

# Market, Organizational, and Strategic Factors Affecting Media Entrepreneurs in Emerging Economies

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Since the late 1980s, major changes have taken place in the global political economy. As a result of the collapse of the Eastern Bloc, the end of the Cold War, the expansion of global trade, and other factors, numerous countries have begun moving towards more open political and economic systems.

Accompanying these political and economic changes has been a corresponding liberalization of national media systems. Many nations, such as those in Eastern Europe, that have undergone transitions to democratic political systems, have abandoned government ownership of the media. They have moved, instead, to new media systems based on private ownership. Others, such as the People's Republic of China have slowly eased prohibitions against private ownership of some media even while maintaining more authoritarian political systems and some government control over media. Among nations using a more mixed approach to liberalization, the opening of the media to more private investment and competition reflects, at least in part, the recognition that access to information is a critical issue for nations wishing to compete successfully in the global economy.

Among Western policy makers, media professionals and mass communication scholars, these changes have been largely celebrated. A central tenet of the Libertarian political philosophy that underpins most Western political systems is that media that operate free from government control are a necessary condition for the functioning of democracy -- although scholars now recognize that in nations undergoing major socio-political transitions, the relationship between independent media and democracy is complex and potentially fraught with hazards (McConnell & Becker, 2002).

Similarly, media have come to be recognized as a critical infrastructure industry for economic development efforts. Economists have demonstrated that asymmetric access to information places the have-nots at a measurable disadvantage in economic competition (Vikery, 1961; Mirrlees, 1990). Also, over the past few decades, the economy of developed nations increasingly has been driven by innovation, which is an information-dependent process (Hollifield, Vlad & Becker, 2003). Media play a central role in distributing information in the marketplace and providing timely access to information necessary to innovation processes. Finally, copyright industries have themselves become a growth industry worldwide, generating jobs, tax revenues and export

income in those nations where a strong media industry has developed (Hollifield, Vlad & Becker, 2003). Not surprisingly, then, research has shown a relationship between a nation's involvement in global trade and the openness of its media systems (Yang & Shanahan, 2002).

But the potential of the media industry to contribute to political and economic growth and stability in emerging nations is at least partly dependent upon the development of media organizations that are themselves economically viable. Organizations of any type are complex entities, and generations of research in economics and management have demonstrated that organizational survival is dependent upon the delicate interaction of numerous variables, including market and organizational structures, and agency-based factors such as strategic management, leadership dynamics, and organizational and professional cultures.

In nations in transition, these factors may well be more unpredictable than they are in developed countries. Market structures often are in rapid transition, shaped by ongoing changes in political and economic regimes. Underlying assumptions about the media's normative role in society may be under negotiation, which makes it difficult to predict long-term regulatory trends and undercuts the development of organizational and professional cultures and routines. Furthermore, the ability of media managers to negotiate difficult market conditions may be hindered by the lack of what can be described as a "professional management class," a group of leaders who are educated in management and experienced in finding the most efficient and effective ways of operating firms under changing conditions (Weber, 1964; Demers, 1998).

Economists argue that consumer welfare is maximized through competition, which produces the widest range of goods at the lowest prices. Communication theorists advance similar arguments about the importance of maintaining competition and diversity among media outlets, arguing that media's social and cultural externalities are maximized when diverse viewpoints are represented in content and the information needs of the local audience are met. In systems where media are privately owned and access is determined by the owners, debate tends to center on the need to maintain diversity and localism in ownership.

If these assumptions are accepted, it can be argued that social welfare will be maximized when the largest number of media organizations survive in the marketplace. This project seeks to address that need by examining the complex market and strategic issues being faced by independent media companies in countries going through political and economic transitions. The goal of this research project is to better understand how interaction of market and organizational factors influence organizational viability in independent media companies and to identify the "best practices" being developed by media entrepreneurs in emerging markets.

### *Conceptual Framework*

Research on the strategic behavior of firms has been a key focus of organizational studies since the 1960s (Whipp, 1996) but has only more recently attracted the attention of media economists. Despite nearly four decades of research, "the core characteristic of organizational scholarship...is the divergent strands of theoretical approaches, analytical frameworks and empirical targets" (Whipp, p. 264).

Within those divergent strands, however, have emerged several valuable models that provide a framework for trying to answer the question of why some firms outperform others. The Industrial-Organizational model (IO) tries to address the question by looking at the structure of the industries within which firms operate (Whipp, 1996), while the Resource Based View (RBV) approach examines the core resources that a firm has at its disposal. Within the RBV tradition, a third framework has emerged that examines the strategic competition for resources among firms known as the "Theory of the Niche" (Dimmick & Rothenbuhler, 1984; Dimmick, 2003). All three approaches to studying strategic behavior provide valuable insights into the factors that affect firm survival in changing markets.

In the IO model, market structure is analyzed by examining the number of buyers and sellers in the market, barriers to the entry of new competitors, the degree of vertical integration among existing players, levels of product differentiation, and the industry's cost structures (Albarran, 1996; Barney & Hesterley, 1996). Market and organizational performance are defined strictly on the basis of economic returns.

