The Impact of Ownership on Human and Budget Allocation: A Study of Local Japanese Newspapers

by Hiromi CHO*

More than fifty years ago, the business nature of the press was already a matter of concern. The Hutchins Commission said the press had a *social responsibility* to society. It warns the press of the consequences of forsaking its original duty of protecting public liberties.

An underlying assumption of the Hutchins Commission is that economic decisions made by newspaper managers have a great impact on newspaper content. If the content of newspapers, which affects people's lives, is controlled or influenced by its business interests, it is significant to considerations of the press conduct and performance on its social responsible role.

Some previous literature in the United States supported that economic factors affect newspaper contents. Because the attitudes and behaviors of readers are influenced by newspaper content which, in turn, is greatly affected by economic factors, the purpose of this study is to examine the impact of ownership on daily newspaper human and budget allocation processes in Japan, and then to ascertain whether or not economic factors have negative impact on the freedom of the Japanese press. Human and budget allocation is the allocation of resources by management through the human and budget processes. This allocation affects the number of reporters, the amount of non-advertising space, and the percentage of non-advertising space.

Most studies that have examined the impact of ownership on allocation processes have focused on American or other Western newspapers. Much less is known about the impact of economic factors that affect resource allocation processes in other countries. Needless to say, the newspaper industry is quite different from one country to another because the political, social, economic, and legal environments of the society in which newspaper companies are engaged affect their business activities (Alexander, Owers & Carveth, 1993). However, among different newspaper industries worldwide, Japan shares a number of similarities with the United States, including a highly developed economic system, an information-based society, and First Amendment-type freedom of expression. Because of the dearth of newspaper studies outside of the West, a study of Japanese newspapers is a worthwhile effort and a valuable first step in developing newspaper research in this part of the world.

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Background

Theoretical Framework

Ownership type is closely related to the goals of an organization. According to traditional microeconomic theory, the primary goal of the firm is the maximization of profits (Greer, 1980). Firms typically make decisions in a marginal manner in order to maximize profits, that is, they choose the output for which marginal revenue is equal to marginal cost. Extra output will be produced until the marginal profit reaches zero, at which point it would not be profitable for firms to go farther. The model of profit maximization has been useful both in terms of its ability to yield interesting theoretical results and to explain a firm's actual decisions (Nicholson, 1998).

Although the profit maximization model provides a reasonable first approximation of organizational goals, it has limitations. First of all, those in management positions frequently do not have adequate knowledge to maximize profits (Reynolds, 1979). To estimate the maximum profit point, managers must have a great deal of information and must be able to make elaborate calculations. Additionally, this model assumes that profits are the only relevant goal of a firm (Reynolds, 1979). Firms might have goals other than profit maximization.

In addition to profit maximization, economists have offered an alternative goal, the *satisficing* goal (Simon, 1959). According to Simon, firms do not maximize profit. Rather than maximizing a single profit objective, a firm desires to realize the satisfactory performance of a combination of goals, including the achievement of a certain level of profit, market share, and growth rate of sales. Managers in a firm work hard to achieve their goals but once achieved, they do not concern themselves with the consequences.

Despite the criticisms of each theory, these two theories are useful in explaining behavior because each is simplified to explain real world phenomena, and each theory establishes the validity of the model by basing it upon reasonable assumptions.

Different types of newspaper ownership will reflect one of these goals. Group newspapers will likely have a goal of maximizing profit (Demers & Wackman, 1988). It is assumed that the higher the level of group ownership, the greater the likelihood that a newspaper will seek to maximize profits (Blankenburg & Ozanich, 1993; Lacy, Shaver, & St. Cyr, 1996). Group newspapers are concerned with returns to shareholders. Because they are always facing a potential takeover by other companies, they must maintain high levels of financial performance that ensure stock price levels. The pressures of maintaining newspapers attractive to readers as well as advertisers compel group newspapers to pursue the goal of profit maximization.

Because independent newspapers, owned by private firms, tend to be owned by

individuals or family members, they may be categorized as having a satisficing goal. Sometimes the atmosphere of the work place is like home; employees are like family members since owners of the firm are also the managers for this type of ownership. In this atmosphere, independent newspapers can pursue any type of goal, or multiple goals. Thus, the goal of independent privately owned newspapers could be the satisficing goal.

