“LET’S START AN ONLINE NEWS SITE”: OPPORTUNITIES, RESOURCES, STRATEGY, AND FORMATIONAL MYOPIA IN STARTUPS

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ABSTRACT: This articles explores how factors present at the startup of online news enterprises influence their development and sustainability. Using entrepreneurship and management literature as a base, it presents and analyzes three case studies in which different arrays of organizational factors were present and how they affected the first three years of the organizations’ activities. It reveals that “formational myopia”—pre-existing expectations and organizational objectives based on the entrepreneurs’ past experiences—played important roles in their development and that the abilities of the firms to adapt their strategies and practices after establishment were crucial to their sustainability.

KEY WORDS: new business formation, entrepreneurship, strategy, sustainability, digital media

The Internet is increasingly being used as a platform for startup news organizations by entrepreneurial journalists seeking to create new providers of news and information. New business formation, resource based, and strategy literature assert that the impetuses behind the development of new ventures, the opportunities perceived by entrepreneurs, the resources available to the entrepreneurs, and the strategies employed play important roles in the success of new ventures and these factors are considered in this investigation of online news organizations.

The article uses a comparative case study approach that examines three online news startups—INDenverTimes, NewJerseyNewsroom, and Public Press (San Francisco)—that were established to provide additional news coverage in markets in which established newspapers were withering or dying.

The theoretical frame comes from entrepreneurship and management literature and presents a framework that integrates key aspects of the processes of new venture formation and development, embedding each aspect in the context of new industries. The authors also postulates that entrepreneurs establishing new businesses in new industries may have formational myopia that affects the strategies and realization of the new ventures because the entrepreneurs' backgrounds and previous professional experiences become constraining factors in the startups.

The Context of News Startups

As the underlying business models of traditional news organizations (newspapers, public affairs magazines, and broadcasting) deteriorate due to changes in technologies, economics, and market preferences, those concerned with journalism and its social contributions are seeking means to preserve the social functions of journalism (Currah, 2009; Reilly Center for Media & Public Affairs, 2008). The primary impetuses for establishing such sites are dissatisfaction with existing media coverage, the deaths or decline of newspapers, and significant layoffs of journalists in local media (Sass, 2009).

Establishing independent local online news operations is seen as a means for maintaining local journalism (Briggs, 2007; Schaffer, 2007; Reilly Center for Media & Public Affairs, 2008) because many established news organizations are faltering and having difficulty transforming themselves into Internet operators. Independent online news providers can be either for profit or not-for-profit initiatives and are produced by either professional journalists or citizen journalists or as a collaborative journalism that combines the work of professional and non-professional journalists. Most startups focus on cities and towns, but some "hyperlocal" enterprises are focusing on specific neighborhoods (Miller & Stone, 2009).

Establishing an effective online business model require dexterity and ability to change models rapidly (Picard, 2000) and a variety of financing approaches relying on advertising, e-commerce, subscriptions, memberships, and donations are available (Afuah & Tucci, 2001; Eisenmann, 2002). New online operating applications also provide abilities to acquire additional advertising through some larger hosting organizations or advertising networks, rather than merely relying on the site's own advertising sales (Funk, 2008). Reductions in bureaucracy, public support and venture capital reduce startup costs for new enterprises and present significant advantages to emergent firms. Reduced start-up costs makes it possible for employees or displaced employees to start their own firms (Fonseca, Lopez-Garcia & Pissarides, 2001), but also provides incentives for education and learning (Dulleck, Frijters, & Winter-Ebmer, 2004).

Despite their advantages, most startup enterprises have poor business plans, have limited access to capital, rely on mixed sources of funding, and will—ultimately—fail (Nesheim, 2000). Starting a new enterprise is a 2-3 year process that requires entrepreneurs to be agile and flexible in their plans and implementation because of the limitations. Their success, however, is encouraged by first mover advantages, alliances, unique selling points, and effective financial logic (Nokes, 2000).

Scholarly studies regarding media startups have grown since the mid 1990s, but only about 10 percent have focused on Internet-based entrepreneurship (Min & van Weezel, 2007). Media industries in the U.S. were more entrepreneurial—evidenced by entries and exits—than other sectors of the economy in the 1990s (Hoag, 2008). The number of startups in the U.S. has continued to grow and a study of 75 reveals they now have combined budgets of $135 million and 1,300 full time employees and that many are now associating with universities and cultural organizations to gain stability (Lewis, Butts, & Musslewhite, 2012). European online news startups have tended to be larger scale than those in the U.S. and, despite a good deal of inventiveness and journalistic quality, remain financially unstable (Bruno & Nielsen, 2012).

The internet era has been divided into two eras: an exuberant and turbulent introductory period and a subsequent more realistic and strategically driven maturation era (Küng, Picard & Towse, 2008). Few news-oriented developments occurred in the first era, but both established and startup news organizations embraced Internet opportunities during the second, whose beginning roughly coincides with the beginning of the millennium.

Established news organizations have wrestled with incorporating online news into their activities for a decade. It is seen as a means of expanding existing offerings to serve customers better on multiple platforms (Stone, 2006) and for making papers a community information hub (World Association of Newspapers, 2002). Although it is perceived as a strategy for future revenue growth, it is not yet providing significant revenue streams to most established news organizations (World Association of Newspapers, 2002; Picard & Dal Zotto, 2006; Picard, 2011).

As with all startup companies, new news enterprises require effective planning, capital, resources, and engaged leaders to make them effective. Independent online news providers—those not started by established organization providing news on other platforms—also require aggressive outreach in the community during startup to build interest and generally have to rely on the founders for most startup (Schaffer, 2007). "It's worth noting that many site operators who have had their sites up for a year or two say they have put almost all of their time and energy into developing the editorial model, giving little time to earning revenues, attracting investments or making sites attractive to advertisers" (Schaffer, 2007: 36). Consequently, most startup local news sites do not define success in monetary terms, but in terms of community and public service and survival.