The variables included under market structure in the IO model are highly interrelated. In consolidated markets where there are few sellers, organizations can capture economies of scale and thereby lower their cost structures. Vertical integration as both an element of market structure and an organizational strategy also reduces cost structures and uncertainties. Consequently, markets characterized by consolidation and vertical integration pose a barrier to entry to new players, who would find it difficult to enter the market and compete on price.

Similarly, the number of buyers in the market also can pose a barrier to entry. Where there are too few buyers in the market, it may become uneconomic for sellers to continue to serve the market. This can occur in two different ways: a small number of buyers may exercise such power that they can force concessions from sellers that make continuing to sell into the market unprofitable, or buyers may command so little purchasing power that there are too few of them able to pay the minimum price required to cover the production costs of the product.

Product differentiation is another key element of market structure. Hotelling's (1929) Theory of Optimal Location has been used to predict that in duopoly markets, product differentiation will be minimized as sellers regress to the mean in an attempt to appeal to the largest number of buyers. Conversely,

competitive markets would be expected to create product differentiation, providing customers with more choice. However, for some products or services it is difficult to offer unique characteristics, forcing sellers to compete almost entirely on price. Additionally, too much differentiation can create a fragmented market that diffuses the number of buyers across the available sellers until the market available to each producer becomes too small to be sustainable. This last issue has been a key element in the failure of the online content industry to develop a viable business model.

In the media sector, these issues of market structure, which are common to most if not all industries, are further exacerbated by the specific economic characteristics of information products. As noted by Priest (1994), media products are costly to produce and are largely indivisible by nature. This means that the producer must incur virtually the full costs of production before being able to gauge the potential market for the product. It is difficult, if not impossible, to produce a small piece of a film or book and test it with audiences without committing substantial resources. This increases the risks and uncertainties of media production and encourages the reproduction of successful concepts or the repurposing of existing content, both of which reduce product differentiation. The relevancy of media products is also highly variable across consumers, further increasing the risks of production. Even if a media product is highly successful with one group of buyers, that group may not be large enough to offset production costs.<sup>1</sup>

These economic characteristics of information also increase the impetus for media companies to consolidate and integrate vertically, horizontally, and laterally. Consolidation and integration have the potential to reduce uncertainties and increase market share, helping producers to offset inevitable losses from media products that fail to attract sufficient buyers. Consequently, independent media producers may operate at a substantial disadvantage to consolidated companies in media markets.<sup>2</sup>

Unlike the IO model, the RBV approach to analyzing the strategic behavior of firms is not concerned with the industry in which a firm operates. Instead, it

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<sup>1</sup> One counterbalancing outcome of these factors of high production risk and high variability of demand across buyers is a tendency to try to reproduce variations of successful products. This helps mitigate risk by tapping the market already created by the original program, book, or movie, increasing the likelihood of at least marginal success. While using sequels and spinoffs is a significant risk mitigation strategy, it also reduces product differentiation.

<sup>2</sup> Consolidation and diversification through vertical and horizontal integration strategies do not, however, guarantee improved performance. Research on other industries conducted in the wake of the widespread merger and acquisition activity of the 1980s suggests that very few companies succeeded in capitalizing on the opportunities for synergy and many found that the transaction costs generated from increased consolidation and diversification were larger than the financial benefits captured through economies of scale and scope (Stern & Chew, 1992; Copeland, Koller & Murrin, 1991). Recent research on media companies also raises questions about the degree to which consolidation and diversification improves the financial performance of media corporations (Jung; 2003; Vogt & Kolo, 2003).

emphasizes a firm's unique internal resources and its ability to successfully utilize them in the market (Chan-Olmsted, 2003). The RBV model focuses on the rareness, non-substitutability, value and uniqueness of the organization's core resources. Chan-Olmsted notes that while scholars differ on how core resources should be categorized for purposes of RBV analysis, generally they agree on at least two broad categories -- property-based resources and knowledge based-resources.

Niche Theory offers a slightly different approach to studying a firm's resources, examining the competition between firms for key resources. Dimmick (2003) argued that media competition is a measure of niche overlap - that is the degree to which media firms are competing for the same limited resources of audience's and advertisers' time, money, and gratifications. The theory of the niche postulates that as competition intensifies, some firms will exit the field in a process of natural selection, while the survivors will strategically narrow the scope of their resource dependency through such strategies as increased product differentiation and target marketing.

Regardless of the model used, most research on strategic management is built upon the assumption that firms' behaviors reflect rational, purposive decision making in an environment in which the primary factors influencing organizational performance are knowable (Whipp, 1996). However, as Dimmick and others have noted, where environmental factors are not knowable, such as in emergent industries or those operating in turbulent markets, the industry often will appear chaotic with a high degree of innovation diversity and strategic behavior that might best be characterized as trial and error (Dimmick, 2003; Roehrich, 1984).