In summary, an important issue related to concentration of ownership is how groups exercise their discretionary power. Concentration of ownership across markets has created the potential for a negative effect on society. Economic theories suggest that monopolies possess market power that increases allocative inefficiency. Monopolies tend to set prices above marginal costs and reduce quality by cutting expenditures in the news and editorials. As a result, the quality of information and diversity of opinion that should be available to readers are in great danger of being reduced.

Concentration of Ownership Research

Ownership concentration across markets has created the potential for negative effects on society. It is reasonable to expect that, as a consequence of this phenomenon, the community's total supply of information and opinion decreases (Bogart, 1993). Concentration of ownership has reduced competition across city and county lines, which can potentially reduce diversity of opinion (Lacy & Simon, 1997).

The negative impact of group ownership on news content can be attributed to a primary factor. One potential danger of group ownership is the concentration of political, social and economic power in the hands of a few people. Groups are more likely to pursue a profit maximization goal than are independent newspapers. If a newspaper firm reduces quality by cutting expenditures in the news and editorials, readers' choice in a one-newspaper city is reduced to either subscribing to a newspaper from another community or canceling their subscription and depending on other news media.

Several empirical studies have found that the type of ownership does affect certain aspects of newspaper content. Blankenburg (1982) examined the difference in circulation behavior between the newspapers in the Gannett group and the other newspapers between the years of 1969 to 1979. He found that Gannett newspapers had market power that made group papers more profitable, and concluded that group newspapers systematically eliminated marginal circulation to increase profits.

A national study by Lacy (1991) examined the relationships between the number of newspapers in a group and the way newspaper management allocates resources. He found that group ownership had an effect on the allocation of budget. As the number of newspapers in a group increased, group newspapers tended to devote a smaller percentage of total space to news copy. This difference between group and

non-group newspapers resulted from the differences in organizational goals of the two.

Demers and Wackman (1988) examined the goals of the managers of chains versus those of independent managers. Questionnaires were mailed to top managers and editors at 900 daily newspapers. The results of a multiple regression analysis demonstrated that group managers were more likely to emphasize profit than non-group managers.

Recognizing differences among types of organizational goals, Busterna (1989) conducted a study of manager attitudes toward profit maximization. The attitudes of managers toward profit maximization were measured. His results were consistent with previous finding that independently-owned newspaper owners placed less emphasis on profit maximization than did group-owners. He concluded that group-owner managers took a greater interest in maximizing profits resulting from superior managerial ability to extract greater profits by exercising economic power in monopoly markets.

Demers (1991) hypothesized that chain-owned newspapers are likely to emphasize profit. Results of his mail survey provided support for the hypothesis that group newspapers were more profit-oriented than independently owned newspapers.

The relationship between profit goals and circulation was analyzed by Lacy and Martin (1998), using the example of the Thomson newspaper group. The circulation and profit margin of Thomson newspapers in 1980 was compared with that in 1990 because the organizational goal of Thomson in the 1980s was to increase profits by producing low quality papers. Lacy and Martin found that the Thomson group lost revenue and circulation during the 1980s when high profit goals were set. This study indicated that financial performance was strongly related to organizational goals.

Research Questions

The impact of ownership on the human and budget allocation processes by local Japanese newspapers is examined. Since little research about the impact of ownership in Japan exists, and little is known about how the structure of Japanese newspapers affects human and budget allocation, this study attempts to explore this area.

RQ1: Do group newspapers vary from non-group newspapers in the way newspaper management allocate reporters?

RQ2: Do group newspapers vary from non-group newspapers in the way newspaper management allocate the amount of non-advertising space in the newspaper?

RQ3: Do group newspapers vary from non-group newspapers in the way newspaper management allocate the percentage of non-advertising space in the newspaper?

The underlying assumption here is that the business nature of newspapers contributes to the nature and extent of human and budget allocation processes. This study focuses on local Japanese newspapers, but a thorough review of previous research in Western countries has provided these research questions with sufficient validity to test for their applicability to Japanese newspapers.

Method

A census of all 70 local newspapers affiliated with Nihon Shinbun Kyokai was included in this study. Special papers such as professional, business, sports, and foreign language papers, and non-dailies were excluded. A constructed week was randomly selected.[1]

Category Definitions

To code newspaper content, definitions of the variables used in this study were clarified.