Many startups are increasingly turning to foundations for startup money (Westphal, 2008) and operating as not-for-profit new organizations. One of the most well funded startups—MinnPost—raised more than a million dollars in foundation grants and other donations (Kaplin, 2007). The Institute for Interactive Journalism promotes establishment of independent local news operations and provides some startup money from the John S. and James L. Knight Foundation. It views itself as "incubator for innovative news experiments that use new technologies to help people actively engage in critical public issues" (Institute for Interactive Journalism, About, 2009). Based on 46 community news startups it has funded, the organization asserts that success requires stable and strong leadership, precise focus and clear-headed vision, civic capital in their communities to attract both contributions of content and financial support, both journalistic and business sensibilities, regular frequency of content to build momentum and recognition, and starting small and growing incrementally (Schaffer, 2009; 2010)

THEORETICAL FRAMEWORK

This dynamics of emergence and development of enterprises in new industries—such as online news start ups—has not been systematically explored by entrepreneurship scholars, despite its relevance for practitioners and policymakers alike. A new industry presents both opportunities and challenges for new ventures. On the one hand, Schumpeter (1934/1989) maintained that entrepreneurs are creators (and destroyers) of entire industries. Therefore, a new industry can be regarded as the natural locus for launching and developing a new venture. On the other hand, because these industries are ground-breaking, entrepreneurs launching new ventures lack reference points and encounter a number of difficulties that may even stop the ventures from developing (VanderWerf, 1993). It could be said that new ventures in new industries as subjected to a 'double' liability of newness (Stinchcombe, 1965)—that is, they have a double survival disadvantage, one stemming from the fact that they are new and the other stemming from the fact that they compete in a new industry that has not yet proven itself viable.

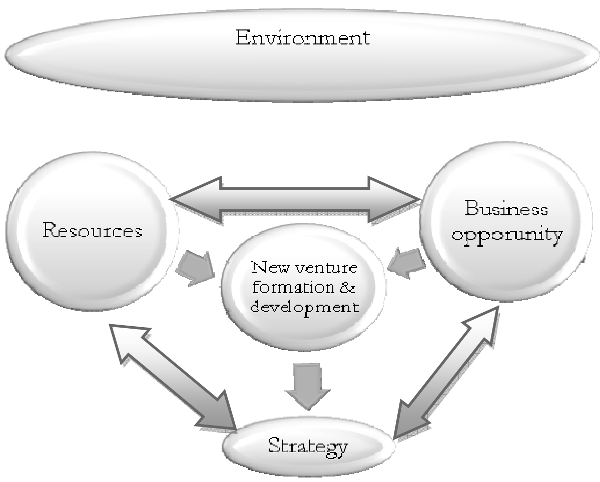
The theoretical and empirical literature on new venture formation and development is very extensive (Davidsson, 2003). Less attention, however, has been devoted to new venture formation and development within new industries. This issue has only been marginally treated by economics and management theories interested in the emergence and evolution of new industries—such as the product-cycle model (Vernon 1966), the dominant design theory (Tushman & P, 1986) and the population ecology approach (Hannan & Freeman, 1986; Hannan & Freeman, 1989).

In the following sections we review the work of VanderWerf (1993), which provides one of the most comprehensive conceptualizations of entrepreneurship in new industries. Then, we develop of framework that integrates key aspects of the processes of new venture formation and development, embedding each aspect in the context of new industries and then develop of framework that integrates key aspects of the processes of new venture formation and development, embedding each aspect in the context of new industries. Then we apply the framework to the case studies of online news startups.

A Conceptual Framework

Entrepreneurship literature holds that new ventures are not a random, passive byproduct of environmental conditions. Rather, they are the outcomes of evolutionary processes driven by individuals' intentions and actions (Gartner, 1985). Owning to the limitation of space here, we do not offer a detailed examination of the literature on new venture formation and development. Rather, we develop a conceptual framework that integrates key aspects of these processes, and discusses each aspect in the context of new industries from that literature. As shown in Figure 1, the framework suggests that the creation and development of new ventures in new industries are the result of a complex interplay of opportunities, resources, and strategies (Thakur, 1999). The environment plays a role because it is the source of opportunities and resources.

Figure 1: Framework for illustrating new venture formation and development in new industries



The framework starts with the *environment*, though this construct is difficult to identity in new ventures and, oftentimes, comprises the environment where the new ventures were incubated. According to VanderWerf (1993) industries lack a starting environment—that is, entrants do not have close competitors against which position themselves. As a consequence "the process of venture creation is [...] initially influenced relatively heavily by the environments in which the ventures are incubated" (VanderWerf, 1993: 40).

Other important components of the framework are *resources* and *business opportunities*. Resources and opportunities are at the heart of the entrepreneurship processes, even in newly created industries (Aldrich & Fiol, 1994). The framework depicts the relationship between opportunity and resources as two ways. Entrepreneur's resources and skills play a role in the identification of commercial opportunities. At the same time, once the opportunity has been identified, entrepreneurs need new resources to exploit the opportunity and actually start the new venture.

One of the important resources in startups is human resources. Prior studies have investigated the relationship between new venture formation and human resources (Cooper, Gimeno-Gascon, & Woo, 1994). The characteristics of the entrepreneur often associated with new venture creation are: prior entrepreneurial experience, start-up experience, managerial experience, age and education (Sandberg, 1986). In addition, new ventures oftentimes are oftentimes initiated by a team of individuals. Some of these could be 'habitual entrepreneurs'; others could be 'forced entrepreneurs'. Teams are particularly common within new industries (Davidsson & Wiklund, 2001). Nevertheless, knowledge and experience accumulated by the entrepreneur (or entrepreneurs) in other industries can sometimes be of little help in new industries (VanderWerf, 1993).

Resource-based theory, applied to new ventures, holds that knowledge is a critical resource in understanding new venture formation and growth (Alvarez & Barney, 2000). Knowledge comprises information, know-how, technology and skills (Grant, 1996) and can either be explicit such as in technology or tacit, such as know-how and more difficult to communicate (Polany, 1962). In some cases, prior knowledge may become a hindrance to novel thinking and behavior (Leonard-Barton, 1995). In new industries, it can create positive illusions and misperceptions about the environment, leading to faulty investments and bankruptcies (Ottesen & Grønhaug, 2005). Regardless of the entrepreneur's prior knowledge, entrepreneurship scholars suggest that startup firms have the 'learning advantage of newness' over established firms, stemming from more flexible working environments and less rigid routines (Autio, Sapienza, & Almeida, 2000; Sapienza, Autio, George, & Zahra, 2006). This could be even truer for startups in new industries, where the lack of close competitors could prevent new ventures from following industry recipes and institutional isomorphism.

