TOWARD A STAKEHOLDER MODEL OF CORPORATE GOVERNANCE:

EVIDENCE FROM U.S. MEDIA COMPANIES

by

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ABSTRACT

It has been widely recognized that corporate governance can play a key role in improving corporate performance. When implementing various governance mechanisms, however, corporations must address a fundamental question: should corporate governance focus on protecting the interests of only shareholders or should corporate governance expand its focus and consider the interests of other groups? While agency theory asserts that the exclusive focus of corporate governance is to ensure the interests of shareholders, stakeholder theory proposes that corporations should serve all groups or individuals who have a stake in the corporation. Like that of other industries, corporate governance of media industries has generally followed the agency model of maximizing shareholder wealth. But the weakness and failure of such a model in recent years suggest that it may be meaningful to approach the issue from an alternative, stakeholder perspective.

Focusing on 75 publicly traded media companies continuously filed with the U.S. Securities Exchange Commission between 2004 and 2007, this dissertation examined the effects of ownership structure, board structure, compensation structure, and takeover control on corporate performance. It found that stakeholder-oriented governance mechanisms, including reduced institutional ownership, increased insider ownership, enlarged board representativeness, increased board interlocks, fixed compensation for CEO and directors, and certain takeover controls like dual class shares and poison pills, were positively associated with media firms' performance. This dissertation thus suggested that corporate governance of media companies go beyond the pure shareholder-maximization goal and consider the interests of such stakeholders

as employees, audience, and local communities because the stakeholder approach was not only socially desirable but also economically efficient.

This dissertation theoretically contributed: (1) to the media management literatures through offering a systematic examination on the governance mechanisms of media companies; (2) to the stakeholder perspective through opening up a new and empirical line of inquiry; and (3) to the corporate governance research through challenging its traditional shareholder-maximizing paradigm. Moreover, this dissertation had important implications for media practitioners and regulators since it proposed and verified a number of better governance mechanisms that can be put into practice.

LIST OF ABBREVIATIONS AND SYMBOLS

p	Probability associated with the occurrence under the null hypothesis of a value as extreme as or more extreme than the observed value
r	Pearson product-moment correlation
ROA	Return on assets
ROE	Return on equity
S.D.	Standard deviation
SGR	Sustainable growth rate
t	Computed value of t test
<	Less than
%	Percentage
#	Number of observation cases

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CHAPTER 1

INTRODUCTION

In the past decade, corporate governance has become the focus of attention as a result of massive corporate wrongdoings. Companies like Enron, Tyco, and Global Crossing were all destructed by frauds or illegal accounting practices, and numerous executives of these companies were subject to criminal investigations (Picard, 2005). Governance failures have also been evident in media firms as well. In 2004, for instance, Time Warner paid $510 million in fines to resolve federal probes into accounting problems at its AOL units. In the same year, Walt Disney's CEO Michael Eisner was stripped of his role as chairman after nearly half of the company's shareholders accused him of ignoring their interest and voted to oppose his re-election to the company's board. Also, many other media companies like Adelphia, Belo, and Hollinger International have experienced various shareholder activisms (see Picard, 2005).

These kinds of events have raised considerable public demand for governance reform. Indeed, almost all major developed countries have made efforts to reconsider how companies should be organized and governed (Macey & O'Hara, 2003). Academics in law, economics, management, and many other fields have also focused intensively on governance issues. Despite such a broad focus on this issue, little attention has been paid to media companies' governance. In this dissertation, I thus attempt to examine the governance system of media companies while testing a relatively new perspective on corporate governance − the stakeholder perspective.

Much of the governance debate has concentrated on such practical issues as corporate fraud, the abuse of executive power, shareholder activism, and corporate social responsibility

(Letza, Sun, & Kirkbride, 2004). For many analysts, corporate governance is essentially about building structures, process, cultures, and systems that engender the successful operation of organizations (Keasey & Wright, 1993). Essentially, such practice debate underlies a fundamental question: should corporate governance focus on protecting the interests of stockholders alone or should it go beyond that and take into account the interests of other groups, called "stakeholders" (Macey & O'Hara, 2003)? Different perspectives on such a question result in different diagnoses of and solutions to the problems of governance practice.