Total space. Total space refers to the entire contents of a newspaper from the first page to the last page.

Advertising. Advertising is defined as that portion of the newspaper devoted to display advertising, classified advertising, and any copy identified as advertising.

Non-advertising space. Non-advertising space is the newshole that is determined by subtracting the amount of advertising from the amount of total space. All photographs, tables, graphs, news, obituaries, and weather are counted as non-advertising.

The units of measurement for this study were square centimeters of copy and advertisements. For coder reliability, space measurement reliability was tested using randomly selected 84 issues.[2] The data for the dependent variables were measured by two coders and were compared using Pearson product-moment correlation coefficients, r=99.14.

The validity of the data was also assessed according to Holsti's four measurement validity types. The data's validity was supported by previous research. However, because of the lack of studies in this area in Japan, more replicable studies are needed to verify whether the measurement for this study represents the space in newspapers as well as the results of the allocation processes.

In addition to the categories which appear on the coding sheet, one dependent variable, the number of reporters, was used for analysis. The data of the number of

reporters was given from *Nihon shimbun nenkan '99-'00*.

Independent and Control Variables

For the newspaper categorization of ownership, *Nihon shimbun nenkan '99-'00* was the primary source of information. In addition, collecting some data, particularly for ownership, required use of telephone interviews.[3]

A dummy variable was used to test whether there was difference between group-owned local newspapers and non-group local papers.

The examination of previous research in this field of study is helpful in discerning which variables one must control for (For example, Cho, 2002; Cho, 2005; Cho & Lacy, 2002; Lacy & Martin, 1998). Competition was measured in this study by subtracting the penetration of the trailing newspaper from the penetration of the leading newspaper. The index indicates how close the trailing newspaper is to the leading newspaper. The range is from 0 to 100, with zero meaning intense competition and 100 meaning a monopoly.

The number of households was also used as a control variable in this study. The number of households in the prefecture indicates the overall circulation potential of the newspaper market in the prefecture. The data for the number of households was taken from *Jūmin kihon daichō,* a report on population and number of households in cities and prefectures in Japan.

Another control variable in this study is circulation. Circulation has been found to have a relationship to news content (For example, Cho, 2002; Cho, 2005; Cho & Lacy, 2002; Lacy & Bernstein, 1988). The circulation figures used in this study were based on data from *Zenkoku shimbun gaido 2000* and *Shimbun Publishers' Report 1999*.

For three research questions, multiple regression analysis was used. How well this method fit the data collected for this study was checked by means of five assumptions of multiple regression before actual testing could be conducted. Some outliers were found, but they were reassigned the value of three standard deviations from the mean. By looking at histograms, scatterplots of residuals, and correlations among independent variables, the five assumptions were supported. The data fit the linear model of the multiple regression method.

Results

Table 1 shows the descriptive statistics for local Japanese newspapers. The average number of reporters working for a newspaper was 107.73, with a standard deviation of 82.15. There was a great variance among newspapers in Japan.

Table 1 Descriptive Statistics for Independent Variables and Resource

Variables	N	Mean	Std. Deviation
Ownership (dummy)	70	0.23	0.42
Competition	70	54.42	28.05
Household	70	1,009,184.50	974,808.17
Circulation	70	267,635.64	243,632.53
Number of Reporters	70	107.73	82.15
Amount of Newshole in the Newspaper	70	212,422.50	96,094.87
% of Newshole in the Newspaper	70	69.59	7.11

The amount of non-advertising space in the newspaper was 212,422.50 square centimeters per week with a standard deviation of 96,094.87. Local Japanese newspapers had a large percentage of non-advertising space in the newspaper, an average of 69.59%, with a standard deviation of 7.11.

The average circulation of a newspaper was 267,635.64, with a standard deviation of 243,632.53. The market size in which a newspaper circulates varied from 205,871 to 4,000,000. The mean of the households in a province was 1,009,184.50. The mean for the competition index was 54.42.

Fifty-four independently owned newspapers and 16 group newspapers were compared.