The social capital of the entrepreneur (or of the team of entrepreneurs) is also an important resource. Startups are, indeed, the results of cooperation and strategic interaction of individuals and groups. Social capital resources, such as legitimacy, seem to be particularly critical for entrants in new industries. Aldrich and Fiol (1994) point to two types of legitimacy that affect the development of new ventures in new industries. The first, cognitive legitimation, refers to the spread of knowledge about the new venture. From the new venture's point of view, there is cognitive legitimation when new entrants in the industry copy an existing organizational form, rather than experimenting with a new one. From the consumers' point of view, there is cognitive legitimation when they know how and when to use a product/service. The second, socio-political legitimation, refers to the processes by which key stakeholders (e.g. public media, opinion leaders, government officials) accept a venture as appropriate or 'right' on the basis of the current regulatory framework. Entrepreneurs in new industries face the rather difficult condition of needing build both cognitive legitimation and socio-political legitimation.

Sine et al. (2005) suggest that entrants in new industries could face additional difficulties if they use new distribution technologies. In their view, these ventures "are especially risky because many of those needed to launch any new venture—employees, financial backers, suppliers, customers, and the general public—are unfamiliar with new technologies and thus are likely to be skeptical of or even hostile toward them" (p. 200).

All in all, starting new ventures in new industries is costly in terms of resources. Entrepreneurs need to control or get access to more resources—e.g. new technologies, organizational forms as well as business models—when starting ventures in new industries as compared to starting ventures in established industries.

Although opportunities and resources are crucial to the emergence and development of a venture, they alone are not sufficient. Entrepreneurs need to select a competitive *strategy*. Our framework suggests a two-way relationship between resources and strategy. Entrepreneurs need to select strategies that make the best use of the resources they have or can access to (Ucbasaran, Westhead, & Wright, 2001). Strategic action is shaped by how managers notice and interpret the firm's environment on the basis of their current knowledge (Daft & Weick, 1984). Thus, entrepreneurs' prior knowledge and experience influence the competitive strategies they select. This is particularly true in times of uncertainty, e.g. during the formation of new industries, and/or when new technologies emerge. As Weick (1990) points out, new technologies are inherently "equivocal" and managers use sensemaking to make choices about how to respond.

At the same time, the competitive strategy selected by the entrepreneur influences the venture's access to resources. As noted above, as compared to entrants in established industries, entrants in new industries need to develop more resources, some even from scratch (VanderWerf, 1993). Thus, new ventures need to win the approval of investors (e.g. banks, or venture capitalists) to access they financing they need as well as the acceptance of other stakeholders (e.g. customers); and they must develop a competitive strategy—or at least a business model—that financers and other stakeholders find 'reliable'. Again, this might pose a challenge to pioneering entrepreneurs in new industries, because of the lack of what can be regarded as a 'reliable' behavior. Hardy any existing business model is suitable for the competing in a new industry (VanderWerf, 1993). This might explain why new industries are often started by completely new ventures.

To deal with entrepreneurs entering the new industry from a similar pre-existing industry, we posit a concept of 'formational myopia' in new enterprises and believe that the previous knowledge, experience, and practice of entrepreneurs influences their startup of enterprises in the new industries. Formational myopia results from the experiences and perceptions of those with a work background in a previous industrial form—in this case in an earlier form of communication or media—constraining the vision of the requirements and necessities for an enterprise in the newer industrial form. This can be seen as a continuing expression of persistencies and path dependence that limit innovation and change in firms (Hannan & Freeman, 1984; Arthur, 1994; David, 1995; Scott, 2001). Formational myopia thus affects how entrepreneurs assess the environment and opportunities present, how they develop new ventures, how they structure operations, and how they conceptualize challenges and solutions.

There is some historical evidence that formational myopia is evidenced in startups of new media types when management and labor attempt to recreate conditions in the preceding archetype medium. The development of radio led to programmers providing live entertainment by broadcasting live musical performance, vaudeville and standup comedy, and plays adapted for radio (Maltin, 1997; Rudel, 2009) and it took a significant time before the medium's own grammar and technique were established. When television developed, it was operated essentially as live radio with pictures (Barnow, 1990; Roman, 2005), reflecting the knowledge and experience of those previously employed in radio.

Parallel patterns are found in the purveyance of news. Radio news was based on news readers reading newspaper or wire service headlines. Later radio developed small reporting staffs of its own to produce short original newscasts (Barnouw, 1990). When television news developed, it typically garnered its staff from radio news and in early years remained news readers that would supplement the reading with still photographs or stock footage (Mikelson, 1998).

Similar shortsightedness was seen in some countries where commercial radio developed after public service radio. Managers who had experience in large well-funded public service radio firms attempted to recreate functions and positions with large staffs in the new market-based stations. In Sweden, for example, commercial radio began in mid 1990s. Number of personnel per station was 10 in 2000 and declined to 5 in 2007 when it became evident that that operational requirements and business model did not justify or support the larger more familiar staff size (Grönlund, Norbäck & Pönni, 2005; Grönlund & Pönni, 2009).

Thus, formational myopia will be expected to influence the initial thinking and choices of those establishing online news startups and create additional challenges to their success.

THREE CASE STUDIES OF ONLINE JOURNALISM START-UPS

In order to explore startups within the framework selected, the authors selected three online news organizations in the United States that were started in 2009 and whose development has been tracked since that time. The three were selected to represent three different approaches to online entrepreneurship. One represents a commercial approach involving entrepreneurs and professional journalists, a second involves a startup by professional journalists with a less commercial approach, and the third is a startup by community activities and journalists with a not-for-profit approach. Selecting different types of startups allowed the authors to view developments in organizations whose founders had varying backgrounds, strategies and tactics and to explore whether and how these influenced perceptions of business opportunities, the resource endowment of the startups, their strategic development, degrees of success, and the extent to which formational myopia influenced their development.

The authors studied news articles and press releases about the startups, read materials published on their sites, obtained planning documents, and conducted interviews with key personnel at the startups in developing the case studies.

INDenverTimes (www.indenvertimes.com)

The closure of the *Rocky Mountain News* (RMN) on Feb 27, 2009, pushed Denver onto the list of the 99 percent of other American cities that are one-newspaper towns. After century and half of independent operation, poor circulation and advertising performance led the E.W. Scripps paper to enter a joint operating agreement with *The Denver Post* in 2001, but the cost saving from joint activities did not stem losses—it lost $16 million in 2008—and Scripps decided to end publication. The decision put 230 editorial employees out of work, but the company agreed to pay editorial employees for 2 months following the closure (Tsai, 2009).