Research, observation, and anecdotal evidence on the media industries in emerging nations suggest that, in many cases, they exhibit characteristics of emergent industries. Because the bulk of published research in the field of media management and economics focuses on media in developed countries, little is known about the market structures and strategic management of independent entrepreneurial media organizations in nations going through political and economic transitions. Such evidence as there is suggests that market structures are complex. Some nations have attracted significant foreign direct investment (FDI) from Western media corporations (Hollifield, 1993), with as much as 80% of some nations' print media being wholly or partly owned by foreign interests (Sukosd, 1992). Such highly integrated markets pose significant competitive challenges to locally owned, non-integrated media organizations. The media industries in other emerging nations have attracted comparatively little FDI. Many of those nations appear to be characterized by weak economies and slower rates of movement towards more open political and economic systems. However, independent commercial media continue to emerge in these nations.

This study, which is still in its early phases, seeks to address the gaps in our knowledge of the market structures and strategic responses of independent

entrepreneurial media organizations in nations in transition. The project seeks to use existing models of strategic management to understand the market and organizational conditions in which independent media operate in emerging nations. The study also expects to identify effective strategic responses to turbulent market conditions that have been developed by media entrepreneurs in such markets nations. If, as theorists postulate, a vibrant and independent media industry is a necessary condition for democratic political systems and economic development, then enhancing knowledge of the economic and strategic challenges facing media executives in emerging nations should be a key contribution toward the development of strong civil societies.

### *Method*

This project used a comparative case study design. Data for the case studies were gathered through in-person interviews supplemented by completion of a written structured instrument. In both cases, questions were translated into the appropriate languages and the written questionnaire was distributed and returned electronically. Where responses were returned in the respondent's national language, a native speaker of that language was hired to translate the responses into English.

Because of the complexity of the project and the length of the questionnaire, the study has used a purposive sample of media managers in developing countries with whom the researchers have personally met and discussed the project. All three of the authors are involved in on-going international professional education and exchange projects, which provide extensive contacts with media executives in developing nations around the world.

The structured survey consists of 71 questions, 89% of which were open ended. The first questionnaires were distributed starting in late summer 2003. Most of the questionnaires were sent to respondents by email and returned the same way, although a few were administered entirely through in-person interviews. The chief executive officer of the newspaper was asked to complete the questionnaire and was encouraged to circulate it within the organization if there were others who were better able to answer some questions. To date, six questionnaires have been distributed to newspapers in three countries, and four fully completed questionnaires have been returned. Another newspaper respondent answered some of the questions through an in-person interview and has promised to complete the full questionnaire and return it. Data from that partial completion are included here.

The completed questionnaires are from five newspapers in two of the three countries where questionnaires have been distributed to newspaper organizations. The organizations included in this phase of the project include two newspapers from an African nation, one daily and one weekly, and four newspapers from a former Soviet bloc nation, one daily and three weeklies. Both nations included in this study are classified by the World Bank as "low-

income economies.” Low-income economies are defined as those with a Gross National Income Per Capita for 2002 of \$735 or less (World Bank, 2003). Questionnaires continue to be distributed, and, eventually, the study is expected to include newspaper and broadcast organizations in Eastern Europe, Asia, Africa, and Latin America.

This chapter represents a very preliminary analysis of the data from the pilot phase of the ongoing project. This analysis is expected to lead to a further refinement of the questionnaire and an extension of the study. However, the authors find that, despite the small number of cases presented here, the data are wholly consistent with information they have gleaned over the past six years during extensive conversations with the owners and managers of independent media organizations in nations around the world that are going through political and economic transitions.

The completed questionnaires were analyzed using the comparative case study method. The analysis focuses primarily on analysis of market conditions in the two countries from which multiple responses were gathered.

## *Findings*

### **Market Structure Variables**

**F1a: Economic Structure of the Markets.** In both nations included in this study, the media industry was one of the sectors where vestiges of a command economy still existed. In both countries, independent commercial media companies were found to be competing against media organizations that were at least partly subsidized by the government and operated under the imprimatur of affiliation with the government in power. Additionally, in some cases, the independent commercial media were further disadvantaged in the market by being subjected to taxes that the government-subsidized media did not have to pay or by being precluded from privileges such as access to subsidized office space or government sources of information that the government-affiliated media enjoyed.

**F1b: Geographic Structure of the Markets.** In both countries, respondents reported that the nations’ economic power and its media industries were concentrated in a single major urban area. Media executives from those countries were unanimous in their assertion that there was neither a significant circulation/audience base nor a significant advertising base to be gained beyond the geographic boundaries of the dominant city. However, in both nations, newspaper respondents reported that their newspapers were circulated throughout the entire nation and that their circulation figures included total national sales.

This widespread geographic distribution occurred despite unanimous agreement among respondents that most non-metro readers could not afford to buy the newspaper. Nor were those readers of interest to the papers’ prime

advertisers. Respondents also noted that there were few, if any, potential advertisers outside of the economic center.

**F1c: Buyer Concentration.** Buyer concentration appeared to be high in the countries studied in both of the industry's traditional dual markets: audience and advertisers. Although a lack of concrete market data made it difficult to use traditional measures of concentration, based on respondent reports, there were comparatively few available customers among either audience or advertisers.

