A Typology of Risk in Family Media Enterprises

Robert G. Picard
Jönköping International Business School

ABSTRACT This article conceptualizes the nature of risk and provides a model for explaining risk associated with family media enterprises. It goes beyond mere issues of entrepreneurial risk to explore various types of risk present in all enterprises, as well as those specific to family businesses. The article discusses strategies for controlling various risks and provides a risk estimation tool for use in analyzing risk exposure in family media firms.

KEY WORDS: risk, ownership, family enterprises, management, media

---

Research on media enterprises has tended to focus on large firms, often public companies, and issues associated with managing large, complex organizations (see, for example, Gershon, 1997; Picard, 2002b). The majority of media businesses, however, are small- and medium-sized enterprises (SMEs) and are organized and led quite differently. Small businesses are defined as having fewer than 50 employees, less than €7 million annual turnover, and a balance sheet below €5 million. Medium-sized businesses have less than 250 employees, a turnover below €40 million, and a balance sheet total below €27 million (European Commission, 1996 and 1998).

About two-thirds of SMEs are family firms (Poutziouris & Chittenden, 1996; Neubauer & Lank, 1998). However, family businesses are not necessarily SMEs and many can be large firms.

Media companies, particularly publishing companies, have historically been family SMEs in Europe and North America. It is not unusual for these companies to have survived into fifth and six generation family ownership. In the second half of the twentieth century a large number of these family firms moved from the SME category to large firm category as they expanded the scale and scope of their media operations.

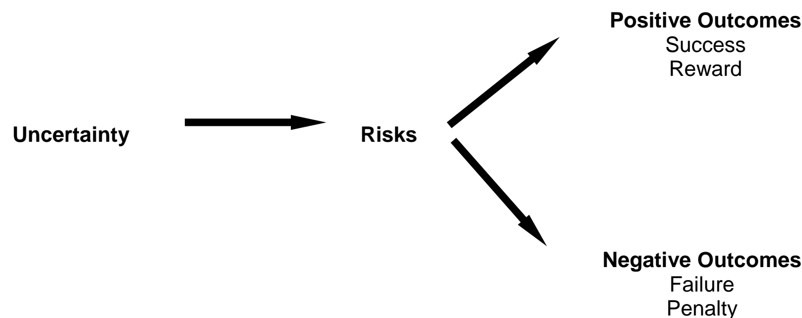
Copyright © 2004 Journal of Media Business Studies. Robert G. Picard, "A Typology of Risk in Family Media Enterprises," 1(1): 71-83 (2004).

The operation and survival of family businesses tend to be more complex than non-family firms because they blend business management issues with family management issues (Davis, 1983; Neubauer & Lank, 1998). Tensions between the two are inevitable because business management approaches tend to be rational and self-interested whereas family management approaches are emotional and driven by relationship interests.

One difference between family businesses and others is the type and amount of risk that can be borne. Risk is a result of uncertainty, which is produced because humans are unable to know everything and because the future is not fully predictable. Unforeseen events and factors can appear that affect plans and many things in the environment are conditional and tentative. As a result, all businesses face a variety of risks that can produce either positive or negative outcomes (Figure 1).

Uncertainty is created by many factors including economic conditions, market changes, changing demand for the product or service, and dangers to the company and personnel.

Figure 1. Relationships Among Uncertainty, Risk, and Outcomes



ELEMENTS OF RISK

Business risks result from uncertainty about the future and about the results of choices that must be made today, so business decisions involve an estimation of their outcome and the potential that the outcome may vary from the expectation. Managers face the conundrum that the amount of acceptable risk is based on probability of a negative outcome and reward is often proportional to the amount of risk taken. In business several types of risks are present:

- general business risks
- casualty risks
- liability risks
- ownership risks

General Business Risks

General business risks include market risks related to the success of the company's business proposition, demand for the product, and issues of costs and price. They also include business-related financial risks involving credit, cash flow, foreign currency, and working capital (Romano, Tanewski & Smyrnios, 2001). Business risks also include personnel risks related to the capabilities of management and staff to carry out required tasks and risks inherent in the loss of key personnel.

Another type of business risk that is particularly germane to media firms involves intellectual property rights (IPR). Risks associated with trademark and copyright infringement can deny media firms revenue, create unrecoverable costs, and reduce the earnings potential of firms. IPR risks are especially high in the exporting of products because there are different levels of protections in different legal systems. For media firms, IPR risks are increasingly important because digitalization of content makes copyright infringement and piracy far easier than for analogue content.

