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A Case Study of Family-Owned Newspapers Adapting and Surviving in Two Rural States

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Abstract

Organizational ecologists follow the life histories of organizational populations, studying events such as founding, disbanding, and mergers. Newspaper organizations, for example, are often far from rational in their decision making to start, operate and end business practices. For this study, two daily papers located in rural states are analyzed within the context of organizational ecology, which has evolved from the physical sciences. For the larger market, rural-state newspaper, managers took an instrumental approach of quickly adapting new trends and technology. Because of economic uncertainties, a dismantling of such variations occurred. For the smaller market, rural-state newspaper, an institutional approach was most prevalent. Strong family ties and an assortment of family business ventures such as the streaming of high school sports supported the ability of this newspaper to continue business as usual throughout the timeframe of the study. Avoiding risk resulted in a stronger financial situation. This study indicates ecological analysis of newspapers is an attractive research method when organizations are subject to strong inertial pressures and face changeable, uncertain futures, as is the case in newspapers today.

This case study explores practices of newspapers during one of the most economically uncertain times in the history of mass media. Two daily papers located in rural states are analyzed within the context of organizational ecology, which has evolved from the physical sciences. In biology, for example, ecology is the study of the relations that living organisms have with respect to each other and their natural environment including the composition, distribution, number, and changing states of organisms within an ecosystem. Ultimately, populations change over time, with stronger species surviving and filling a niche (McIntosh, 1985). Researchers agree that structural changes take place not only for living organisms but within living organizations as well. The adaptation of ecology to organizations and specifically media organizations provides an interesting framework to evaluate such change. The purpose of this paper is to develop a method of systematically analyzing media management by using an ecological approach adapted from the sociology of
organizations to help explain media change, as well as media decision-makers’ tendency to stay the course. According to Hannan and Freeman (1989, p. 13)\textsuperscript{2}, "Ecological analysis is appropriate when organizations are subject to strong inertial pressures and face changeable, uncertain futures."

Technological developments, deregulation, and media convergence have left a lasting mark on the structure of the traditional newspaper publishing industry. According to numerous summaries and reports (i.e. Edmonds, 2012)\textsuperscript{3}, the long-time, successful newspaper business model is fighting for survival. The average reader of newspapers is relatively old, and newspapers are experiencing difficulties reaching younger audiences who have migrated to other media including the Internet. Additionally, demographic and socio-demographic factors indicate shrinking societies, individualization, and less inclination to read altogether. Buying a newspaper has long ceased to be a matter of course for many portions of the population.

Newspapers have addressed the changing media landscape in many ways including adding internet editions, curtailing home deliveries, and introducing content for mobile media. Yet newspapers for the most part have been slow to innovate. Instead, they have adhered to tried-and-true formulas and continued support for the status quo. What explains this tendency for some newspapers to avoid innovation? Hannan and Freeman (1989)\textsuperscript{4} state various kinds of organizations differ in their survival chances and that selection capitalizes on such differences. Of interest in this study is whether or not rural newspapers might be more successful in terms of agility and the ability to create sustainable news media institutions of the future. While family businesses, along with all other moneymaking entities, face significant challenges of financial sustainability, longevity, and success, they are increasingly providing examples of success in local communities where others are finding difficulty staying afloat.

Family-owned businesses make up about 35% of Fortune 500 companies and may approach innovation differently from publicly owned companies. Private companies generate about 60% of employment in the U.S. (Perman, 2006)\textsuperscript{5}. The statistics are even higher when small businesses are included, making up more than 85% of all businesses. Additionally, private, family-owned media organizations are some of the fastest growing companies in the U.S. Businessinsider.com lists Community Impact Newspaper as Texas’ fastest growing news organization providing relevant and useful information at the community level. Revenues rose from $1.1 million in 2006 to $7.1 million in 2009. Another example is Hoffman Media, a private company that publishes an array of homemaker-friendly, special-interest magazines. Revenues for this company increased from $25 million in 2006 to $41.3 million in 2009 (Pompeo, 2010)\textsuperscript{6}. Additionally there has been an increased interest in small town newspapers in general as evidenced by buyouts such as Warren Buffett’s purchase of Media General’s holdings (Moos, 2012)\textsuperscript{7}. While most previous media research on company practices has focused on publicly traded corporations or the actions of media moguls of family media such as Reinhard Hohn of Bertelsmann or Rupert Murdoch of News Corp., little has been written on the strategic planning of smaller, medium sized, or lesser-known, family-owned news companies.