In comparison to developed nations, media penetration rates in the two nations in this study were low. Daily newspaper circulation rates in both countries were 24 per 1,000 population in the year 2000 (Table 1 at the end of the chapter). By comparison, in the United States, daily newspaper circulation rates were 215 or more per 1,000 population and even higher in Sweden. Similarly, the distribution of television sets per 1,000 was 30 in one of the two countries and 61 in the other, compared to more than 500 in Sweden and more than 800 in the U.S. Radio set penetration in the two countries studied was similarly low.

Additionally, linguistic and cultural factors further reduced the size of the available audience by subdividing it into largely mutually exclusive niche markets. These linguistic divisions also reportedly affected the advertising markets. In one of the two countries, economic power was concentrated within the smallest ethnic and linguistic subgroup in the population. Media executives reported that as a consequence, most of the businesses that were potential advertisers were interested in buying advertising only in those newspapers serving the smallest but more affluent linguistic group. That put newspapers that targeted the larger population group in the country at a significant disadvantage in the advertising market.

In the second country, the population was divided into four major ethnic groups and many other smaller groups (Table 1). English was the official language, widely used by the intellectual and government classes and was, therefore, the primary language used by the media. However, many in the population used other languages as their primary language. Additionally, literacy rates among the population were low, only slightly above 50%.

Finally, economic power among the population was much lower than in developed countries (Table 1) and according to respondents, tended to be concentrated among comparatively few of the available buyers. In both countries, more than 50% of the population was classified as falling below their nations' poverty lines. Thus, only a relatively small proportion of the available population in each country could afford to regularly buy media products, and the majority of the population that might occasionally buy the paper were of little interest to advertisers because of their lack of disposable income. Consequently, buyer concentration in these markets was found to be relatively high.

**F1d: Seller Concentration.** Seller concentration in the media markets of all three countries was found to be diffuse (see Table 2 at the end of the chapter).

Respondents identified as many as 34 daily or weekly newspapers and magazines circulating in one of the two countries, with an even higher number of locally produced bi-monthly, monthly and quarterly publications available. In the other country in the study, 12 daily or weekly newspapers were reported to be circulating in the capital city. Because of the geographic concentration of economic power in those countries in a single urban area, respondents noted that all of the publications in each country were essentially competing for the same audience and advertisers.

In addition to competition from the print media, the electronic media were also well established in both countries, with numerous AM, FM, TV stations and cable channels. According to respondents, the majority of the electronic media outlets, including both commercial and government-supported, competed for advertising.

The high level of competition in these media markets would be expected to produce consumer welfare in the form of lower prices and product differentiation strategies. However, in markets where the Gross National Income per capita is low (Table 1), such high levels of media competition will be difficult to sustain economically.

**F1e: Vertical Integration.** Vertical integration among newspaper companies in the two markets examined appeared to be low. All of the newspaper respondents reported that their media enterprises had been founded by local individuals or groups. In some cases, one or more of the founding partners subsequently had exited the company, but none of the newspaper respondents reported any affiliation with a larger commercial media company. It is recognized that many media companies in countries in transition are more vertically integrated than they appear because of silent partners and unpublicized agreements. This study cannot rule out the existence of such ownership structures in the cases studied. However, all of the newspaper respondents claimed that they were not vertically integrated and that, to the best of their knowledge, none of the newspapers with which they competed were owned by larger media companies with multiple holdings.

None of the newspaper respondents reported being horizontally or laterally integrated with other media companies.

Not surprisingly, vertical integration among the electronic media against which the newspapers reported competing was much higher. Respondents indicated that most of the broadcast media outlets in their markets were either public service broadcast channels or were affiliated with large multinational media corporations. Many of them were also reportedly horizontally integrated, with one company operating multiple stations or channels.

**F1f: Cost Structures.** Few data were available on cost structures within these markets. However, most of the newspaper respondents reported that their operations were undercapitalized. In two of the five cases, at least one of the original investors in the newspaper had withdrawn further financial support and exited the enterprise. In one instance that withdrawal combined with other

factors forced the newspaper to close. In another case, the newspaper nearly closed at one point but, as of the time of data collection, had managed to find enough additional financial resources to stay alive.

Two other newspaper respondents reported that they had, at least at some point in their history, received subsidies from NGOs, foreign governments interested in supporting the development of an independent press, or a local political party. One newspaper reported that it had recently secured additional capital from a new business partner.

None of the newspaper respondents reported owning a press. The availability of commercial printing services significantly reduces organizational cost structures in the newspaper industry and consequently, a barrier to entry in the market.

In terms of production costs, the volume of in-house content production was found to be significant compared with similar media organizations in the United States. Newspaper respondents in both countries reported they produced on average more than 80% of their news content in-house. Two of the papers produced an average of 24 pages per issue, including the daily paper. One reported producing an average of 16 pages per issue, while the last reported averaging 8 pages per week. The remaining content was purchased from news agencies.

As low-income countries, wage levels in the countries studied were low, further reducing cost-structures (CIA, 2003). However, some respondents reported that they suffered significant financial losses as a result of employee theft and deception. Productivity levels also were found to vary across the two countries studied and the publications within them. In the United States, the newspaper industry standard for daily papers is one news-editorial staff member per 1,000 circulation (Meyer & Kim, 2002). The daily paper in the African country reported having 160 full time and 30 part-time employees producing an average of 24 pages per day, serving a circulation of 15,000. With 74 full-time staff members in the news-editorial department, the paper was operating with 5 news-editorial staff members per 1,000 circulation, not including its 30 part-time news staffers.