In the literature of entrepreneurship and family enterprises, basic business risk behavior is the most widely explored aspect of all risks. The willingness of families to undertake business risks with their wealth varies widely. Studies have shown that the perception of the degree of risk significantly affects entrepreneurs' evaluation of business opportunities (Sitkin & Pablo, 1992; Sitkin & Weingart, 1995; Forlani & Mullins, 2000; Keh, Foo & Lim, 2003). It has also been shown that families operating enterprises are more entrepreneurial and willing to take more risks with personal assets than families that do not own businesses (Coleman, 2000).

All business risks are not financial, however, and a good deal of risk is inherent in organizations and operations themselves. Simon (1999) identifies these as risks of being "surprised by errors or breakdowns that could threaten the company's franchise or strategy." Many of these risks result from pressures related to company growth, company culture, and information management.

Casualty Risks

The second major category of risk is casualty risks. These risks involve harm to the business, such as damage or destruction of buildings, equipment, inventory, business records, or other property; recovery and relocation costs after fires, flooding, hurricanes, or other catastrophes; and loss of income during recovery. Casualty risks also involve company losses due to shipping damages or losses occurring because of crimes such as embezzlement or robbery. Media firms face a range of casualty risks that must be controlled and managed lest they endanger the future of the firms (Picard, 1992).

In many businesses product damage can occur because of electrical interruption that halts refrigeration. Computer system failures can result in loss of information or consumer records. In media firms these can cause interruptions to broadcasting, online services, and timely publication of periodicals that deny the firms income.

Liability Risks

The third category of risks are liability risks resulting from harm to employees and other persons, accidents, product safety problems, professional malpractice, inappropriate business practices, and errors and omission.

For media companies, liability arising from libel, slander, and invasion of privacy in content (forms of professional malpractice) can be significant and threaten the survival of media firms (Dennis & Noam, 1989; Barendt, 1997). The problem is magnified as media companies and content are internationalized, because legal approaches to such issues differ widely across the globe.

Issues of intellectual property infringements involving patent infringement and associated costs for legal expenses and loss of value coverage provide significant problems for communications and other firms (Betterly & Davison-Jenkins, 2001).

Ownership Risks

Ownership risks, the final category, result from the potential for disagreements among partners regarding strategy and operations, decision making, and continuance in the business. These also involve succession and estate issues in privately owned and family enterprises.

Issues of media business continuation and the breakup of family-owned media firms, particularly in the newspaper industry, have grown in recent decades (Ghiglione, 1984; Tiftt & Jones, 1990; Wineka, 1999). The literature on these issues, however, has tended to be anecdotal in nature and not deeply focused on business or economic issues underlying the transfers from family to other ownership.

In the literature of business, entrepreneurship and family firm risks tend to be handled as discrete unrelated factors that are focused upon individually. Media literature on the whole has tended to ignore issues of risk or dealt with it as a legal rather than business issue.

RISKS AND FAMILY ENTERPRISES

Because family enterprises are operated for special purposes, they face special risks that go beyond those of ordinary businesses.

In most cases family businesses exist to provide income for the family. The risk created is poor income and company failure that can result in loss of the family's wealth. Whenever gaining income is a

purpose there is the risk that disputes will emerge among family members over salaries and division of profits among the family members.

A related purpose is to provide employment for family members, which produces the risks of loss of employment, poor fit of some family members for specific jobs in the company, poor business communication, intra-family conflicts that affect the performance or continuance of business, and difficulties in the supervision and management of family members who are employees (Lansberg, 1983; Sorenson, 1999; King, Solomon, & Fernald, Jr. 2001). A variety of problems result from issues of confusion in family members' positions related to boss-employee, husband-wife, and parent-child roles (Foley & Powell, 1997). In this environment a good deal of relational emotions can make business roles more complex. As a result, leadership practices and styles in family enterprises are critical to their success (Sorenson, 2000).

Family enterprises also exist for the purpose of giving the family control over their activities. Keeping family control risks undercapitalization of the business because of limited family wealth and leaves the company with the potential of lessened business capabilities because of lack of sufficient financial backing. Family control also risks lessened knowledge or skills among management who typically are selected from the family rather than from the general labor pool, and risks decision-making problems because family issues may conflict with business issues.

