

Structural Change in Newspapers Firms, Organisations and their Performance Relationship

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Abstract

With the changing times, the fact that the print media firms especially the newspaper organizations are passing through hard times. The two main sources of income—readers and advertisers of these organizations seem to be shifting to other media, in turn leaving a negative impact on the financial performance of these newspaper organizations. Thus, to keep up with this pace, print organizations are changing the way they categorize their activities. The aim of this paper is to investigate the extent to which the performance of these organizations is affected by the two changes i.e. integration and outsourcing, are affecting performance.

According to the study, positive performance is achieved with the higher degree of integration within the firm. Outsourcing is found to have a negative impact. These effects are over and above those of the environment.

Keywords: Newspaper Firms, Structural Change, Print Media, Advertisers, Financial Performance, Integration, Outsourcing

1. Introduction

This is true that the print organizations are experiencing augmented competition and lower profitability. The readers and the advertisers are the two main source of income for the newspapers. However, in both the segments, the position of newspapers in both markets has been jeopardized.

For instance, daily newspapers in India have steadily reduced their total circulation from 78.7 million in 2001 to 69.3 million in 2005 (World Press Trends, 2006). On the other hand, advertising expenditure has also grown by 2 per cent. Furthermore, the business model for newspapers is also being questioned

By the surge of other media, i.e. radio and television, the newspapers have been worrying about their business. But after the advent of Internet the situation got problematic. However, it is not just the Internet that is the only threat to the newspaper business model, also the wide presence of free newspapers in metropolitan areas, the changes in consumption patterns promoted by the appearance of new digital and mobile technologies. This in turn is supported by the excess in supply of content have all contributed to a fragmentation of consumers and advertisers.

Newspaper publishers, on one hand have been reluctant to recognize a new and different kind of rivalry, whereas on the other hand, most of them have failed to quickly react in order to take advantage of the new opportunities the Internet has brought, and are still struggling to do so.

The increasing level of integration within the newspaper organization affecting the separation between the print and online newsrooms and the increasing level of the outsourcing are the two significant changes taking place in the newspapers regarding the way they organize their activities and processes to face these challenges. Without focusing on the impact of the environment, the organisational changes assessed in this study cannot be investigated.

The overall goal of integration is usually to offer a better service to readers and advertisers. On the other hand, outsourcing has been a common practice in many newspapers; it has been usually limited to printing and distribution activities.

The outsourcing strategy is usually pursued in order to better focus on core activities and save costs on activities that the newspaper is not able to carry on efficiently.

These two environmental conditions are of particular relevance to explain the determinants of performance. Amongst the two, one of them focuses on the level of competition for resources in a market, i.e. environmental munificence, whereas, the other is the extent of difficulty in predicting changes in the behaviour of consumers and competitors, i.e. environmental uncertainty.

Following are some of the questions asked by the study to summarize and find out a solution to the same: Is it true that the current organizational changes such as integration and outsourcing exercise does have an impact on newspaper performance? And if they do, is the significance of this impact over and above that of environmental conditions present in the newspaper markets, i.e. munificence and uncertainty?

2. Theoretical Background

The major determinants of the performance are the organizational structure of the firm and its environment. For instance it is assumed that the mechanistic organisations are more effective in stable environments, whilst the organic form is more effective in dynamic –i.e. uncertain- environments.

The other example has been given by Woodward (1965) who contends that the best performers are those who follow the structural norms of their technology groups, while other authors believe that firms highly differentiated and highly integrated in dynamic environments, as well as those undifferentiated with low integration in stable environments, perform better.

However, this has not been stated that only one way is possible to organise a firm; the characteristics of the organisational context help to determine the success of a particular organisational form. Thus, even if it is possible to find a wide range of effective organisational forms, they are not random.

2.1 Environmental dimensions

In order to understand the effects of the environment on the

organizations, several theoretical approaches have been used. Six environmental dimensions, namely concentration, heterogeneity, stability, turbulence, capacity, and consensus have been identified by the scholars.

On the other hand, another set of scholars including Dess and Beard (1984) have reduced these six dimensions to three using factor analysis –complexity, dynamism, and munificence.

Further, the paper aims at considering the last two of these dimensions. The dictionary meaning of the term munificence means the capacity of the environment to carry a certain number of organisations. To be more precise, it means, “the scarcity or abundance of critical resources needed by (one or more) firms operating within an environment”.

Dynamism on the other hand, refers to changes that are difficult to predict, causing uncertainty on the part of managers. The literature also refers to dynamism as environmental uncertainty.

The environmental uncertainty has been defined as “the predictability of conditions in the organisation’s environment”.

In this study, the two most germane environmental characteristics are munificence and uncertainty. Newspaper firms need to vie for the available resources while considering the technological changes that can be turned into new business opportunities for markets that are difficult to predict.