Leach and Leahy (1991)\textsuperscript{8} also indicate that family-owned companies outperform their non-family counterparts in terms of sales, profits, and other growth measures. This high performance is the result of the inherent strengths that family businesses have compared to their counterparts. According to Ward (2002\textsuperscript{9}, 2005\textsuperscript{10}) strengths of family business include commitment, knowledge continuity, and reliability. Other considerations that set family businesses apart include their need
to adapt to changes in the family, the motivation levels of family members, and the need to honor past traditions.

Organizational ecologists follow the life histories of such organizational populations, studying events such as founding, disbanding, and mergers. Hannan and Freeman (1989) found companies emerge within stages. In the variation stage, founding and disbanding of practices and organizations occur. In the selection stage, actual time paths of change are of interest. In the retention state, long-term survival of entities occur (Carroll & Hannan, 1995, 2000). As companies move from variation toward selection and retention, their orientation shifts from a strategic, instrumental orientation toward a more stable institutional orientation.

Carroll and Hannon (2000) reconstructed the life histories of newspapers in seven urban areas in the U.S. They recorded dates of founding (or initiation) of publications and mortality (or cessation of publications) and discovered that the number of foundings was affected significantly by environmental events such as political turmoil, filling a niche for particular information. Lowrey (2012) also studied online media entrants and reported they first sought a financial foothold (a niche), and then tended toward the similar, the homogeneous, the safe, and the routine.

This study begins a focus on rural, family-owned newspapers. A family company was defined as (1) when the majority of voting shares is owned by one family, (2) the CEO perceived it to be a family business, and (3) at least one member in the management group comes from the family (Brandt, E., Kull, P., Bjorkdahl, J. 2007). Rural newspapers were chosen because they are weathering better in some cases the financial storms in local communities across the U.S. Also, as a pilot study, we were interested in whether or not differences in the ecology exist between a larger newspaper versus a smaller newspaper even though both were positioned in rural states.

As such, two family-owned companies located in rural states were chosen for initial analysis because of their innovation, their rural-state location, and because of their willingness to be included in the study. One company is located in a state that has 12 (out of 17 total) counties that are considered rural or frontier (Census Bureau 2010), and the second company is located in a state where 98 (out of 105 total) counties are considered rural (Office of Local Government, 2008).

Case Study #1 Larger Rural-State Newspaper: This company has been in operation more than 60 years in a top 10 news market in the U.S. The company has grown to more than 30 publications and a total distribution exceeding 27 million magazines and newspapers. Holdings also include a regional magazine group, and an interactive division.

Case Study #2 Smaller Rural-State Newspaper: For more than 100 years, the second company has published print newspapers in a medium sized market with a population around thirty thousand. Holdings also included a commercial lithographic printing company and visual art services.

Data were collected in Fall 2009 and Summer 2012. In addition to in-depth interviews with top executives, researchers were invited to attend strategic management meetings and had the
opportunity to ask follow-up questions. About eight interviews were planned at the media outlets in person and by phone. Interviews were semi-structured and lasted approximately 60 minutes on average.

The following research questions address two aspects of the dynamics of the evolutionary stages of the ecology model: (1) predicted tendencies to shift from variation toward retention and (2) from instrumental to institutional orientations. They inquire specifically into the perceptions of decision-makers in the context of a family-owned news organization.

RQ1: How do managers of a rural-state newspaper perceive the patterns of variation, selection and retention?

RQ2: How do managers of a rural-state newspaper perceive their organization pursuing an instrumental vs. and institutional orientation?

Results

The larger news organization was located in one of the most economically devastated cities in America during one of the worst recessions in U.S. history. The small-market newspaper, on the other hand, was located in an economically stable community. In terms of the assumptions underlying the theory of Organizational Ecology (O/E) as outlined by Hannan and Freeman (1989) both newspapers are: in the midst of change; seeking to maintain a former niche while establishing a new one; are struggling with resources for two markets (local and national); and are experiencing decreasing resources. According to the O/E model, a diverse variety of entities is needed so some forms and practices are selected and others are eliminated. Large generalists cannot respond quickly enough to retain production efficiency (Baum and Singh, 1994). As would be expected, both newspapers would view their niches as broad.