Family businesses have incentives to emphasize long-term growth over short-term profit (Harris, Martinez & Ward, 1994), but when the strategy of a family firm is to grow and increase wealth, the strategy carries related risks of loss of wealth, disagreements over expansion, and the inability of the family to manage the growth. It has been shown that behavioral factors are critical in company growth and that growth requires greater communication in family firms to avoid goal conflict (Hufft Jr., 1999).

In many cases of family firms, a significant purpose is to provide financially for future generations. The risks of this strategy of course are the potential loss of wealth owing to insufficient business knowledge and abilities of family members in future generations or their disinterest in the family business. Planning for the future of family businesses is problematic because survival across generations is difficult. Only about 30% are passed to a second generation and only 13% reach a third generation (Ward, 1987).

The difficulties of passing family owned media firms on to succeeding generations has been shown in a number of media business history studies (see, for example, Carroll, 1990; Tiftt & Jones, 1990; Casserly, 1992; Wineka, 1999).

There are other reasons for risk in family enterprises. It has also been shown that company strategies differ across generations. First-generation family businesses tend to put family objectives ahead of business objectives, whereas multigenerational family businesses tend to

put issues related to status in the community ahead of other objectives (Westhead, 2003). In such cases these priorities can interfere with profit and reinvestment objectives and endanger long-term sustainability.

Because media have significant cultural, social, and political roles not attendant in other enterprises, family-owned media have often maintained public service values and cultures that can disappear with the loss of family ownership (Smith, 1995; Kovach & Rosenstiel, 2001). Family media ownership creates a rootedness and commitment to the local community and residents, and a human dynamic between the family media and community (Ayers, 2001).

It has been asserted that long-term sustainability in family media firms is promoted by creating an environment of legacy and a common ownership philosophy among family members, and by exercising the ownership so that an effective structures are created for common decision making (Larsson & Nyberg, 2002).

RISK MANAGEMENT

Enterprises can actively take part in processes that focus on risks that a company can control or protect itself from. Risk management involves understanding risks and recognizing potential damages or losses that can occur, identifying the scope and nature of various risks, deciding how to handle them, working to reduce exposure to risks, and preparing to cope with problems that may arise from them.

Risk strategies involve undertaking activities that reduce uncertainty, spreading risk through activities that disperse the amount of risk existing at a point in time, and financing risk through insurance.

Risk reduction is pursued through understanding and monitoring the environment, improving decision making by seeking advice and education, eliminating or controlling risk through contingency planning, legal protections, and safety programs.

The need for improving knowledge and independent advice can be helped through the creation of an effective corporate governance board, including outside directors (Neubauer & Lank, 1998). It has been noted that such a board "helps to reduce risk while enhancing success of entrepreneurial family businesses. This, in turn, will have a positive influence on the longevity and viability of family businesses" (Craig & Lindsay, 2002: 476).

Spreading risks involves strategic determination of how much risk to undertake at a given time, making business choices about activities such as diversification of products and services, diversification of markets, and diversification of revenue sources. In addition, the company can engage in research and development activities to improve products, and make risk-driven choices about growth processes such as choosing networks, joint ventures and licensing rather than internal expansion. Unfortunately, small media firms tend to be infrequent collaborators and

most European small media enterprises do not engage in networking and joint venture activities (European Commission, 2000).

Many media companies tend to spread risk through product diversification and offering portfolios of products as well as strategies for market expansion and acquisitions to achieve geographic diversification (Picard, 2002a).

Transferring risk involves shifting responsibility of risk for vendors, subcontractors, customers, etc. through leased equipment and facilities insured by lessors, through JIT inventory delivery that reduces risks to inventory, using insured subcontractors, and ensuring that contracts have “hold harmless” agreements.

Financing risk is based on transferring responsibility for losses through insurance. For media companies, this means financing the risk for liability judgments and defense costs (Lankenau, 1983, 1985).

Transferring a media firm from generation to generation is a complex process that requires strategic choices (Bjuggren & Sund, 2001) and planning and preparation (U.S. Small Business Administration, 1997; Brunåker, 1999). Succession and estate planning is crucial, and family members need to work together to set a strategy for the future, to prepare the firm’s structure and control mechanisms for the future, to prepare future leadership, and to organize the relations among family members who will be directly or indirectly involved in the company.