The availability of resources is captured by the concept of environmental munificence, while the ambiguities generated by a changing technology and demand unpredictability are captured by the concept of environmental uncertainty.

For the time being it is possible to state that munificence has a positive impact while uncertainty leads to a negative impact.

Therefore,

Hypothesis 1: The level of environmental uncertainty relates negatively to the performance of newspapers.

Hypothesis 2: The level of environmental munificence relates positively to the performance of newspapers.

2.2. Organisational structure of newspapers

The reduction of internal organizational boundaries i.e. integration and the decrease of external organizational boundaries-outsourcing are the two important changes, the study aims to look at.

2.2.1. Integration

“Silos,” a commonly used notion, the newspapers have traditionally been structured around. Therefore, high boundaries have been erected between the newsroom and the rest of the organisation.

A distinction between the traditional newsroom and the latest online has been seen resulting in the increasing acceptance of the Internet for consuming news, its development as an advertising platform, and the need to restructure costs, have prompted newspaper managers to reconsider the separation between online and print newsrooms.

One of the main transformations in the organisational structure of newspapers in recent years has been newsroom convergence. However, the convergence in the newsroom has been implemented with a twofold goal: to help reach an audience as wide as possible, and help managers cut costs by means of increased productivity.

Furthermore, there are other types of convergence are technological, referring to the digitisation of content; economic, referring to the integration of the media industry; social or organic, referring to a multitasking approach to consuming content. Also, there is a global convergence, referring to the 'global village.'

With a view to convey the content on multiple platforms, beyond the traditional print edition, such as web, e-mail and mobile phones, the newspapers have started experiencing the cultural convergence.

Thanks to the cultural convergence, the newspaper firm is able to reach its readers anytime and anyhow, thus competing in new markets. The traditional content needs to be modified in several aspects ranging from the presentation itself to topics and themes. While cultural convergence takes place in the newsroom, a different type of integration takes place between the suits and the ponytails. So far, these two groups have clashed because of their different perspective regarding the goals of the media firm. While managers are worried about humdrum issues, creative people produce art for art's sake.

According to Bogart, the down periods for media companies, particularly economic recessions, have changed these practices and cooperation is becoming a widespread activity.

The media business becomes unique only by the characteristics of the interaction between content and advertising. With a view to grab the attention of the audience, the media sell content, which in turn is sold to advertisers who are willing to reach their potential consumers. This is the most basic logic behind commercial media.

Since an important component of the media business is selling the attention they get from the audiences, the undergoing process of media fragmentation makes this task more difficult.

The surge in media outlets means a fragmentation of the media market, rendering the term mass audience an old fashioned concept. Hence, in order to secure the income streaming from advertisers, media are trying to implement two policies. On the one hand, media firms are trying to realign the content production to the advertisers' interests. The wall between journalists and managers located in different compartments of the organisation is crumbling. On the other hand, media firms are trying to cooperate with other business units in the same media holding or even with other firms in order to sell advertising more effectively.

More flexibility as well as the possibility of the knowledge transfer is done easily by these new types of organisational structures, where the integration of the different units is part of the strategy.

This results in fewer barriers inside the organisation which in turn should help to achieve better integration, coordination, and communication inside the organisation, thus enhancing the ability of delivering a more profitable outcome. Based on these arguments it is possible to suggest that,

Hypothesis 3: The level of integration within a newspaper is positively related to its performance.

2.2.2. Outsourcing

According to a survey conducted by the World Association of Newspapers, in the newspaper industry today, outsourcing plays a very important role. It can be briefly understood as the substitution of external activities for internal activities leading to vertical disintegration.

Printing, distribution, content production and advertising are the four areas where the outsourcing might take place. The study aims at explaining how these four activities are connected with outsourcing.

Many newspapers, with the pressure to reduce the cost have started outsourcing their printing and distribution activities both physically and virtually. Bogart on this note said, "Getting people to read the newspaper is not just a matter of content and design; it depends on distribution".

Apart from the traditional method of delivering the newspapers to home subscribers, there is a section of readers who are now accessing digital copies of newspapers available on the Internet or other alternative digital means of distribution, resulting into the acceptance of fact virtual world also exists apart along with thing physical distribution.

However, the presence of both physical and virtual distribution has led to enormous changes in the working style of the newspaper organization.

Outsourcing is also taking place in content-related activities –from buying news from international agencies to copyediting to features, and advertising sales.

The decision to make or buy (outsource) is usually addressed from two perspectives in the academic literature, namely transaction costs theory and knowledge-based theory.

However, it is true that the decision to buy outside the firm depends on the vagueness of the input-how specific it is-the frequency of the transactions and the opportunistic behavior of the supplier. The suppliers' behavior is one of the most important factors. Also, there are several advantages attached to this practice.