On March 16, 30 former *Rocky Mountain News* journalists and three Denver businessmen announced they would establish an online news site INDenverTimes (Ex-Rocky Mountain staffers..., 2009). The initiative was planned to focus on local news, sports, business, and arts and entertainment and to provide a local perspective on national news. During March and April the staff worked without pay to get the news site up and operating. The three entrepreneurs financing the initiative included owners of a digital marketing company, an executive recruitment firm, and a business service firm (Denver Business Journal, 2009).

The website was activated March 16, with intention of a full launch on May 4. The business plan called for 50,000 subscribers and the organizers set April 23 as the deadline to reach that goal before the full launch (INDenverTimes, April 23, 2009). In the first month of operation the site attracted 70,000 unique visitors and had more than 311,000 page views (INDenverTimes April 15, 2009).

Marketing for the site heavily promoted the reputation and popularity of its journalists. Among the RMN writers and columnists joining the venture were business writers David Milstead and John Rebchoo, sports reporters Sam Adams, Aaron Lopez and Chris Tomasson, sports cartoonist Drew Litton, editorial cartoonist Ed Stein; columnists Gary Massaro and Mark Wolf; and arts writers Lisa Bornstein, Mark Brown, Mary Chandler and Marc Shulgold. The startup stated that its goal was "providing the best sports and business coverage in Denver" (Nicoloric, April 1, 2009).

Initial operations provided free access to all on the online site and incorporated Facebook and Twitter services. From the beginning, however, a paid access business model was the goal. Starting in May basic news stories were to be provided free, but perspective and insight pieces, a customizable personal home page, alerts, comments and commentary on the stories and real-time conversation with the editors and journalists would required a subscription

The announced subscription rates were $59.88 annually, $35.40 for 6 months or $20.97 for 3 months. In the months leading up to May 4, visitors to the site were asked to subscribe by credit card, with the payment being processed on that May 4 launch date. Revenue from the subscription was supposed to support a newsroom made up of the 30 journalists involved in its founding. In announcing the project INDT founder Kevin Preblud said "The questions isn't IF an online news business model will work, it's WHO will be the first to get it right." Despite the optimism of the staff, some observers were skeptical of the viability of the plan from the start (Outing, 2009).

The initial business model failed and on April 23 the enterprise announced it had not reached its 50,000 subscriber goal and only managed to get 3,000 paid subscriptions by that time (Bizzia.com, 2009; Elliott, 2009). That performance led the business backers to halt implementation of the broader project (Bunch, 2009).

"We've had an incredibly busy and exciting five weeks," said Kevin Preblud, one of the three businessmen behind the initiative. "We are very grateful for the support and encouragement we have received from every corner of this community and we have confidence in the future of online journalism. While we did not meet our initial subscriber goal we made steady progress with all other metrics. We have confidence in the future of online journalism and will continue to explore alternative business models." (INDenverTimes, April 23, 2009).

The decision not to launch the large-scale startup in face of poor willingness to subscribe to the new service reflected the businessmen's unease with the budget required to maintain the large, 30-person staff (Bunch 2009; Elliott, 2009). One observer noted "A startup is not a jobs program. It might be more helpful to not try too hard to recreate the function, structure, and content of an established, large organization with a corporate parent. Instead, it makes more sense to *start with what you can realistically do with the money that's available* [emphasis in the original]….For many experienced journalists, this involves a significant step outside their comfort zone (Gahran, 2009).

The decision not to go ahead with the large planned operation led many original journalist supporters to leave the initiative, but the idea for a big news operation was kept alive by co-founder Steve Foster and David Milstead, who sought backers for an online newsroom. "We believe there is money to be made in local journalism by local journalists and that there is a unique opportunity in Denver in the wake of the closure of the Rocky Mountain News," they said. (INDenverTimes, April 23, 2009). Milstead estimated it would take a newsroom between 10-20 people to provide a comprehensive online news site (Elliott, 2009). The INDenverTimes founders determined to continue its operation, but as a smaller startup. It has remained active and still provides some local news and commentary, but relies heavily on content obtained from other news and online services.

In mid-May 2009, journalists who left the downsized startup announced they would start a separate online news magazine called Rocky Mountain Independent during summer 2009 that would rely on "membership" payments and advertising business model (Tsai, 2009; Editor & Publisher, 2009). The site became active in late summer but managed to retain the interest of only about one-third of journalists that had signed on to the original startup effort. It survived only until Oct. 4 when its journalists posted a "Goodbye from RMI. We put everything into producing content and supporting our independent partners, but we can no longer afford to produce enough content to justify the membership" (Rocky Mountain Independent, 2009).

The original INDenverTimes site continued to develop slowly. It completed a significant redesign in October 2009. Because the initiative was led by entrepreneurs rather than journalists it was able to look at the initiative differently, according to its founders. "We contributed raw business knowledge of what it take to run a non-losing entity and where to spend the money to be successful," says managing partner Preblud (Preblud, 2009).

"We brought to the table a business perspective unconstrained by journalism business thought," he says. "They came from a print-based model—we knew we wouldn't have that component and would work in the web-only model. It was hard for the journalists to let go of the past."

"We can leverage existing resources out there. We can't spend all the money on things that doesn't need to be spent....You don't need to have office space, desks, and services or spend a lot of capital that legacy firms have spent" (Preblud, 2009). However, having a virtual office rather than a newsroom was disconcerting for the journalists. "I think that most of the writers were used to being in a behemoth of an office with lots of technology," said Preblud (2009).

The original 3 founding entrepreneurs remained involved with the online site after the changes and established an advisory board of half dozen experts in various fields. The core staff consisted of one person working on editorial issues, one on business issues, and one on site technology issues. It had about two dozen persons contributing news and columns. The site tried to concentrate on local issues, but relied significantly on national and international content from other sources. "We want more original local based content, to build the local news staff," said Preblud.

The enterprise was not able to maintain that strategy, contributors drifted away, and the staff has been reduced. Today it produces very little local news itself, instead acting primarily as an aggregator and relying heavily on content from local and national news, sports, and feature sites and bloggers and advocacy groups such as NDN/New Policy Institute.

The site makes use of both Twitter and Facebook, but by 2012 had only 1,300 likes for its Facebook page. The digital strategy was important to generating page views, Prelub said in 2009. The site now has about 11,000 followers on Twitter, but has been inconsistent in tweeting stories and significantly reduced its use in mid-2012.