Economic and finance issues are clearly involved in intergenerational transfers. It has been demonstrated that transaction cost rationales exist for succession (Bjuggren & Sund, 2002), that transfer may require specialized financing mechanisms (Poutzious, 2001; Rattiner, 2002) and that imperfections in capital markets affect the size, longevity, and investments in family businesses (Bhattacharya & Ravikumar, 2001). Tax strategies and mechanisms need to be planned and implemented or they can force sale of the family media business (Dertouzous & Thorpe, 1982; Ghiglione, 1984).

A TYPOLOGY OF RISK

Because of the variety of types of risks, managers need to have a holistic view of the nature of risk and the issues that it presents to firms. In the case of family media enterprises the total risk results from the combination of the range of risks faced by all businesses, SMEs, family firms, and media firms, as conceptualized in the model presented in Figure 2.

The entire range of risks contributes to the total risk faced by the firm. However, the contributions of each risk to total risk are usually not equal, as illustrated in Figure 3, and the size of each is unique to specific firms and their situations.

Figure 2. A Typology of Risk in Family-Owned Media Firms

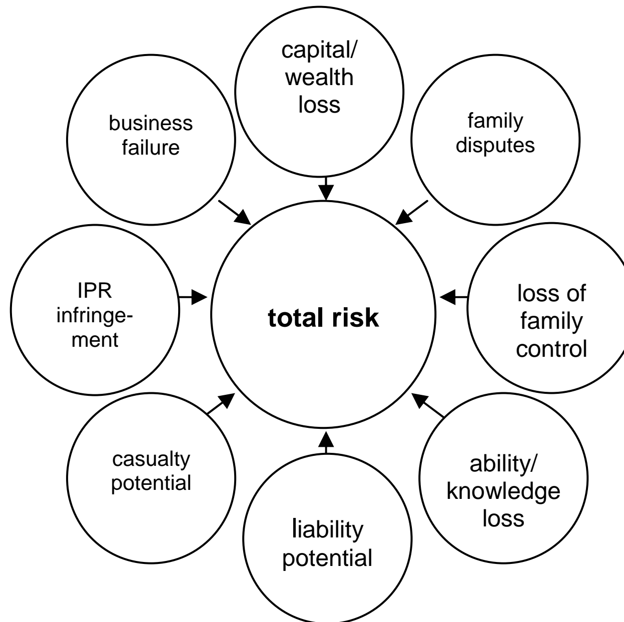
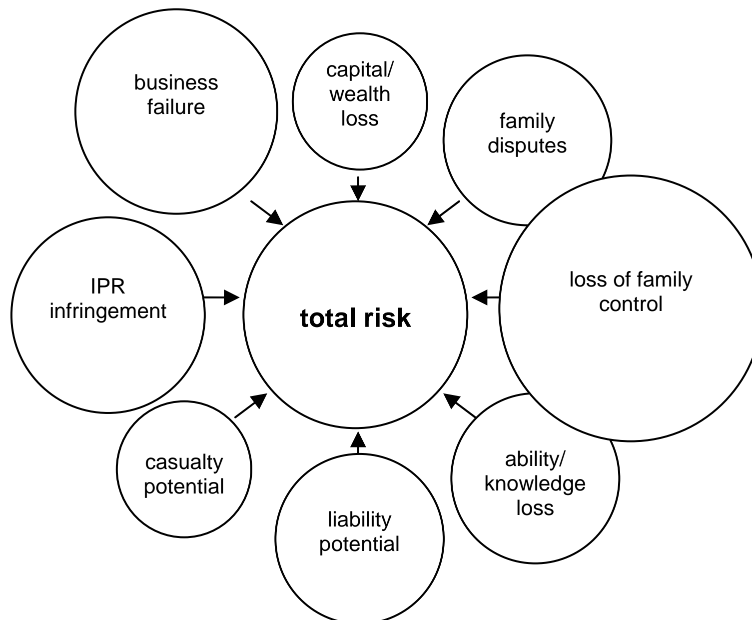


Figure 3. Example of Unequal Risks



RISK ESTIMATION AND MANAGEMENT

The differences in risks for a specific firm at a given time can be assessed to help determine where efforts need to be focused on developing appropriate risk management strategies.