Case Study #1: Evidence for Ecological Stages

Variation

The larger newspaper was part of a joint operating agreement (JOA) that guaranteed the Publisher a newsroom budget of $2.2 million and 10 percent of the profits, which was welcome since some reports claim there were $13 million in losses between 1984-88 (Kingsley, 2010). As part of the JOA, the Publisher agreed to end the afternoon delivery of his paper replacing it with an eight-page stand-alone insert that became the third section in each morning's edition of the JOA joined newspapers. The Publisher's newspaper insert stopped reporting breaking news, did not carry advertising and focused on enterprise local reporting and national columns. Within four years the insert transformed the newspaper into an, “…explanatory, investigative, interpretive, analytical paper that delves deeper into issues, writes long-form stories, and is basically, in my mind, like a daily news magazine.” While most media observers mocked the idea that an enterprise insert newspaper sitting inside a traditional daily newspaper could be successful, the Managing Editor never faltered, although he admits it took him 18 months of changing personnel to find the right kind of editors to produce what he wanted. Within three years, the insert won the Pulitzer Prize for
Public Service, only the second Pulitzer in state newspaper history and the first Pulitzer for Public Service won by any newspaper in the state.

At the same time the Publisher was refocusing his printed daily newspaper, he was planning a new companion website that would offer breaking news as well as comprehensive coverage of sports and entertainment appealing to a national audience. In 2007, the Publisher recruited a “fast-charging, red-bull swigging,” 37-year-old who was well known for inventing web innovations in both small and large markets. By 2008 the Digital Editor and his staff were housed in a brand new facility with television studios, and he was winning awards for his new site with Best Overall Newspaper Affiliated Web Site in its class from Editor & Publisher and Mediaweek Magazine. By 2009 he was recognized by the Online News Association (ONA) for General Excellence in Online Journalism. At that point he had about 45 people working for him including six key executives: an operations manager, a senior programmer, a journalism and technology specialist, a traditional managing editor, a managing editor for entertainment as well as a senior designer.

Selection

About the same time the two news products were being developed and winning prestigious national awards, the local economy sunk to one of the lowest in the state's history. By 2009, unemployment was at 13.3 percent, the second highest in the nation. The Publisher’s media group felt the financial pain and was forced to make cuts. According to Baum and Singh (1994), selection involves movement toward stable, typically narrower niches that involves similar combinations of key products and knowledge, and this organization was being forced to make selections and cuts.

In February 2009, it dropped two neighborhood editions and laid off about nine employees, and in October, it dropped two more neighborhood weekly editions, laying off more employees. Also in October 2009, it was announced that the professional centerpiece of the digital site, a new digital TV presence, as well as another broadcast station in the media group were canceled which also resulted in layoffs. "Newspapers are a business...Obviously somebody has to make money to support journalism. No one in our business saw it (the economic situation) coming. This is a giant crash. Two/three years ago this company was awash with money...everything it did was successful--highly successful. And all of a sudden the plug got pulled out of everything."

Retention

Retention refers to long-term survival of an entity, such as a media product or media division. On the digital side, staff was beginning to feel more and more pressure as they realized the web site must pay for itself in order to be retained. The Digital Editor said originally there was a business plan for his operation, but as soon as they developed it, the economy imploded. He admitted that at the end of 2009 his operation was, "flying by the seat of our pants." He said even though there was hope that the recession was easing, "no one in his city believed it..." He said he was building toward being as relevant as possible but admitted, "the idea right now economically, to be honest, is to lose as little money as possible for as long as possible so that when this thing turns around we will have built something." He added that he was never hired to figure out the financial model. "I was hired to figure out how to build the biggest audience as quickly as possible...this was a city
that doubled in size in ten years, and the model that I looked at from an audience and a community perspective was fairly traditional.

The idea was that if we can become the source in this new era then the money would follow. When the economy blew up, that model imploded on us.” Nevertheless he was under pressure to create hits on the Internet site and started posting content about sports, car crashes and breaking news that he hoped would drive traffic onto his site. He started chasing revenue streams like he never had before, and added “We know what our readers like to read.”

In February 2011 he said, “deep dives into our traffic trends” indicated about thirteen categories dominated the most popular content: crime (police beat, fires, major auto crashes); lawsuit stories (especially involving local businesses or local personalities); politics (particularly state-related national news); gaming (business and economy content); real estate; photo galleries (iconic photo galleries as well as mug-shot galleries); sports (local college, UFC boxing, high school football); guides for eating or things to do; happenings (in the city as well as downtown outlining what’s new or interesting); celebrity content; gamblers who win money in his city; weather events; and neighborhood stories.