The Sacramento Bee to outsource ad work to India, published by the Associated Press, is a means of cost saving and also a sharper focus on core competences.

There is no direct relation between the outsourcing and performance. The study revealed that there is a positive link between the outsourcing and the stable environment. Apart from this, differentiation strategies are negatively linked to

performance.

Cost savings might be a delusion if the costs of performing continuous transactions in the market are higher.

So on the basis of the effects of outsourcing on the performance, there are two opposite hypothesis suggested here:

Hypothesis 4a: The level of outsourcing in a newspaper is positively related to its performance.

Hypothesis 4b (opposite to 4a): The level of outsourcing in a newspaper is negatively related to its performance.

3. Method

3.1. Sample

Sampling is that part of statistical practice concerned with the selection of a subset of individual observations within a population of individuals intended to yield some knowledge about the population of concern, especially for the purpose of making predictions based on statistical inference. The study includes the sample on the participants in the Ram Nath Gyoneka Award function that took place in New Delhi in October 2010. The participants are high-ranking managers in newspaper companies –i.e. presidents, publishers, Journalist, and general editors.

A number of advantages are associated with the conducting surveys during a newspaper meeting including, managers of newspapers are busy and the response rate in mail or web surveys is usually very low. Also, there is another benefit i.e. the survey was administered face-to face it was possible to explain any item unclear to the respondents. Another advantage associated with this is the internal non-response diminishes notably compared to other methods of administering the questionnaire.

The questionnaire was administered to managers/Editors of 46 newspapers from the 106 newspaper firms present in the meeting forming a response rate of 43.4%.

Procedures and measures

There were two sets of questions based on which the organizational structure of newspapers was measured.

The level of integration within the newspaper firm was measured with four 7-point

Likert-type items. Two items addressed the integration between the online and print newsrooms, while the remaining two items addressed the level of coordination between the newsroom and the newspaper managers. The level of outsourcing was measured with six 7-point Likert-type items that ranged between “No outsourcing” and “Full outsourcing” in printing, distribution, content production, and advertising sales. All items employed to measure the organisational structure are original.

As discussed earlier, munificence and uncertainty are the two different dimensions of the environment that were measured in this study. The study focuses on the availability of resources. Particularly in the case of newspapers, it will be measured as

advertising expenditure and readership and buying behaviour.

Hence, environmental munificence will be gauged with an original scale able to capture the competition for resources in the media market. These specific resources are advertising and readers. Four 7 point Likert-type survey items will be employed to assess how the competitive level has changed in the last five years.

The environmental uncertainty was measured with five 7-point semantic differential items. Though these items measure how managers perceive uncertainty-in contrast with objective environmental uncertainty-it is assumed that managers take uncertainty into account to make strategic decisions.

These questions included net income, gross margin, sales growth, and return on equity, and the responses were averaged. In the study, the managers were asked to provide answers bearing in mind their rivals in the newspaper publishing industry and the last three business years.

Circulation and the family were two control variables in the survey. They were termed as the control variables because they potentially affect the performance.

The significance of circulation comes from the economies of the media companies. Greater the economy resulting into better sale, in turn resulting into better performance.

Another variable i.e. family also affect the performance of the newspapers.

3.3. Analysis

Unquestionably, data analysis is the most difficult, complex and mysterious of all the phases of a research project, and the one that receives the least thoughtful discussion in the literature. In order to generate findings that transform raw data into a new knowledge, a researcher must engage in active and demanding analytic throughout all the phases of research.

In business and social science fields of research, for the testing of hypothesis multiple regression analysis is well suited. However, the objective of multiple regression analysis is to use the independent variables whose values are known to predict the single dependent variable selected by the researcher.

In the study, a hierarchical regression analysis is employed where the independent variables are entered cumulatively for assessing the increments in variance explained in order to test the hypotheses.

4. Results

The correlation and descriptive statistics and the Cronbach alphas are reported in Table 3. It has to be noted that the logarithm of circulation (Log Circulation) is used instead of circulation because the original variable did not comply with the normality assumption for multiple regression analysis. All alpha values for variables based on multiple items are well above the critical value of 0.60 for reliability (Hair et al. 2006). Regarding the correlations, all independent variables significantly correlate

with performance and uncertainty and outsourcing show negative values. The independent variables do not show significant correlations among them.

Some of the correlation matrix results need further explanation. First, the control variables, circulation and performance, though not statistically significant, correlate negatively to performance.

Second, integration significantly correlates with circulation. This might imply that integration is more common in larger newspapers.

The same, though in reverse direction, takes place with outsourcing, which negatively correlates with the newspaper size measured in circulation.