Managers can use a scale from 1 to 5 to score the potential damage from contributing factors contributing to total risk (l=very low potential damage; 2=low potential damage; 3=moderate potential damage; 4=high potential damage; and 5=very high potential damage). This would yield a total risk score, as illustrated in Table 1.

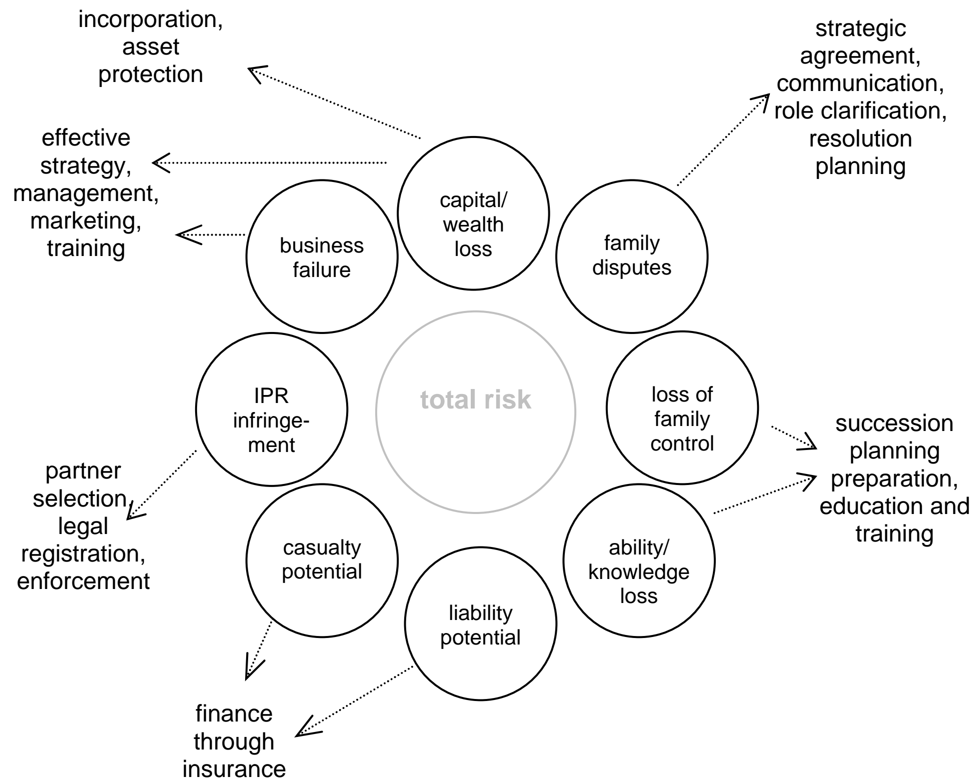
Table 1. Example of Calculation of a Total Risk Score

Score	Factor
2	business failure
2	capital/wealth loss
4	family disputes
5	loss of family control
3	ability/knowledge loss
3	liability potential
3	casualty potential
2	IPR infringement
24	Total Score
3	Average Score

In the illustration, the company faces moderate total risk overall (evidenced in its average score of 3), but it clearly evidences significant risks related to the family situation. In reviewing the score the manager would want to seek appropriate remedies to manage the risks.

Although the approaches, processes, and mechanisms need to be tailored for specific companies, some general approaches to reducing risk through effective strategy and management exist (Figure 4). By undertaking specific acts to protect the firm, by financing and transferring risk, by improving operations of the firm, and by dealing with family issues, the degree of total and individual risks can be considerably reduced.

Figure 4. Approaches to Risk Management in Family Media Businesses



SUMMARY AND CONCLUSIONS

Risk in family media enterprises needs to be considered in broader terms than mere entrepreneurial risk and should be conceived of as a wide range of potential challenges to the sustainability of the firm. If the broader view is taken within firms, efforts can be focused to prepare the firm to overcome risks that might otherwise endanger its survival.

From the business research perspective there is much fertile ground for research in identifying and understanding factors related to risks. Differences in various aspects of media firm size and ownership affect perceptions of and responses to a variety of risks. Exploration of these aspects and the effectiveness of potential responses under different conditions and in different markets is desirable.