Because data on the employment-circulation ratios for weekly papers in the United States were not available, an accurate comparison of editorial productivity for the weekly papers in the sample was not available. However, Meyer and Kim (2002) found that in the U.S., smaller dailies with circulations of 15,000 or fewer had slightly higher employment to circulation ratios averaging 1.15 news-editorial staff members per thousand circulation. The weekly paper in the African country reported having 32 full time and 11 part-time employees producing an average of 16 pages weekly for a circulation of 8,000. Of those, 12 were full-time news-editorial staff members for a ratio of 1.5 staff members per thousand paid circulation.

In the former Soviet Bloc country, productivity levels per employee appeared higher (Table 2). One weekly reported employing 13 full-time and 12

part-time people to produce an average of 24 pages for a circulation of 20,000. Of those employees, five of the full-time staff worked in the editorial department for a staff-circulation ratio of 0.25 per 1,000. A second weekly reported serving the same size circulation with 17 full-time staff members, of which were 8 news editorial, for a ratio of 0.4 news staff per 1,000 circulation. The third weekly reported using 6 full-time and 5 free-lance employees to produce an average of eight pages for a circulation of 11,000. Of those six full-time employees, three were assigned to the editorial department for a staff-circulation ratio of 0.27 per 1,000 circulation.

Advertising/Editorial ratios per issue also were lower than would be found in U.S. newspapers, where a ratio of 60:40 is considered the industry standard for weekday daily newspaper editions. Two of the four weekly newspapers reported an advertising/editorial ratio of 20:80. The third reported a ratio of 10:90, while the fifth did not respond to the question.

The daily newspaper in Africa reported a ratio of 40:60.

**Fig: Product Differentiation.** The high level of competition among sellers in the newspaper markets in the two countries studied would be expected to create significantly differentiated products (Dimmick, 2003; Dimmick & Rothenbuhler, 1984). Product differentiation was measured by asking responding media executives to describe how the content of their publication differed from others in the market. They also were asked to describe an advantage that they had over their competitors in attracting audiences and to describe the “focus” of their editorial content.

In markets with significant language subgroups, the language of publication was reported to be an important element of product differentiation for both audiences and advertisers. In those markets where there were strong language identities, respondents reported having little success in selling advertisements to businesses, if the owners or managers did not personally use the language in which the newspaper published.

In the markets studied, there also appeared to be some effort to differentiate products on the basis of price. Respondents in the same market reported differences in their per-copy circulation prices of more than 100%. Although information about advertising prices was not requested, some respondents reported giving some advertisements away for free in an effort to win business from their competitors.

Where content was concerned, 3 of the 5 newspaper respondents reported that what differentiated their product was its focus on “focused,” “in-depth,” “honest” reporting and analysis. These responses imply, of course, that others in their market were not taking a similar approach to news coverage. A fourth noted that his newspaper’s product was not noticeably differentiated from any others being offered in the market. The fifth publication said the focus of its coverage was feature news and that it differentiated itself by using a “magazine” approach to news coverage.

Four of the five also argued that their publications were differentiated by their “independence” from the government and other political parties or by their journalistic stance in “opposition” to the sitting government. Among these four was one that said its initial political funding had come from a specific political party, although the financial relationship had been subsequently severed. Another respondent noted that the underlying purpose of the paper was to further the owner’s non-media business interests. For all four, however, independence from association with the political party in power was clearly a central element of their product differentiation strategies.

These responses raise some interesting questions that this study is unable to answer with the available data. An obvious issue is the degree to which the content of the publications did, in fact, reflect the self-reported focus on hard news and in-depth analysis. A content analysis would be necessary to answer that question. Another issue is the degree to which being in “opposition” to the government refers to a stance in which the organization positions itself as an objective “watchdog” over the government such as is expected in many Western media systems or, conversely, the degree to which it reflects an a stance of active opposition to the sitting government and its policies.

## **Firm Resources**

**F2a: Product Differentiation.** Product differentiation is more than just an element of market structure. The product is also the firm’s key resource and differentiation is a measure of the uniqueness or non-substitutability of product from the customer’s viewpoint. As noted, responses to the survey suggested that there was comparatively limited product differentiation among the publications in the study in terms of content, with most of them defining their products as focused on hard news and political “independence” or “opposition.” If so, it could be argued that this represents a failure by media managers to strategically manage their organizations’ key resource. Such lack of differentiation may undermine the economic viability of the individual media organizations because the high level of overlap between their competing products would make it difficult for any one of them to attract the attention of audiences.

The alternative resource management strategy, however, also poses risks. Niche theory (Dimmick, 2003) predicts that as competition within a market grows, competitors will divide the market into smaller, highly specialized niches in order to minimize direct competition. However, in markets such as those examined here where buyer concentration already is high, subdividing the few available buyers according to a news/feature orientation or by a particular political viewpoint may fragment the market too much for any single niche to be economically sustainable. Additionally, such a strategy can have negative effects on advertising sales. At least partly because both markets studied here retained vestiges of authoritarian political systems, respondents almost universally reported that their advertising sales were affected by their paper’s perceived independence from the government or opposition to it. Respondents

said many potential advertisers did not wish to be seen as supporting media outlets that either didn't actively support or were openly in opposition to the government.