Table 2 Regression Results for Ownership on Human and Budget Allocation

	Dependent Variables								
	Number of Reporters			Amount of Newshole in the Newspaper			% of Newshole in the Newspaper		
Independent Variables	Regression Coefficient	Beta Weight	Squared Part r	Regression Coefficient	Beta Weight	Squared Part r	Regression Coefficient	Beta Weight	Squared Part r
Ownership	-38.741	-0.199*	0.036	-36,754.90	-0.162*	0.024	-0.198	-0.012	0.001
Competition	0.48	0.164*	0.02	887.147	0.259*	0.051	0.023	0.09	0.006
Household	-0.00000627	-0.074	0.004	-0.021	-0.216*	0.033	-0.000000297	-0.041	0.001
Circulation	-0.0002638	-0.728*	0.569	0.22	0.557*	0.288	-0.00000746	-0.256*	0.061
Constant	16.071			15.465			4.604		
R-Square		0.217			0.218			0.299	
N=70									

Note: The measurement of competition was modified by multiplying by minus one. The index ranged from zero (intense competition) to –100 (monopoly). Ownership dummy variable: Group newspapers assigned a one, non-group newspapers assigned a zero.
* $p<0.05$

Research Question 1 asked if group newspapers varied from non-group newspapers in the way newspaper management allocated reporters. The regression equation in Table 2 showed that ownership had a very large impact on the number of reporters and accounted for 3.6% of the variance. The standard regression coefficient

equaled -.199. These values indicate that there was a difference between group and non-group newspapers in terms of the number of reporters. The unstandardized regression coefficient for the ownership dummy variable was –38.741, indicating group newspapers had an average of 38.741 fewer reporters than non-group newspapers.

Research Question 2 asked if group newspapers varied from non-group newspapers in the way newspaper management allocated the amount of non-advertising space in the newspaper. The results indicated that ownership had an impact on the amount of non-advertising space in the newspaper with a beta weight of -.162, which explained 2.4% of the variance as well. There was a difference between group and non-group newspapers in terms of the amount of non-advertising space in the newspaper. The unstandardized regression coefficient for the ownership dummy variable was 36,754.9. This value indicated that group newspapers had a non-advertising space that was 36,754.9 square centimeters smaller per week than that of non-group newspapers. When newspapers took the form of group, non-advertising space in the newspaper decreased.

Research Question 3 asked if group newspapers varied from non-group newspapers in the way newspaper management allocated the percentage of non-advertising space in the newspaper. The result showed that ownership had no impact on the percentage of non-advertising space in the newspaper, and had a beta weight of -.012. There was no difference between group and non-group newspapers in the way newspaper management allocated the percentage of non-advertising space in the newspaper.

In addition to the research questions, other important relationships were discovered. As many scholars have found, competition, household and circulation, control variables in this study, were the important determinants in newspaper allocation processes. Competition was associated with dependent variables. For example, competition had positive relationships with 2.0% of variance in the number of reporters and 5.1% of variance in the amount of non-advertising space in the newspaper. These were consistent with previous research that intensity of competition influences human and budget allocation processes (For example, Cho 2002, Cho 2005).

The other control variable, household, was also associated with dependent variables. For example, household had a relationship with the percentage of non-advertising space in the newspaper with a beta weight of -.216, and was responsible for 3.3% of the variance. This negative relationship indicated that newspapers in larger cities produced a smaller percentage of non-advertising space in the newspaper than newspapers in smaller cities.

Circulation had a negative relationship with the number of reporters, explaining 56.9% of the variance. A beta weight of -.728 shows a strong but negative impact of circulation on the number of reporters. This indicated that newspapers with a larger

circulation can afford more reporters. Another example is the positive relationship between circulation and the amount of non-advertising space in the newspaper, which explained 28.8% of the variance and had a beta weight of .557. These values mean that newspapers with a larger circulation had more non-advertising space in the newspaper.

Conclusions

This study examined whether there were differences between group newspapers and non-group newspapers in the way newspaper management allocated human and budget resources. This study confirmed the impact of ownership on the newspaper resource allocation processes in Japan. Group and non-group newspapers were similar in regard to the percentage of non-advertising space in the newspaper, but group newspapers differed from non-group newspapers in regard to the number of reporters and the amount of non-advertising space.

The reduction in the number of reporters as well as a reduction in the amount of non-advertising space was consistent with this tendency. Group newspapers reduced the number of reporters and the amount of non-advertising space in the newspaper, and did not commit human and financial resources to the newsroom to the degree non-group newspapers did; instead, they appeared to pursue profit by cutting the number of reporters, and reducing non-advertising space in the newspaper.