A holistic approach is needed regarding the concept of risk that encompasses the entire range of risks, including those related to entrepreneurship, organizational factors, and operational activities. Otherwise, business practices and research will leave many risks unseen

because of a myopic view of the threats that surround family media enterprises.

REFERENCES

Ayers, B. (2001). "Loving and Cussing: The Family Newspaper," *Nieman Reports* (Summer 2001), p. 56.

Barendt, E.M., ed. (1997). *Libel Law and Media: The Chilling Effect*. Clarendon Press.

Betterley, R.S., and Davison-Jenkins, D.J. (2001). "Coverage Concepts for Intellectual Property," *Risk Management* 48(2): 17-21.

Bhattacharya, U., and Ravikumar, B. (2001). "Capital Markets and the Evolution of Family Businesses," *Journal of Business* 74(2): 187-219.

Bjuggren, P.-O., and Sund, L.S. (2001). "Strategic Decision Making in Intergenerational Successions of Small- and Medium-Size Family-Owned Businesses," *Family Business Review* 14(1): 11-23.

Bjuggren, P.-O., and Sund, L.S. (2002). "A Transaction Cost Rationale for Transition of the Firm within the Family," *Small Business Economics* 19(2): 123-133.

Brunåker, S. (1999). "Understanding the Succession Process in Family Businesses," in B. Johannisson and H. Landström, eds. *Images of Entrepreneurship and Small Business: Emergent Swedish Contributions to Academic Research*. Lund, Sweden: Studenlitteratur.

Carroll, V. J. (1990). *The Man Who Couldn't Wait: Warwick Fairfax's Folly and the Bankers Who Backed Him*. Melbourne: William Heinemann Australia.

Casserly, J. (1992). *Scripps, the Divided Dynasty: A History of the First Family of American Journalism*. New York: Donald I. Fine.

Coleman, S. (2000). "Attitudes Toward Risk and the Personal Balance Sheets of Small Business Owning Families." Proceedings of the United States Association for Small Business and Entrepreneurship Annual Conference, San Antonio, Texas, February 16-19.

Craig, J., and Lindsay, N.J. (2002). "Incorporating the Family Dynamic into the Entrepreneurship Process," *Journal of Small Business and Enterprise Development*, 9(4): 416-430.

Davis, P. (1983). "Realizing the Potential of Family Business," *Organisational Dynamics*, 12(1): 47-56.

Dennis, E. and E. Noam, eds. (1989). *The Cost of Libel: Economic and Policy Implications*. New York: Columbia University Press.

Dertouzous, J. N. and Thorpe, K.E. (1982). *Newspaper Groups: Economies of Scale, Tax Laws, and Merger Incentives*. Santa Monica, Calif.: Rand Corp.

European Commission (1996). Commission Recommendation of 3/04/96 Concerning the Definition of Small and Medium-Sized Enterprises (L107 Vol. 39, 30/04/09, p. 4).

European Commission (1998). Commission Regulation 2700/98.

European Commission (2000). *Digital Technology Evolution and its Impact on the EU Entertainment and Media Sectors*. A report for the European Commission, Directorate General Research, STOA Unit, 17 July 2000.

Foley, S., and Powell, G.N. (1997). “Reconceptualizing Work-Family Conflict in Business/Marriage Partners: A Theoretical Model,” *Small Business Management* 35(4): 36-48.

Forlani, D., and J. W. Mullins (2000). “Perceived Risk and Choices of Entrepreneurs’ New Venture Decisions,” *Journal of Business Venturing* 15(3): 305-322.

Ghiglione, L. (1984). *The Buying and Selling of America’s Newspapers*. Indianapolis: R. J. Berg & Co.

Gershon, R.A. (1997). *The Transnational Media Corporation*. Mahweh, N.J.: Lawrence Erlbaum.

Harris, J.H., Martinez, J.I., and Donaldson, L. (1994). “Is Strategy Different for the Family Owned Business?” *Family Business Review* 7(2): 159-174 (Summer).

Hufft Jr., E.M. (1999). “Growth of Family Businesses and Small Firms.” Proceedings of the United States Association for Small Business and Entrepreneurship Annual Conference, San Diego, California, February 14-17.

Keh, H.T., Foo, M.D. and Lim, B.C. (2003). “Opportunity Evaluation Under Risky Conditions: The Cognitive Processes of Entrepreneurs,” *Entrepreneurship Theory and Practice* 27(2): 125-148.