**F2b: Financial Management.** Dimmick (2002) noted that finances represent a key resource for organizations. Strategic financial management was a significant issue for all of the media organizations examined. Only one of the newspapers in the study reported having made a profit in any of the three most recent years in which they had operated, although one reported having some hopes of generating a profit for 2003. One paper surveyed shut down. The one newspaper respondent that said it had made a profit reported a profit margin of 5%.

Knowledge resources in regards to financial management also appeared limited among the media executives who responded. Most reported that their own backgrounds were in journalism and their primary focus was on managing the editorial side of the publication. When asked which of several specific financial management measures they used to monitor the financial performance of their companies, the majority of respondents who answered the question noted that they left financial management to professional accountants and auditors. Several did note the importance of careful cost control and said that they had had significant successes in managing expenses.

Internal controls over financial resources also appeared lax. Several respondents indicated there were significant problems with employee theft that affected profitability. Among the problems indicated were theft of equipment and resources and retention of advertising payments by account executives, who then reported that their clients hadn't paid. Although such problems are not unique to media in emerging countries, the financial impact was reportedly significant because of the financially marginal nature of the enterprises.

**F2c: Sales Management.** Advertising customers are among the most critical resources for media companies since the majority of the revenues for most media enterprises are generated through advertising sales. All of the responding organizations in this study said they sold advertisements. Most reported having between three and five full-time account executives, although the daily newspaper reported having 10. Three of the five respondents who answered the question said their sales staffs were paid on a salary-plus-commission basis, with commissions all listed as between 10% and 15%. One publication used a commission-only payment structure, while the other paid its sales staffs on a salary-only basis.

All of the respondents reported that competition for advertising was intense within their markets. The source of advertisements varied considerably across respondents and a significant weakness in the local advertising market was evident. Of the two respondents in the former Soviet Bloc nation who answered the question, one publication indicated that its advertising base was entirely national and international advertising, while the other indicated that local advertising made up less than 50% of its total advertising revenue. According to

the respondents, these figures reflected a scarcity of local advertising sources because of the weaknesses of the local economy.

Both of the African publications indicated that local advertising was a significant source of revenue for them, providing between 60% and 99% of total advertising revenue. This may reflect the economic concentration of that country in the one city where both publications were located. The African publications also indicated that personal contacts were a central requirement for generating advertising revenue as advertising clients tended to use personal relationships with the newspaper staff as a significant factor in buying decisions. Thus, within the advertising market in that African nation, personal relationship represented a unique and less substitutable resource.

**F2d: Marketing and Distribution Management.** Distribution management was a significant problem for the newspaper respondents in both countries. The inability to control product distribution represented problems with both property and knowledge-resource management.

All of the respondents noted that their publications were distributed nationally despite the fact that there was neither a significant readership base nor advertiser base outside of the economic capitals of the respective countries. To some degree, the decision regarding circulation area was outside of the publishers' control.

In the former Soviet Bloc country, the federal postal system continued to control distribution for publications, although some private companies offering circulation management services appeared to be moving into the market. Under the postal distribution system, the Post controlled the publication's subscriber list and postal service employees were responsible for generating new subscriptions. Some respondents charged that those employees favored certain publications over others in selling subscriptions, particularly those publications at least marginally affiliated with the government. Respondents also noted that because the Post controlled their circulation list, they had no direct knowledge of their readership and no way to contact or market additional services to those readers.

In the African nation, sales outside of the metro area were handled through private newsstands. Many of the distributors were geographically distant from the publication, and according to respondents, it frequently proved difficult, if not impossible, to collect the money owed from single-copy sales made by those distributors. Respondents also reported problems with employees of the printing companies that printed the papers selling the papers off the press before releasing them to the papers' distributors. This undercut the publication's legitimate sales.

None of the publications in the study had independently audited circulation figures. Nor were any of them conducting systematic readership research. Respondents reported having only limited knowledge of the profiles of their readerships. Two publications reported occasionally printing readership questionnaires in the papers in an effort to gather information, and one of those

also reported sending reporters out to interview selected readers and advertisers about their reactions to the publication. Most respondents noted that they didn't have either the staff or funds to conduct readership research, while one added that the limited national penetration of phones and the high cost of domestic mail made readership research almost impossible to conduct. Respondents had, however, invested in marketing and developed numerous creative approaches. Several reported purchasing ads for their publication in competing media as well as using various types of billboard, banner ads and in-house advertisements. Several indicated they did image advertising to both readers and advertisers. One respondent said her newspaper offered price promotions in the form of discount subscriptions to students and the elderly. Another offered similar discounts to new advertisers. One respondent also reported success with running contests for subscription sales, including giving away horses, bicycles, and cell phones to those who sold the most new subscriptions, while another respondent reported running contests in the pages of the newspaper to retain reader interest and boost single copy sales.