Financing the enterprise remains difficult because of poor advertising development. It early received a small revenue stream from national advertising network feeds and sold local advertising with some initial progress. After three years, however, the site is essentially ad free. Few advertisers—even from national ad feeds—now appear on its pages. The site solicits donations to cover some costs, but is not a charitable organization and has not attracted much donor support.

The overall developmental trends for the startup are thus not encouraging. It is now operating on a very small revenue stream, keeping its costs low, and providing content and service far from that envisioned at the outset. The site has never developed well as a commercial entity, despite the business backgrounds and aspirations of its founders.

NewJerseyNewsroom (www.newjerseynewsroom.com)

This East Coast startup was formed as a statewide news organization in January 2009 by 40 journalists who had been bought out by the Newark, NJ, *Star-Ledger* in fall 2008 when that paper reduced its newsroom staff by 40 percent

"Despite a lack of financial backing, we pushed forward and a unique news organization was born. This is journalism not funded by or beholden to corporations or wealthy individuals. We aim for a balanced, insightful take on the news and our goal is to provide a fresh, independent voice." (Newjerseynewsroom.com, About Us).

The impetuses behind the site were three sports journalists—Matt Romanoski, Andrew Lagomarsino, and Garrett Morrison. They convinced other journalists with backgrounds in government and politics, crime, education, business, music, and health to join the initiative and much of the promotional material for the site relied upon the importance of their expertise and reputations. "The bottom line is that we thought the state could use another New Jersey news website. A site where journalists, writers and experts can dig into all the great stories the state produces," according to Morrison (Morrison, 2009).

Launched mid-April 2009, the site blends original stories with editorial material linked from other sites and is intended to provide significant amounts of state capital news.

At its inception the organizers said the initiative had advantages over many startups. "Technology out there makes it very easy to get what you need to start publishing, and the reputation of the writers was more important than the reputation of the site because it gave access to news and news sources," according to Morrisson (2009). Nevertheless, Morrisson says that in retrospective being more inclusive of a wider range of journalists at startup would be have helpful. "We reached out to hot shot reporters who had left the paper and others we knew," he says. However, "some of the best people to work with weren't the hot shot reporters" (Morrison, 2009).

Keeping people active in the organization has been a challenge. "We have lost a few of our original *Star Ledger* people due to relocations and job conflicts, but we have probably gained about 50 new contributors," said Garrett Morrisson in 2009. There are about 10 to 15 highly active people, but only about 5 working on it daily. An objective is to solidify the core workers so that the site has a stable editorial desk.

"No one is being paid as of now, we are giving equity and hoping to secure revenue," according to Matt Romanoski said at the outset. The one-year pay buyouts allow the contributors to initially work without pay (Strupp, 2009). Overhead costs are also kept low because the reporters work from home, thus reducing the need for office space (Sass, 2009).

"We are for profit but our goal is to distribute it to the journalists….A key factor in our set up is that we have an agreement where the journalists keep track of their hours and the hours translate into shares of the revenue. It is sweat equity and gives an incentive to participate…. We are making a profit but no one is getting paid yet" (Morrisson, 2009).

Using a volunteer staff created managerial challenges and the relationship of people to the organization has forced the editors to manage the editorial staff differently. "There was quite a bit of uneasiness over the fact that they should suggest their own articles and be self starters. They were not used to that and liked to be told what to do, even highly experienced reporters most more than 15 years on the job" (Morrisson, 2009). "There are limits to volunteer organizations like ours. You can't say, 'go cover this'. Everything is a suggestion. Until someone draws a salary you can't boss them around," (Morrisson, 2009). This change has led to a change in conceptualization of the staffing. "We are now looking at it as sort of a Wikipedia start up. People are doing it for reasons other than money." Some are doing it to help find other freelance writing opportunities and some for the sense of being part of the group. In the three years since its establishment, it has developed a network of about 100 contributors

The site operates without a physical location using a virtual newsroom based on the Internet and telephone contact among participants. "The lack of a newsroom is definitely a drawback. It takes away the social interaction and the ease of walking over to talk to someone about a story. Now it's a thousand e-mails and calls" (Morrisson, 2009). "We want to pay our journalists before we take only any high expenses, unless we come on some free office space."

Working alone has some drawbacks. "The life of an independent journalist is a lot more solitude and I think production is a lot lower," Morrison says.

The site early on gained 10,000 page views per week (Sass, 2009) and by June 2009 was getting 60,000 page views (Morrisson, 2009). By 2012 it was getting 250,000 unique visitors monthly.

Although the site is functioning journalistically, it has faced sustainability issues, partly because the organizers focused their attention on the part of journalism they knew: the content. If they were starting again they would put more emphasis on the business and advertising side from the beginning, according to Morrison. "We were only thinking journalism and probably should have looked at the whole big picture, especially advertising" (Morrisson, 2009).

To date, much of site's advertising has been the result of national ad feed, but the site hired an advertising director and sales staff, all working on a commission only bases and attracted a few local political ads, television station ads, and insurance and medical centers advertising. It accepts financial donations but is not a charitable entity.

The organizers have sought grant money to fund investigative journalism and have tried to establish links to universities to acquire labor from student journalists and interns. The site continues to rely on a regular contributors and links to many organizations for news and features, including News Max and a variety of financial, entertainment, heath and other feature sites and blogs.

It uses Facebook to highlight some of its stories, but does so irregularly and has achieved only about 2,000 Likes on the social network. It is far more active on Twitter, using it to drive readers to new stories on the site, and it has about 8,000 followers.

The development trends for the NewJerseyNewsroom are somewhat positive, although not matching initial financial expectations. It has a growing audience and has managed to piece together a network of contributors that keep its content fresh and partially meets its objectives of providing more news and an independent voice in the state.

Public Press (www.public-press.org)

Public Press was organized by volunteers in November 2007, began administrative operations in January 2008. It is conceived as a non-commercial, not-for-profit news organization (Public Press, FAQ, 2009). Its objective is to increase coverage of under-covered community news topics, stressing government and private-sector accountability, consumer protection and issues of social inequality. The initiative was established after the *San Francisco Examiner* ceased daily publication and amidst threats that the *San Francisco Chronicle* might cease print publication. The primary instigators of the organization were Michael Stoll, a journalism instructor, and several former journalists.