Table 3: Descriptive statistics, reliabilities and correlations

Variables	Means	s.d.	1	2	3	4	5	6	7
Performance	5.48	1.04	(0.90)						
Log Circulation	4.84	0.42	-0.01	(N.A)					
Family	0.66	0.48	-0.13	-0.05	(N.A)				
Uncertainty	4.21	1.03	-0.35**	0.07	0.24+	(0.63)			
Munificence	5.39	1.01	0.28*	-0.09	0.05	0.20	(0.69)		
Integration	4.29	1.02	0.24+	0.26*	0.19	-0.09	0.06	(0.69)	
Outsourcing	2.35	1.16	-0.32*	-0.24+	0.10	0.12	-0.12	0.17	(0.75)

Notes: N=44. N.A. = not applicable. Reliabilities (Cronbach alphas) are in parentheses.
+ $p < 0.10$; * $p < 0.05$; ** $p < 0.01$.

The results of the hierarchical regression analysis are shown in Table 4. First, the control variables are added to the model (column 2), then the environmental variables (column 3), and finally the organisational structure variables (column 4). The control variables, circulation and family control, explain only 2% of the variation in performance, but the model is not statistically significant. In the next step of the analysis, uncertainty and munificence are added into the model increasing the explanation of the variation in performance up to 26% ($p < 0.05$). Both variables are significant, and while uncertainty has a negative coefficient ($\beta = -0.42$; $p < 0.01$), munificence is positively related to performance ($\beta = 0.37$; $p < 0.05$). These findings provide support for hypotheses 1 and 2, respectively.

The final step in the hierarchical regression analysis consists of adding the organisational variables –integration and outsourcing. The results show a statistically significant increase of 12% ($p < 0.05$) in the variance of performance explained over and above the environmental variables. Integration is marginally statistically significant and positively related to performance ($\beta = 0.29$; $p < 0.10$), thus supporting hypothesis 3. Outsourcing is also statistically significant though negatively associated to performance ($\beta = -0.31$; $p < 0.05$). This result means that hypothesis 4b is supported – while hypothesis 4a is not.

Table 4: Results of Hierarchical Regression Analysis

	Circulation variables		Control & environmental variables		Full model	
	B	S.E	B	S.E	B	S.E
Log circulation	-0.02					
Family						
Uncertainty						
Munificence						
Integration						
Outsourcing						
R2						
Adjusted R2						
R2						

5. Discussion

The aim of this paper was to find out the organizational changes that have an effect on the newspaper firms. Integration and outsourcing are the two specific organizational changes assessed by the study. The former includes the integration between the online and print newsroom, and also the level of coordination between the journalistic and business sides of the organisation.

The level of outsourcing is measured in the light of the different processes carried on by newspapers, i.e. content, advertising sales, printing and distribution.

After analyzing the data, it was found that the outsourcing has a negative effect whereas the integration affects it positively.

Since the environment also plays an important role in determining the performance level, uncertainty and munificence were the two dimensions discovered in this study which are deemed relevant to a changing, mature industry like the newspaper industry.

The findings show that while uncertainty has a negative effect, munificence is positively associated to performance. Although these two environmental variables are significant predictors of the newspapers' performance, the organisational changes increase the explanation of variance in performance over and above the environmental dimensions.

However, for the managers of the newspapers, these dimensions were important. The findings are useful for newspaper managers since integration and outsourcing are two important considerations.

But it is also true that it is only the integration that yields positive results while outsourcing has been found to be detrimental to performance. It is worthwhile to contrast the significant correlations found between these two organisational variables on the one hand and circulation on the other.

Larger newspapers are more integrated and outsource less, thus increasing their abilities to perform better. Nevertheless, circulation shows a negative sign in relation to performance though not statistically significant –both in the correlation and regression analyses.

As reported in this paper, integration within the newspaper seems to be a favourable organisational change. This result should not be a surprise since the changes in technology and also in consumption patterns of media users require that media organisations are able to respond quickly to shifting demands.

Integration among different parts of a newspaper is key in providing a good organisational structure. But recognizing the need for integration, although important, is only the first step toward improved performance. The next steps, the process of integration itself, should be carefully addressed by media managers and scholars.

However, there are several questions related to the negative effect of outsourcing. For instance, what are the main reasons driving newspaper companies to implement outsourcing strategies? It is different to observe a company in financial distress trying to reduce costs by outsourcing some of their activities than examining a successful company outsourcing non-core activities to free resources to improve quality or reach new markets.

Also, if outsourcing is a relatively new practice for newspaper companies used to keep all its activities in-house, the skills for managing relationships and contracts with multiple suppliers may not be developed yet in the organisation.

Last, but not the least, there are some limitations that need to be considered, including, because of the cross sectional nature of this study some effects of the organisational structure changes might not be fully captured in the performance measures and, extending the study to the moderating role of the environment on the organisational variables might lead to a better understanding of the effects on performance.

6. References

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