

Classical Perspective: Corporate Media Governance

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Corporate Governance Goals

- Intended to provide more oversight and constraints on corporate managers
- Designed to ensure good management practices at the corporate level
 - financial transparency
 - independence of boards of directors and auditors
 - adherence to fiduciary duties
- Created to balance power and flow of information between owners/investors, boards, and top managers



Social Benefits of Good Corporate Governance

- Protection of investors and capitalist system
- Creates more clarity in decision making authority and processes
- Makes more information about the operations of the firm available
- Increases the accuracy and veracity of information given public and owners
- Makes corporate managers more accountable for their behavior and decisions



Why Corporate Governance Movement Developed

- Business developed from entrepreneurial capitalism to family capitalism to management capitalism in past 3 centuries
 - Progressively separated ownership from business activities and decision making
- Agents hired to manage firms
 - Managing non-owners have considerable influence and self interests and different incentives
 - Simple profit and value maximization explanations cannot explain much managerial and company behaviour

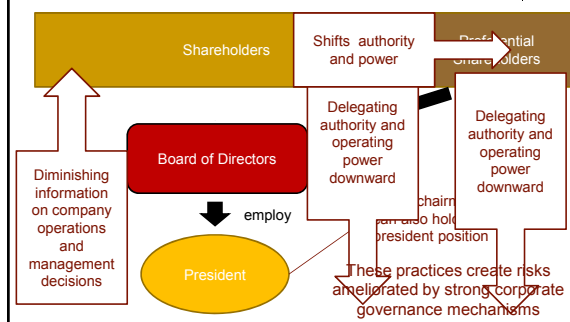


Agency theory

- Recognizes agents and owners can have different and conflicting goals, risk preferences, etc.
- Traditional agency theory (1930s)
 - Separation creates less interested control and can result in inefficiency and declining performance
- Contemporary agency theory (1980s→)
 - Recognizes diffusion of shares can provide advantages, e.g. reduction in cost of capital, increase in market value, professional managers, etc.
 - Recognizes asymmetric information between owners and managers limits oversight and can harm owners
 - Recognizes that managers can behave in ways bad for the company, its investors, and the economic system



Corporate Control Structure



Principles of Good Governance Practice



- Codes of organizations representing
 - Institutional and individual investors
 - Corporate officers and directors
 - Company auditors
 - Regulators
 - Stock exchanges
 Examples: CalPers, OECD
- Corporate responsibility practices promoted by social advocacy groups
 - Fair trade, child labor protection advocates
 - Few journalist organizations have advocated

General CG Consensus



- Companies should have clear governance principles and guidelines
- Internal and external independent audit functions
- Transparency about processes and decisions
- Control on conflicts of interest
- Equitable rights for shareholders
- Independent board members
- Compensation set by committee independent of management

General and Financial Media Report on Other Businesses



- Exhibit populist distrust of large corporations
- Criticize autocratic managers
- Criticize poor labor conditions and practices
- Criticize firms that are not transparent
- Report lack of compliance with good governance practices
- Enjoy uncovering a “good” scandal
 - Enron, Tyco, Clearstream, Northern Rock

Media Misbehavior and Scandals Promote CG Efforts



- Media/Communication Firm Criminal Scandals
 - Mirror Group/Macmillan—steft of profits and pensions by Robert Maxwell
 - WorldCom—unauthorized loans and payments to executives, fraud by Bernie Ebbers and others
 - Adelphia—unauthorized executive expenses, loans, and payments, securities violations, fraud
 - Hollinger—Lord Black fraud and securities violations
 - BroadCom
- Corporate Reporting/Financial Misrepresentation
 - Vivendi Universal, Time Warner, Qwest, Global Crossing
- Shareholder lawsuits
 - Walt Disney Co, CanWest, Bertelsmann, Apple

Large Media Firms have Mixed CG Compliance Records



- Top 20 media firms worldwide not stellar
 - Wide differences in compliance with best practices
 - Only 10 have full guidelines, 6 have partial guidelines, and 4 have no CG guidelines
 - 3/4ths do not have share voting equality
 - Wide range in number of outside directors (average is about half)
 - Fairly good on independence of audit and compensation committees
- Poorest performers
 - Thomson Reuters, VNU, EchoStar, Reed Elsevier, Lagardère

Some Observations



- Corporate governance mechanisms are one tool in improving some oversight of private media companies
- Corporate governance practices need improvement in many media firms to meet basic standards
- Media need to be irreproachable in their business practices or it is difficult for them to review and critique other firms
 - Compliance with best practices can avoid some hypocrisy and conflicts

Some Observations

- CG principles do not address many conflicts due to commercial operations of media, nor do they reduce ethical problems in the practice of journalism itself
- Diluted ownership and management power may or may not be beneficial to financial or editorial independence



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