During 2008 organizers engaged in a variety of organizational, planning, promotional and fundraising activities. More than 40 volunteers, including journalists, community activists and individuals involved in a variety of community activities, helped create the strategic plan during meetings in 2008 and it received fiscal sponsorship in April 2008 from Independent Arts & Media. That organization is a producers coop and incubator that was founded in 2000 (Independent Arts & Media, 2009) and its sponsorship allowed Public Press to use its 501(c)3 status for fundraising, thus providing donors tax deductible status for their gifts. During 2008 the group raised $26,064 from individuals and received a $20,000 grant from the San Francisco Foundation (Public Press, Strategic Plan, 2009).

"We started up with nothing," says Michael Stoll. "I had a two-page basic outline of the idea…We had a Web site with nothing on it, one desk in the corner of an office and that was it. We had a series of meetings over the course of the winter and spring 2007 in which more than 60 people showed up and helped us brainstorm ideas about journalism, accountability, online and print news delivery, audience, marketing, finance, etc. Out of that slowly emerged two things: 1) a core leadership group, which later became called the steering committee, and 2) a three-year organizational strategic plan, which we finished and published in January 2009" (Stoll, 2009).

The organization relies on about 40 volunteers who do the writing, editing, photography, videography, web design, finances, marketing, and community engagement work. "Recruiting all those people to give their time freely with no promise of monetary reward is a painstaking process involving dozens of meetings, dozens of lunches, hundreds of calls and thousands of e-mails over many months, Stoll says. "But without a million dollars, this was the only way we could have done this."

The organization had an ambitious three phase startup plan. In the first phase it has established an online only news platform updated weekly and then moving to daily publication. Phase 2 involved establishing a weekly print newspaper and Phase 3 transforming the weekly newspaper into a daily (Public Press, Strategic Plan, 2009).

The donations and foundation grant received in 2008 allowed the organization to begin phase 1 and hire a part-time editor and a part time web designer in spring 2009 to transform its website from a site facilitating the establishment of the entity into a source of news. A good deal of effort in 2008 was placed into forging alliances with community organizations and other community media to cooperate on story development and share materials. By spring 2009 the site was getting up to 5,000 unique visitors per month.

It launched a redesigned site in fall 2009, providing a cleaner look with clear editorial sections and additional topics and features. Today it offers are high amount of locally produced and original content, as well as news from other websites with a community activist or related issue orientation. It gathers contributors to create special reports on topics such as domestic violence, local healthcare, and city budget and in 2010 began a reverse publishing quarterly print edition that is distributed throughout book shops, cafes and community centers, but has not yet developed sufficient funding to make it a weekly.

The site now has a stable group of contributors, including student interns who write, maintain the website, and assist with business activities. Some of the contributors are journalists; others are persons with writing ability who are active in community organizations.

The organization has 1,300 Likes on Facebook and uses its pages to highlight a few stories each week. Its Twitter account has 5,200 followers and notices about its original stories are tweeted more regularly. The site has also begun sponsoring community events to raise awareness and try to develop additional revenue streams.

The organization achieved charitable status in September 2012, allowing it to directly accept tax-deductible donations. The site has 200 dues paying members that provide support and it is receiving small grants from community foundations. It hopes that all its sources of revenue will rise now that it can fully conduct its own development activities. The charitable status has had unexpected benefits and those "advantages are starting to trickle in," says Stoll (2012). These include the ability acquire some goods and services from suppliers at lower prices offered charitable organizations, reduced-priced office space, and postal reductions.

"We consider ourselves successful in that we are still going," says Stoll (2012). Short-term goals are to increase memberships, grants, develop better content, and increase distribution of the print edition.

The development trajectory of the site is generally positive, but it faces the financial struggles encountered in voluntary community organizations and NGOs. It has thus not achieved all the objectives set forth in the optimism of its founding. Nevertheless, it has been able to attract and keep volunteer writers engaged and is generally meeting its content objectives of providing a local community voice and covering issues that it believes are not well covered in other local media.

CROSS CASE COMPARISON

Organizers of all three startups were driven by enthusiastic idealism about journalism and the belief that there would be demand for their content. They differed, however, in their approaches to starting up news organizations, the business opportunities they perceived, the resources they drew upon, their strategies, and the development of their ventures. Table 1 provides a summary of the choices and performance of the startups in the individual cases. Specifically, each start-up is assessed along four dimensions: 1) attractiveness of the business opportunity; 2) resource endowment, 3) strategic development; and 4) initial success. These dimensions relate to our conceptual framework (Figure 1) and are derived from the fields of entrepreneurship and strategic management.

The researchers assessed and scored the performance of the three startups using dimensions. Scores ranging from 1 to 3—indicating low, moderate, or high—were given for each dimension. This was done to permit summation and evaluation of the startups within each dimension. It would not be appropriate however to sum and compare performance across all four dimensions because of the differences between their characteristics.

NewJerseyNewsroom was notable for not leading on any dimension, whereas Public Press and INDenverTimes led in two or more. Thus, one would expect them to have advantages in the development of their enterprises, as is revealed in the following discussion of the individual dimensions.

Attractiveness of the Business Opportunity

We assessed the attractiveness of the business opportunity in terms of 1) degree of novelty, and 2) degree of risks. Risk is defined as the probability of major financial loss, while novelty entails the creation of something new and different (Sonfield & Lussier, 1997). In terms of measurement, the novelty of the business opportunity can ranges from low, when opportunity are only based on existing knowledge—i.e., replication of existing operations in a different context—to high, when opportunities are based on new knowledge.