King, S. W., G. T. Solomon, and L. W. Fernald, Jr. (2001). “Issues in Growing a Family Business: A Strategic Human Resource Model,” *Journal of Small Business Management* 39(1): 3-13.

Kovach, B. and Rosenstiel, T. (2001). *The Elements of Journalism*. New York: Three Rivers Press.

Lankenau, J.C. (1983). *Media Insurance Protection Against High Judgements, Punitive Damages, and Defense Costs.* Practising Law Institute.

Lankenau, J.C. (1985). *Media Insurance and Risk Management*. Practising Law Institute.

Lansberg, I. (1983). “Managing Human Resources in Family Firms: The Problems of Institutional Overlap,” *Organisational Dynamics*, 12(1): 39-46.

Neubauer, F., and Lank, A.G. (1998). *The Family Business: Its Governance for Sustainability*. London: Macmillan.

Picard, R.G. (1992). "Risk and Insurance Management," pp. 219-227 in Stephen Lacy, Ardyth Sohn, and Robert H. Giles, eds. *Readings in Media Management*. Columbia, S.C.: Association for Education in Journalism and Mass Communication, Media Management and Economics Division, 1992).

Picard, R.G. (2002a). *The Economics and Financing of Media Companies*. New York: Fordham University Press.

Picard, R.G., ed. (2002b). *Media Firms: Structures, Operations, and Performance*. Mahweh, N.J.: Lawrence Erlbaum.

Poutzious. P.Z. (2001). "The Views of Family Companies on Venture Capital: Empirical Evidence from the UK Small to Medium-Size Enterprising Economy," *Family Business Review*, 14(3): 277-291.

Poutziouris, P., and Chittenden, F. (1996). *Family Business or Business Families*. Leeds: Institute for Small Business Affairs.

Rattiner, J. (2002). "Passing Property Using Intra-Family Techniques," *Personal Financial Planning Monthly* 2(7): 15-17 (July).

Romano, C.A., Taneswski, G.A., and Smyrnios, K.X. (2001). "Capital Structure Decision Making: A Model for Family Business," *Journal of Business Venturing* 16(3): 285-310.

Simon, R. (1999). "How Risky is Your Company?" *Harvard Business Review*, 77(3): 85-95 (May/June).

Sitkin, S. B. and Pablo, A.L. (1992). "Reconceptualizing the Determinants of Risk Behavior," *Academy of Management Review* 17(1):9-38.

Sitkin, S.B. and Weingart, L.R. (1995). "Determinants of Risky Decision-Making Behavior: A Test of the Mediating Role of Risk Perception and Propensity," *Academy of Management Journal* 38(6): 1573-1592.

Smith, Michael (1995). *Value, Culture, Content: Three Keys to Journalism in a Strategic Newspaper*. A Report of the Newspaper Management Center, Northwestern University. Available at: www.mediamanagementcenter.org/center/web/publications/ data/values.culture.content.pdf Accessed 12 April 2003.

Sorenson, R.L. (1999). "Conflict Management Strategies Used by Successful Family Businesses," *Family Business Review* 12(4): 325-339.

Sorenson, R.L. (2000). "The Contribution of Leadership Style and Practices to Family and Business Success," *Family Business Review*, 13(3): 183-2000.

Tiftt, S. E. and Jones, A. (1990). *The Patriarch: The Rise and Fall of the Bingham Dynasty*. New York: Summit Books, 1990.

Timmons, J.A. (1999). *New Venture Creation: Entrepreneurship for the 21st Century*. New York: Irwin McGraw-Hill.

United States Small Business Administration. *Transferring Management in a Family Owned Business*. Accessible at: ftp://ftp.sbaonline.sba.gov/ pub/sbaonline_bbs/manage-a-business/trans.txt

Ward, J.L. (1987). *Keeping the Family Business Healthy: How to Plan for Continued Growth, Profitability, and Family Leadership*. San Francisco: Jossey-Bass.

Westhead, P. (2003). "Company Performance and Objectives Reported by First and Multigenerational Family Companies: A Research Note," *Journal of Small Business and Entrepreneurial Development* 10(1): 93-105.

Wineka, M. (1999). *A Family Affair: The Life, Times, and Sale of a Family Owned Newspaper*. Winston-Salem, N.C.: John F. Blair.