These data indicated that groups aimed to maximize profit. They attempted to increase profit margins in two ways: cutting the number of reporters, and reducing the amount of non-advertising space in the newspaper.

Some scholars, however, have warned that reducing newspaper quality by cutting costs to obtain high profits will have a negative impact on the long-run profits of the firm (Lacy, 1989). In the long-run, the result will be a loss of readers, which will result further in lost circulation revenue, and, consequently, declining advertising revenue. In fact, this study of Japanese newspapers found the tendency of advertising space in group-newspapers to be smaller than that in non-group newspapers. According to the regression analysis, group newspapers had a smaller non-advertising space, but the same proportion of non-advertising space in the newspaper, compared to non-group newspapers. This indicated that group newspapers cut advertising space as well as non-advertising space in the newspaper by maintaining the same proportion of non-advertising space as that in non-group newspapers. Although data in this study could not show whether group-newspapers actually lost circulation and advertising revenue, the result implied that the accumulated effect of reducing human and financial resources from the newsroom will have serious long-run effects on a firm's future profits.

In summary, this study of local Japanese newspapers supported the impact of

ownership on the human and budget resource allocation processes. It was consistent with many of the existing studies. Ownership had an impact on the number of reporters, and the amount of non-advertising space in newspapers.

A few other interesting conclusions follow from this study:

1. Group newspapers reduced their human and financial resources. This may be that group newspapers more frequently set a goal of profit maximization than non-group newspapers.
2. Group newspapers also cut advertising space. This may be the result of the accumulated effects of reducing human and financial resources from the newsroom, and may result in damage to long-run profits.

Although this research had taken a step toward understanding the mechanisms of human and budget resource allocation on newsrooms, the results were limited. Some level of limitation was the inevitable accompaniment to all studies, and this particular study was no exception. There were three areas of limitation which should be taken into account before the final conclusions are reached. First, the sample used in the study was limited to local Japanese newspapers registered in the Japan Newspaper Publishers and Editors Association. Some newspapers were not registered in the association and were therefore excluded as subjects of this study.

Second, the study focused on local newspapers in Japan, not on national, bloc, weekly, or free distributed newspapers. The results of the study extended only to local newspapers in Japan but not to Japanese newspapers as a whole.

Third, most of the existing research and theoretical frameworks were developed primarily in Western countries. The differences in the regional, historical, political, cultural, and economic backgrounds between Western and Japanese newspapers may contribute to very dissimilar research results. When evaluating the results of research in this area, consideration must be given to the unique and diverse aspects of the background of each country included in the research.

Future studies may choose to focus on the examination of the relationship between types of ownership, expenditures on newsrooms, circulation and advertising revenue. This study found that group newspapers probably aim to maximize profit by cutting the number of reporters, reducing the amount of non-advertising space in the newspaper, and cutting advertising space. These results imply that the accumulated affect of reducing human and financial resources in the newsroom will have serious effects on the future profits of firms.

NOTES

1 A random constructed week was applied to avoid any sampling biases for two reasons. First, it addresses the variation in the distribution of newspaper stories which is controlled by the demand of advertisers and readers, and avoids the possibility of oversampling Sundays or Saturdays, when particularly large and small newshole are presented. Second, it eliminates a possible systematic bias due to the time of year. This sampling method allowed researchers to avoid seasonal bias and increase external validity. The chosen dates and days were: Sunday, June 20; Monday, February 8; Tuesday, April 20; Wednesday, May 12; Thursday, January 21; Friday, June 18; and Saturday, March 27.

2 This sample size for the reliability check was calculated using a formula introduced by Riffe, Lacy and Fico (1998: 124-127). The confidence level desired in the test was set at 95%.

3 *Nihon shimbun nenkan '99-'00* included lists of shareholders, but the listed information was incomplete due to the fact that not all Japanese newspaper companies are traded on the Tokyo Stock Exchange; therefore, only the names of a few major shareholders were listed in *Nihon shimbun nenkan '99-'00*. To ensure the accuracy for the listed data as well as to gather information about the shareholders, the author conducted telephone interviews with all of the companies

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