Table 1: Cross case comparison

		INDenverTimes	**NewJersey Newsroom**	**Public Press**	**Scoring**
Attractive-ness of the business opportunity	Degree of novelty	Low Replication of a newspaper operations	Low Replication of a newspaper operations	Moderate	1-1-2
	Risk minimi-zation	*High* Low start-up costs	High Low start-up costs	High Low start-up costs	*3-3-3* *3= low risk* *1=high risk* ***Subtotals 4-4-5***
Resource endowment	Prior entrepre-neurial & business work	*Moderate* Started by 30 journalist with no start-up experience, but also 3 local entrepreneurs	*Low* Started by three sport journalists, with no business experience)	*Low* Started by journalism professor, several former journalists and volunteers	*2-1-1*
	Prior media experi-ence	*High* 30 journalist	*High* 3 sport journalists and other 'hot shot' reporters	*High*	*3-3-3*
	Prior experi-ence in other industries	*Moderate* 3 local entrepreneurs	*Low*	*Moderate* Volunteer base, with people with different back-grounds	*2-1-2*
	Initial capital	Low Some investment and 30 journalists working for free for 2 months	*Low* Several professional journalists working for free for 1 year	*Low* More than 40 volunteers, who worked with fundraising	*1-1-1*
	Social capital--Ties to high quality workers	*High* -Columnist and writers with good reputation - Strong personal network of the founders	*High* -Professional journalists with good reputation -Strong personal network of the founders	*High* -large activists base	*3-3-3*
	Social capital--Ties to news sources	*High*	*High*	*Moderate/ low* Mainly retired journalists	*3-3-1*
	Social capital--Ties to business community	*Moderate*	*Low*	*Low*	*2-1-1* ***Subtotals 16-14-12***

Strategic develop-ment	Viability of business model	Paid access and advertising	Advertising revenue	Fundraising	3-1-1 3=wider sources
	Market size	*Small* Denver local community	*Medium-large* New Jersey state	*Small* San Francisco bay	*3-2-3* *More focused market = 3*
	Degree of strategic flexibility	*Low* Large organization (30 journalists) and a news room with journalists	*Very High* No physical location, reporters deciding their own articles	*High* Flat organiza-tion	*1-3-3*
	Degree of oversight	High	Low	Moderate	3-1-3
	Degree of strategic planning	*High* 3 moths plan; when goals not met, the plan was changed.	*Low* No strategic planning, not even at the operational level	*High* 3 year organiza-tional strategic plan	*3-1-3* *Subtotals* ***13-8-13***
Initial success	Attaining original expecta-tion (Capacity to meet the stated goals)	*Low* After 3 months of operations, did not reach its goals. The business backers halt the broader project. The original site still active, but with major adjustment to the business model	*Low*	*High* Managed to attack donations and grants to begin phase 1 of the organiza-tional strategic plan	*1-1-3*
	Capacity to adjust and change	*High* The original site still active, but with major adjustment in the business model	*Moderate* Attempts to develop business competences e.g. hiring an advertising director and sales staff	*High* Although, it is still in phase I, its step-wise business plan allows for adjustments.	*3-1-3*
	Probability of survival (Sustain-ability)	*Moderate* It faces sustainability issues. Needs entrepreneurs to remain interested and involved in the business	*Moderate* It faces sustainability issues Needs to attract money and volunteers	*High* Phase III of the plan more problematic and raises a number of sustain-ability issues	*2-2-3* *Subtotals* ***6-4-9***

In two cases, the venture formation was the result of the emergence of an immediate new opportunity—the closure or downsizing of the local newspaper. This 'dramatic' event released well trained resources: high qualified journalists, who were willing to 'work for free' for the new venture—at least as long as they were receiving a pay from their former employers. In the third case, Public Press, the founders mobilized resources in response to a perceived opportunity that was not linked to a specific precipitating event.

In all cases, the opportunity seized seems rather low risk. Because of the low start-up costs, the probability of major financial loss was not particularly high. Likewise, the degree of novelty ranged from low to moderately low. INDenverTimes and NewJerseyNewsroom did not aim at developing a radically new product. Basically, the founders of these ventures tried to replicate in an on-line setting what they had done in print newspapers before. The business idea seized by Public Press was only moderately new.

It is worth noting that none of the cases investigated pursued a novel business opportunity. These findings contrast the current literature on innovation in new industries (Tushman & Anderson, 1986; Tushman & Romanelli, 1985). The dominant design literature, for example, maintains that rates of innovation vary along an industry's life cycle and that tie initial stages of the industry's life cycle are characterized by considerable novelty and variety of the various products producers bring to the market.

Resource Endowment

Human, financial and social capital resources are seen as key factors for the creation and development of new ventures. Following Sandberg and Hofer (1987) the resource characteristics we assessed were: 1) prior entrepreneurial and business experience, 2) prior experience in related industries, i.e. media, 3) prior experience in other industries, 4) initial capital, and 5) social capital. Prior experience of the new venture team was assessed in terms of the background of its members. For example, the more the venture has team members with a start-up experience, the higher it scores on the prior entrepreneurial and business experience.

In our case studies, all venture teams were well endowed with highly skilled journalists. However, only INDenverTimes and Public Press were able to attract complementary competences—i.e. founders with business and organizational knowledge and prior start-up experience—or individuals with diverse backgrounds in running organizations.

Social capital resources entail engaging and managing ties with other people, groups or organizations (Nahapiet & Ghoshal, 1998). We assessed the social capital resources of our three ventures in terms of number and strengths of their social ties. Three types of social capital resources emerge from our cases: ties with high quality workers (i.e. journalists), ties with news sources, and ties with the business community/community organizations. All three ventures had strong ties with high quality journalists, which in turn brought recognition to the ventures. The second type of social capital resources, ties to news sources, was strong in two of the three ventures. INDenverTimes and NewJerseyNewsroom were very well connected with key informants, while the volunteers and the retired journalists working for Public Press had less access to major news sources. Conversely, when it came to the third type of social capital resources, only INDenverTimes had some ties to the business community, but Public Press had good ties to community organizations. All in all, the effects of these three types of social capital resources are difficult to disentangle. For examples, strong ties with high quality journalists and news sources raised the legitimacy of INDenverTimes and NewJerseyNewsroom, but also limited they ability to act, e.g. bringing their founders to copy existing organizational forms, rather than experimenting with new ones. These findings are in line with and contribute to the literature on structural embeddedness (Uzzi, 1997) that shows a firm's network relationships offer both opportunities and constrains to the development of a new venture in new industries.

Strategic Development

Our case used differentiation and focused strategies because these are not uncommon in new ventures. Rarely can such firms can bear the upfront the costs that low-cost strategies require. All three ventures varied in the way they intended to create value, and their business models seemed to range along a continuum from more to less commercial in nature. We assessed the strategic development of the ventures along five dimensions: 1) viability of the business model, 2) market size, 3) degree of planning, 4) degree of flexibility, and 5) degree of oversight.

