly advantages and disadvantages to each of the four major forms of ownership discussed in this article. Because of the absence of significant research on the performance of newspapers under the range of different forms of ownership, the only comparative evidence of their efficacy is based on subjective and imperfect anecdotal indications. As a result, the best comparison one can obtain today must rely on theoretical explanations of performance under the different forms of ownership.

Eight significant theoretical economic and managerial issues associated with ownership and control were introduced earlier. These are (a) the degree of ownership and control separation, (b) agency costs for monitoring decisions and performance, (c) asymmetry of information between owners and managers, (d) ability to acquire capital, (e) ability to self-generate capital, (f) profit incentive, (g) value growth incentive, and (h) emphasis on long-term sustainability of the firm. Each of these factors contributes advantages or disadvantages, empowers or constrains, or benefits or challenges enterprises. We briefly summarize those influences.

Higher degrees of ownership and control separation reduce direct owner influence and entrepreneurial risk taking. Higher agency costs for monitoring decisions and performance increase effort and expense, and lower agency costs decrease effort and expense. Higher degrees of information asymmetry between owners and managers make it more difficult for those who provide capital to understand and influence the enterprise. The ability to acquire capital affects the financing of the firm and the price that enterprises pay for loans and other capital for operating activities, investments, and growth. When that capability is higher, firms have more options and opportunities available. The ability to self-generate capital is related to a firm's financial performance, its profitability, and its working capital. Firms with greater

ability to self-generate capital have more opportunities and are less dependent on outside capital sources. The higher the profit incentive, the more economic efficiency is sought; whereas the higher the value growth incentive, the more reinvestment and development of the firm is pursued. Finally, the higher the emphasis on sustainability, the greater the commitment to long-term survivability of the enterprise.

If one considers the various forms of ownership and issues associated with them, one sees that there are varying patterns of theoretical advantages and disadvantages (Table 1). For this theoretically driven analysis, we have not operationalized the low-medium-high assessment of the conditions beyond their normative relative meanings, something that would need to be done if a subsequent empirical investigation were conducted.

Based on these factors, it would appear that private ownership is theoretically the most effective form overall across a broader array of ownership related issues. It is the form in which the values of the owner are most likely to be reflected in the newspaper and its operations. Of the forms of ownership idealized as less commercially or market oriented (employee and not-for-profit ownership), employee ownership is conceptually preferable to not-for-profit ownership because of better performance incentives, financing opportunities, and monitoring abilities.

From the journalistic standpoint, it has long been recognized that stable, financially strong, and well-managed companies are more likely to perform well in public-interest terms because papers need financial strength to invest in serious coverage and to challenge entrenched interests such as government or corporations. However, ownership form itself is not a necessary and sufficient condition for good performance in the public interest, and both good and poor performance can result under all forms.

Clearly, more study and systematic and controlled comparison of performance of actual firms in the various

Table 1. Economic and Managerial Conditions and Forces Under Four Ownership Forms

Variable	Private Ownership	Public Ownership	Not-for-Profit Ownership	Employee Ownership
Degree of ownership and control separation	Low	High	High	Moderate
Agency costs for monitoring	Low	High	Moderate	Moderate
Information Asymmetry	High	Low	Moderate	Moderate
Ability to acquire capital	Low	High	Low	Moderate
Ability to self-generate capital	Moderate	High	Low	Low
Profit Incentive	Moderate ^a	High	Low	Moderate
Incentive for value growth	High ^b	High	Low	Moderate
Emphasis on sustainability	High	Moderate	Moderate	High

^aIndividual owners differ regarding this incentive. Some want high profits, whereas some pursue amenity goals such as influence and public service. Private ownership thus promotes neither low nor high profit incentive overall.

^bPrivate owners have a strong long-term incentive for value growth because it makes them more wealthy, strengthens the company, and makes access to borrow capital easier. In the short term, however, the incentive may be balanced with the profit incentive.

forms of ownership is desirable and presents fertile ground for further research.

This article has shown, however, that there is no perfect form of newspaper ownership and that merely substituting one for another will not necessarily produce outcomes desired by those who criticize the performance of newspapers under publicly traded ownership or highly commercialized private ownership

Notes

1. These include relatively large privately owned enterprises such as MediaNews Group, Hearst Newspapers, Freedom Communications, and Stephens Media Group, which own papers in a number of top 100 metropolitan areas.
2. Publicly traded ownership is sometimes erroneously referred to as "corporate ownership." Although publicly traded firms are corporations, most private, not-for-profit, and employee-owned firms are also corporations; therefore, the term is often incorrectly used.

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