**F2e: Portfolio Management.** There was limited evidence of strategic portfolio management among the newspaper organizations studied. The newspapers all operated as independent companies at the time data were collected, without the ability to capitalize on the potential economic advantages of synergies, repurposing, or economies of scale and scope.

However, there was evidence that some of the executives who responded were beginning to strategize ways of growing their organizations. One respondent reported that her company was considering setting up an advertising agency as a sister operation. Another reported plans to move from weekly to daily circulation. A third was discussing the possibility of adding a second publication in a different language to its portfolio in partnership with a foreign media company that would manage most of the production of the second publication.

Not all of the media organizations' efforts at portfolio management appeared to be strategically effective. Two of the five newspapers had Web sites and employed one full-time person each to manage them. The sites were used primarily to repurpose content from the publication. However, both respondents reported that their Web sites were unprofitable and one of the two did not even attempt to sell advertising onto the site. Both sites were being operated in a country with very limited telephone and Internet penetration rates.

## *Discussion and Conclusions*

The data from this project indicate that the media industries in the nations examined in this study did, indeed, exhibit the characteristics of nascent industries (Dimmick, 2003; Roehrich, 1984). The industries were characterized by high levels of direct competition, low levels of consolidation and integration,

and significant concentration among buyers. The newspaper firms appeared to have been largely unable to capture economies of scale or scope at the time of data collection. The structure of the markets was further complicated by the co-existence of media organizations that operated under a command economy but which competed directly with the entrepreneurial media organizations examined here. The subdivision of these emerging nations into distinct language and culture groups also affected the market structure for media products much more significantly than it would for most other types of products.

While cost structures such as wage rates were low in these markets as compared to developed countries, by some measures, productivity also was low. More importantly, advertising-to-editorial ratios were low, suggesting that cost structures were high in relationship to the revenue potential of production. Further evidence for this was found in other statements made by respondents. Several reported that at least one of their initial investors had withdrawn financial support. Additionally, the majority of the respondents said that their organizations had never been profitable and none was consistently profitable. At least one of the newspapers studied had exited the market altogether at the time of data collection, at least partly because of ongoing financial losses.

Examining the behavior of the media firms in this project through a Resource Based View was equally valuable. The RBV approach revealed that the majority of the firms controlled few key resources of either property or knowledge.

In terms of property resources, the media organizations studied here held neither licenses nor contracts on content of specific value, and they shared key resources such as printing presses and distribution arrangements with all other competitors in the market. Some reported that because of their independence from the government, they were forced to buy or rent facilities at higher costs than some of their competitors. Only one respondent reported having an arrangement that could be deemed to have property value in the form of subsidy agreements with NGOs and other external funders. However, in at least two other cases, managers reported that they were trying to develop exclusive production contracts with suppliers of various services. This suggests that media executives in these markets may be starting to develop integration strategies that will expand their property resources.

Although one respondent reported having strong long-term relationships with advertisers because the language in which the newspaper published, most respondents reported a high degree of uncertainty in their relationships with advertisers and felt they were disadvantaged in the market because of either their language of publication or their relationship to the government in power, or both.

Even more scarce in the operations examined in these comparative case studies were knowledge resources. None of the publications controlled its most critical knowledge resource – detailed understanding of its audiences. The lack

of available audience research -- and even control of subscription lists and distribution information-- reduced media managers to guessing about the needs and gratifications of their audiences. As Dimmick (2003) noted, the gratifications the audience receives from a specific media product are among the key resources controlled by a media firm.

Knowledge about financial resources and strategic approaches to financial management also appeared weak, even among those executives most directly responsible for the financial performance of their media firms. Many reported delegating financial management to internal or external financial specialists. Several noted that key aspects of their financial management processes were controlled by outsiders, such as the federal Post or distant newsstand operators. The inability of media firm executives to control such key knowledge resources as audience demographics and gratifications, sales and distribution data, and financial resources reduces strategic management to a process of trial and error.

Finally, a media company's product might be deemed both its central knowledge and its central property resource. Media content is necessarily the product of the individuals who create it and, consequently, it is presumed to be at least somewhat non-imitatable and non-substitutable. In very competitive markets such as those examined here, high levels of product differentiation would be expected as firms attempt to develop specialized niches where they can operate with less competition. However, among the cases examined, product differentiation appeared limited at best, with most of the respondents claiming to stake out similar editorial territory in the newspaper market.

Although research frameworks such as the IO and RBV models are designed to measure organizational performance in strictly economic terms, among mass communication scholars, the externality value of media products remains a primary concern. Traditional theories of the public interest in media maintain that diversity of ownership, content, and viewpoint are necessary for the maintenance of a vibrant civil society (Croteau & Hoynes, 2001; McQuail, 1992). It is for this reason the survival and development of independent media firms in emerging nations is of crucial interest.

For those who support the development of independent media organizations in emerging nations on the grounds that media are vital to the functioning of civil society, issues of strategic product differentiation pose a conundrum. If a large number of the independent commercial newspapers in a highly competitive market focus on hard news, in-depth analysis, and political independence, there would be relatively little product differentiation among them. That would increase the likelihood that many of the entrepreneurial media firms would fail, thereby reducing the number and diversity of voices in the marketplace of ideas.