The viability of the business model assesses the extent to which it relies on a wide number of revenue streams. A viable, healthy business model should support revenue streams from multiple sources. Relying on only one source is, indeed, dangerous. In our case companies, an interesting pattern emerges. One venture, INDenverTimes, presented a more sound and robust business model, which relied on two revenue streams—advertising and paid access. The other two ventures identified only one revenue stream. Nevertheless, INDenverTimes was the most revenue dependent because it did not have the volunteer base of Public Press or the professional journalists receiving lengthy buyout pay from their former employer, as in the case of NewJerseyNewsroom.

The second dimension assessed the size of the market. Although new ventures do not start by selling to a broad market, the growth potential of their niche. Two cases, INDenverTimes and Public Press, scored low on this dimension. Both targeted rather small local communities. Instead, Public Press had a broader reach because some of its content was oriented to broader issues that would also interest readers away from San Francisco.

The third dimension, degree of planning, evaluates the extent to which the three ventures had a plan for addressing the following questions (Richardson, 1988): Where are we now? Where are we going? Where do we want to be? And, how do we get there? Two ventures exhibited a high degree of planning. INDenverTimes started with a clear plan, which was substantially revised as soon as it became clear that the objectives and aspirations could not be met. Likewise, Public Press had developed a plan which enabled the venture to plan formally as well as to plan long term. The NewJerseyNewsroom scored low on this dimension because it lacked clear strategic planning, even at the operational level.

The last two dimensions, degree of flexibility and degree of oversight, take into account the fact that entrepreneurial ventures need to have a structure—some degree of oversight—while also providing freedom to allow for the entrepreneurs to take initiatives—that is, some degree of flexibility. INDenverTimes wanted to start big and fully staffed, presenting a more traditional and rigid organizational structure. Thus, it scored high in degree of oversight, but low in flexibility. On the other hand, NewJerseyNewsroom presented a highly flexible and fluid organizational structure, which gave rise to coordination and oversight problems.

Overall, INDenverTimes and Public Press scored highest in terms of strategic development. Yet, presented very different start-up times and goals. INDenverTimes had a rapid startup time and developed the most professionally looking site. As said above, it was the most revenue dependent. Additionally, it intended to start big, with fully staffed and paid newsroom, providing a range of daily coverage.

Public Press—the most civic activist oriented and least commercially oriented of the startups—took a long time (about 14 months) to organize and become operational. It still is a volunteer enterprise with no full time paid staff. Its strategy was to start small and grow over time so it is not providing daily news coverage but focusing on coverage of issues.

NewJerseyNewsoom appeared to be more of a pastime pursuit by the core individuals, who had steady external incomes during the first year of startup. The site was established rapidly, taking just 3 months from decision to create to launch. The organizers' approach was to start with a large, unpaid professional staff and grow revenue, but to provide a range of daily news coverage in the intervening period.

Initial Success

As noted by Stuart and Abetti (19987) a rigorous measure of venture success is not applicable to very young companies. Therefore, following the authors' suggestion, we chose to assess initial success along the following dimensions: 1) attaining original expectations, 2) capacity to change the business model, and 3) probability of survival (sustainability). Although initial success does not necessarily imply long-term sustainability, it is an important pre-requisite for running a viable business.

Public Press displayed the highest level of initial success. So far, it has managed to attain many of the original expectations. The three steps in its business plan leaves room for a number of changes and adjustments. Further, among our three cases, it the venture with the highest probability of survival, maintaining a small but steady flow of capital from outside sources. INDenverTimes, which started with significant dimensional advantages, has had the most difficult time achieving its original expectations and has been surpassed in those terms by NewJerseyNewsroom.

All three have evolved, altered their outlooks, strategies and operations, meeting the second criteria. All three have also managed to keep publishing for three years and that endurance must be seen as a measure of success in adapting to the environment and achieving some degree of sustainability. In that regard, Stuart and Abetti's success factors have been meet by all three organizations.

Of the three, however, Public Press and NewJerseyNewsroom evidence the greatest potential for long-term growth and have expanded their operations and footprints in their market. Whether they are able to successfully grow further or merely maintain current levels of operation remains to be seen as they move beyond this startup period.

Formational Myopia as a Factor

Overall, formational myopia was observed and characterized all three ventures.

Those coming from newspaper newsrooms to start online operations exhibited certain unrealistic expectations about demand for their services and the economic value of their work. Desires to recreate their previous working environment by incorporating a large number of journalists covering a wide variety of topics were seen in both INDenverTimes and NewJerseyNewsroom. This formational myopia is clearly a reason for the failure of the proposed full-scale operation in Denver and limited development of the New Jersey site.

Functional myopia was also evident in Public Press, but in a different form. Its founders had clear community activism and somewhat counter-culture organizational backgrounds, which influenced their conceptualization and structuring of the organization as a not-for-profit, volunteer staffed, and alternative news provider.

CONCLUSIONS

All three sites failed to reach their state goals of providing broad coverage and community impact using significant numbers of professional journalists. In the Denver and New Jersey cases, this resulted from poor development of revenue streams and the ultimate disinterest of professional journalists in working for limited compensation. In the case of San Francisco some professional journalists remain involved, but most content is provided by individuals with less journalistic training.

The stated goals in all three cases were based on provide significant amounts of original content and regular coverage of the community designed to replace coverage lost in their communities because of shutdowns of newspapers or heavy reductions in newspaper staffs or disinterest in certain types of news. In the cases the primarily organizers all had daily newspaper backgrounds and their expectations and structuring of the organizations initially focused on recreating large editorial staffs; newspaper staffs have always been far larger than radio and television news staffs because of the greater resources provided by their business models in the twentieth century. The expectations and attempts to form large staffs and provide the breadth of coverage stated are legacy effects of the backgrounds of the founders. All three cases revealed this formational myopia, although it appears that the non-for-profit community-based organization—Public Press in San Francisco—found it less unsettling to adjust when developments did not occur as expected and the types of news on which it concentrates does not require large daily production.

Formational myopia is, thus, evident in the online news startups with efforts being made to transfer professional newspaper practices and norms to the new medium and to recreate the coverage topics, beat systems, and editorial management practices found in newspaper newsrooms. This would benefit journalistic employment, but requires large personnel costs and induces creation of hierarchical organizational structures that are not currently supported in the online journalism environment.

The study also reveals that having startup advantages in the environment, initial resources and even a stated strategy do not necessarily lead to success and that a firm can lose the benefits of its advantages. It also showed that firms can overcome their limitations in those regards. Thus, how a firm adapts and innovates in the implementation and operation as a startup are crucial factors in development and sustainability of emergent online news enterprises.

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