Retention efforts also included tracking web traffic in real time. Every morning he delivered a detailed report that explained what digital readers were searching for; what was read the most and how digital breaking news did versus the print edition. “We have 80,000 page views that were online-only stories and 11,000 that were print. We know how the editorials did, and we can tell you how stories on the front page of our newspaper did. About 1,400 people read the lead story in the print edition while about 17,000 people read the top story on our website. So we’re tracking everything, and our mission is different than the traditional newspaper. They want to have this vibrant voice that affects government. They are trying to ‘affect’ things, and we’re trying to inform in a different way,” he said.

Innovation had always occupied the minds of both the Managing Editor and the Digital Editor. “I think the puzzle pieces will come together. And the money will be made by the people who figure that out…just like the money was made 150 years ago by the people who figured out how to use the Bessemer process to make steel. I don’t know the answer. I am a journalist…not an entrepreneur,” the Managing Editor said. “We all know that mobile is the key, so we are building a local product that will launch first on the web, but it won’t take anyone five seconds to figure out we really built it for mobile,” he said adding that his staff geocoded every element of content that he collected: every story; every photo; every calendar event.

These variations for the large market newspaper indicated an instrumental process where the organization was taking chances and pursuing an optimized fit within a changing environment. The subsequent case study, on the other hand, took place in a small, economically stable market. This newspaper's approach was indicative of an institutional approach: lower mortality, risk taking, as well as entrepreneurial activity.
Case Study #2: Evidence for an *Instrumental vs. Institutional Approach*

Leadership at the smaller town paper was viewed as collaborative with an emphasis on consensus building, teamwork, honesty and encouragement. Its mission was twofold...serving information needs of citizens and serving the business needs of the organization. The Publisher said he prefers to relate personally to the staff and establish trust at the paper as well as in the community. This newspaper operated in a position of strength regarding its *niche*. There was less *variation* introduced internally or in response to external competitors. Their management focused on methods that had been used for a long time. Methods were based on the "tried and true."

Innovation over the past seven years mostly centered on the Internet. An online free model was introduced early on in the *variation* stage. This was not successful because in the Publisher’s words, "inventory space on the Internet for advertising was huge." He added, it may have worked for Google because its audience was worldwide. However, in a small market, the local audience and advertisers are limited while ad space was unlimited, so advertisers did not value advertising space online, and did not want to pay for it. The free model was disbanded, and a pay model was introduced. The Publisher said, “They thought we were crazy; no one would pay for online content.” However, they found just the opposite to be true; early on this paid model became an accepted practice. Since then, he said, many other newspapers have gone this direction.

Other entities introduced over the past five years included original online content that was not part of the print product. For example, the Publisher said that they developed a partnership with other family members to expand their business model to include the streaming high school football games, which were then included on the newspaper’s websites. They also worked with third parties to create searchable databases, text message alerts and daily deals for its Internet customers to create online value.

During the *selection* stage, when the online edition was modified to a pay model around 2009 and peers warned that nobody would “go for that model,” the newspaper stood by the notion that “their content has real value and customers have paid for the newspapers for hundreds of years and will continue to pay for the content online.” The Publisher stressed several times that the newspaper had continuously conducted business much as it always has. He said that they have done things the same way for a long time and are financially stable as a result. While they were always looking for ways to improve content, they were not in the business of taking large risks.

According to the Publisher, this has paid off, resulting in a financially stable newspaper. They had not taken on debt for major acquisitions or expansions as large conglomerates had done in the early 2000s. “Big papers that have gone into big debt, JOAs or other ‘oddball operations’ have had to shut down or cut operations,” he said. “While we still have economic pressures and have had to cut expenses and find new ways of generating revenues, we are still in business,” the Publisher said. Furthermore, since the newspaper was a family business, there were no dividend requirements and no shareholders to please, so the editor saw this as a major advantage. “We have not borrowed a lot of money to expand, but our staffing levels are higher than comparable newspapers,” he said.
In the *selection stage*, the Managing Editor noted that their *niche* was and continued to be mature adults in the community, ages 25 and older, who were serious thinkers, well-educated and higher paid. He said the *niche* was the same for both the online and print products. “Our audience niche is well-educated people in higher salary brackets; our content niche is local news and information,” he said. The online target used to be younger, he indicated, but that had changed. He said, “25 years ago, content would have been less focused on local news and more on national/international news, but today that information is readily available and is not the *niche* they are filling.”

“A big part of our strategy is providing local news through the Internet and via mobile technology,” said the Managing Editor. Because the community had a large military and university readership, he added his newspaper was by far the strongest entity in town providing this local information.