On the other hand, one of most obvious approaches to creating product differentiation under such market conditions would be to tailor the content of a publication to a specific political or social point of view. This is, in fact, a common approach to media product differentiation. Although in the United

States and many other developed nations, political “objectivity” has come to be seen as the norm for the news media industry, historically this was not the case. In the 19<sup>th</sup> and early 20<sup>th</sup> centuries when major U.S. cities had multiple newspapers competing with one another, it was common for those papers to be aligned with political parties, points of view, or interest groups such as trade unions. Only in the middle of the 20<sup>th</sup> century when newspaper competition declined in the U.S. to the point where most daily newspapers were competing in duopoly markets did “objectivity” become the industry standard.

This strategic regression to the political mean in content reflects Hotelling’s (1929) theory of Optimal Location, which notes that in duopoly markets, the optimal location for both competitors is in the market’s center, where they have the best chance of reaching the largest number of potential buyers. Hotelling’s theory has since been tested in numerous other settings, including on voting behavior in two party systems. The theory demonstrates that when there are only a few competitors in the market, minimal product differentiation is the most effective strategy.

Conversely, niche theory dictates that in markets with high levels of competition, media organizations will produce differentiated products (Dimmick, 2003). This phenomenon has been demonstrated in the U.S. in recent years among the broadcast network newscasts and the 24-hour cable news networks (Bae, 2000). As the number of such networks has grown, they increasingly have differentiated their news products by focusing on different areas of content and by aligning coverage with particular political philosophies.

In emerging nations that are undergoing significant transformations of their political, economic and social systems, media product differentiation strategies may produce unintended consequences. Research suggests that in such conditions, media organizations that define themselves as de facto opponents to the government -- or otherwise claim political, social, religious or ethnic territory and shape their content accordingly -- may be a destabilizing force in society, contributing to societal divisions and increased civil unrest (McConnell & Becker, 2002). Consequently, while a product differentiation strategy based upon establishing a specific political or social viewpoint might well enhance the survival rates of entrepreneurial media organizations in developing markets, it also could simultaneously undercut the very rationale for supporting independent media in emerging nations in the first place.

Over the long term, if market conditions stabilize, these problems would be expected to diminish. Industry life cycle theory predicts that where sufficient demand exists for a product, an industry eventually will move out of its initial nascent phase and begin to mature. The maturation phase is characterized by increased consolidation and integration among firms, which allows organizations to capture economies of scale and scope and reduce uncertainties. In the process, some competitors will exit the industry and competition in the market will be reduced.

The cases examined in this project suggest that, however valuable media pluralism may be in nations in transition, the media industries in these countries are characterized by too much competition in relation to the economic resources available. The imbalance is made worse by the existence of subsidized sellers in the market. Consequently, industry consolidation in these markets should not only be expected but is, from an organizational standpoint, desirable. With careful strategic management, it may be hoped that consolidation will contribute to the development of economically viable independent media firms capable of producing high-quality news and information products that serve the public interest.

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**Table 1.** Comparative Structural Characteristics of Media Markets

	African Nation	Former Soviet-Bloc Nation	United States	Sweden
Population	More than 10 million	Fewer than 10 million	281 million	8.9 million
Literacy	Below 75%	Above 75%	97%	100%
Ethnic Groups	4+	3		Swedish: 89% Finnish: 2%
Languages	English (official) Others	2	English (official) Spanish	Swedish
Urban Population	43%	46%	76%	83%
Per Capita GNI*	Under \$735	Under \$735	\$37,600	\$25,400
Percentage Population Below Poverty Line**	+50%	+50%	12.7%	N/A
Daily Newspaper Circulation (per 000)	24	24	215	484
TV Sets (per 000)	61	30	847	531
Radio Sets (per 000)	197	209	2,115	904
Internet Use	100,000 (2000)	15,000 (2002)	N/A	N/A

Source: New York Times (2003)

\*Source: World Bank (2003)

\*\*Source: CIA World Factbooks, (2003). Online. Available at: [www.cia.gov/cia/publications/factbook/geos/sw.html](http://www.cia.gov/cia/publications/factbook/geos/sw.html)

**Table 2.** Organizational Characteristics of Newspaper Firms in Study

	Newspaper A	Newspaper B	Newspaper C	Newspaper D	Newspaper E
Nation	African	African	Former Soviet-Bloc	Former Soviet-Bloc	Former Soviet-Bloc
Publication Frequency	Daily	Weekly	Weekly	Weekly	Weekly
Circulation <sup>a</sup>	15,000	8,000	11,000	20,000	20,000
Average # of Pages	24	16	8	24	--
Full Time Employees	160	32	6	13	17
News-Editorial Employees (full time)	75	12	3	10	8
News Staff per (000) Circulation	5	1.5	0.27	0.25	0.4
Advertising: Editorial Ratio	40:60	20:80	10:90	20:80	--
Percent of Revenue from Advertising	40%	20%	63%	37%	--

Notes.

<sup>a</sup> Newspaper B's circulation represents paid circulation. It is not clear whether the circulation figures for the other newspapers represent paid circulation only or paid circulation and pass-around estimates.