While there were no major competitors locally, those that did compete at some level included a radio station, a campus newspaper, a magazine, and a free weekly newspaper. The Publisher indicated, however, the major competitors were the global online entities including Craigslist, Facebook and Twitter. Craigslist, in particular, had gutted their revenue stream of classified ads. He did see a potential pendulum swing away from such competition, especially Craigslist, as more people become concerned with security issues. Additionally, the editor was not interested in giving away their news content for free on Facebook or Twitter and had no intention of providing volumes of free material online, although some free information was provided on their website.

This small town newspaper had a group of peers that helped in the decision-making process at the *selection* stage. “The Inland Press Studies are the best comparison of small town newspapers that we often look to in making decision,” the Publisher indicated. Most important, he said, however, was the network of family-owned media outlets owned by members of his family. He came from a long line of media entrepreneurs with uncles and cousins also owning newspapers and radio stations. While they were each independently owned, they shared ideas and staked small amounts of ownership among family members. In addition, to family members, the editor emphasized the importance of professional organizations in the decision-making process including industry journals and organizations such as the Inland Press Association.

In the *retention* stage, it was clear, according to the Publisher, the Internet will remain central to its strategy along with its various digital renditions including mobile media that will also play heavily in the decision-making process. The Managing Editor indicated that while his newspaper remains a generalist in its *niche*, those in competition usually come in with more specific targets in terms of content or audience. For example, the college newspaper competitor is targeting a college audience and advertiser. While competition will always be present, the newspaper is able to maintain its *niche* and maintain *institutional* positioning and stability.

**Discussion**

Findings indicated the rural-state newspapers under study have both instrumental and institutional qualities and that they tended to respond to external change in both strategic and non-strategic ways. In the larger market study, both a traditional newspaper as well as a new digital newspaper were attempting innovations but for two different niches (local and national audiences). The managers felt the two populations were very different and required distinct market and
technological strategies. While it was too early to declare mortality, it was clear that the risks associated with the digital newspaper seemed to support age dependent declines as outlined in the O/E theory. Also, as Hannan and Freeman (1989) state, the process of change itself can be so disruptive that it can result in an elevated rate of mortality, which was occurring at the larger paper.

In the small market, the target audience was the same for both print and online. Also, there was less movement among stages; innovation focused on the Internet, and the newspaper was working within a strongly established niche. Stability and the tried-and-true approach continued to provide profitability and enable the paper to meet its goals and mission. This newspaper was profitable and satisfied with its position in the community. These findings provide support for the O/E idea that organizations that are reliable are more likely to survive.

Regarding an instrumental vs. and institutional approach, for the large market newspaper, managers interviewed came out of institutional settings and understood how traditional media became legitimized; however, both managers were able to behave in instrumental ways. The Managing Editor was willing to eliminate breaking news from his agenda and substitute in-depth investigative content, which was an instrumental approach---but at the same time he focused only on local content, which was an institutional move.

The Digital Editor also developed an innovative instrumental product; however, his innovations were supposed to generate institutional success. Because of economic uncertainties, market ambiguities and a lack of a clear business or marketing plan, a dismantling of his variations occurred. While he understood his role was to successfully wed institutional and instrumental values (and indeed he won professional recognition for his efforts), economic benefits were not forthcoming.

For the small market station, an institutional approach was most important. Strong business ties with the community leaders allowed for a level of safeguard. Additionally, strong family ties and an assortment of family business ventures such as the streaming of high school sports supported the ability of this newspaper to continue business as usual throughout the timeframe of the study. The mission of the paper was to provide local news and information, as had always been the practice. Management consulted peer newspapers whether within the family or within press associations during decision making or strategic planning. Also maintaining an institutional presence within the community by fostering relationships among key business leaders.

This study indicates ecological analysis of newspapers is an attractive research method particularly as newspapers weather change. Because good data exists on even small firms over long periods of time, future research could address quantifiable data such as turnover, changes in operating budgets, flow of information, and speed of technical change such as when online editions adopted pay walls. Other variables of interest over populations would include rates of founding, disbanding and mergers and acquisitions. As Hannan and Freeman state, "Ecological analysis is appropriate when organizations are subject to strong inertial pressures and face changeable, uncertain environments," (Hannan and Freeman, 1989, p. 13). Since change in the industry is rampant, and some organizations are quicker than others to take action, O/E provides insights regarding differences in the decision-making process.


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