The traditional shareholder perspective asserts that the exclusive focus of corporate governance should be to maximize shareholder value. If the goal of maximizing shareholder wealth conflicts with the interests of other groups, those other interests should be ignored, unless certain laws and regulations mandate the management to consider those (Macey & O'Hara, 2003). In the shareholder model, the market-based governance mechanisms like shareholder meeting, independent boards of directors, performance-based executive compensation, and the market for corporate change should be used to ensure the interests of shareholders. By contrast, the relatively new stakeholder perspective states that corporations should consider the interests of all or many stakeholders, such as employees, suppliers, customers, and local communities. Stakeholder theorists argue that the firm cannot create value if it ignores the interests of stakeholders. In practice, the active participation of stakeholders, the pursuit of long-term firm value, the trust relationship between the firm and stakeholders, and the interconnection among stakeholders are the main proposals in the stakeholder model of corporate governance.

Such distinction between shareholders and stakeholders is quite useful in analyzing the corporate governance of media companies. There is no denying that media organizations are economic institutions so that they have a basic responsibility to shareholders to make money

(Stern, 2008). However, media companies are also political and cultural institutions, with potential to influence the political and cultural attitudes and behaviors of their audience (Croteau & Hoynes, 2001). Thanks to this potential, media organizations are argued to have an ethical and even legal obligation to serve the public interest. This means media companies have to go beyond the pure shareholder-maximization goal and consider the interests of a wide range of constituents affected by media companies. Indeed, without the support of such stakeholders as employees, readers/viewers, and local communities, media organizations simply cannot exist. Furthermore, through serving the general welfare, media firms may optimize both the returns to their shareholders and the satisfaction of their stakeholders. This dissertation thus posits that media companies should be stakeholder firms, and that their corporate governance should be constructed from a stakeholder perspective.

It is noted that the stakeholder idea is not new in the mass media literature. For example, both Stern (2008) and van Liedekerke (2004) proposed that the stakeholder approach was appropriate for the governance of news media companies. Yet their arguments were basically constructed from a normative, ethical perspective and failed to provide clear directions on how to implement stakeholder-based governance in media companies. It is also noted that a limited number of studies have examined the relationship between governance and performance in the context of media companies. For example, both Soloski (2005) and An, Jin, and Simon (2006) investigated the impact of the ownership structure of media companies on their financial performance, but such research could not be representative since the authors limited their samples to only a couple of newspaper companies. Also, only one study (i.e., Maguire, 2005) examined the impact of executive compensation on performance of media companies, focusing

again on newspapers alone. In addition, there has been little empirical research that examined board structure and takeover control within media firms.

This dissertation intends to make the following contributions. Firstly, it contributes to the media management literature by systematically examining the governance of media companies. Specifically, it investigates what kind of roles the four sets of governance mechanisms including ownership structure, board structure, compensation structure, and takeover control can play in improving corporate performance within media industries. Secondly, this writing contributes to the development of stakeholder theory by opening up a new and empirical line of inquiry. The stakeholder argument is conceptually clear, but researchers often find it difficult to evaluate specific governance arrangements for incorporating non-shareholder interests (Ogden & Watson, 1999). As a response, this research transforms stakeholder principles into a number of governance hypotheses, and then tests these hypotheses in the context of media companies. Thirdly, the present study contributes to the expanding corporate governance literature. A considerable body of governance research is based on the traditional shareholder-maximizing perspective while rejecting the stakeholder model as unrealistic and/or harmful. Challenging such practice, this study argues that the stakeholder model can better predict the relationship between corporate governance and firm performance. Finally, this research has important implications for media executives, board members, shareholders, and regulators. If stakeholder-based governance is found to be associated with superior firm performance, media practitioners should have strong incentives to insist on high standards. Moreover, if stakeholder-based governance is found to be able to limit the force of the capital market and make media companies more responsive to the public interest, media regulators should be more active in promoting sound governance practices among media industries.

The rest of this dissertation is organized as follows. Chapter 2 offers a conceptual overview on the stakeholder perspective, the stakeholder approach to corporate governance, and the rationale for applying the stakeholder model to media companies' governance. Chapter 3 reviews the literature on the relationships between four sets of governance mechanisms (i.e., ownership structure, board structure, compensation structure, and takeover control) and corporate performance while proposing hypotheses from a stakeholder perspective about such relationship within media firms. Chapter 4 discusses the sample, data collection, and variable measurements. Chapter 5 presents the results on governance mechanisms of media companies and the impact of those mechanisms on firm performance. The final chapter offers discussions and conclusions as well.

CHAPTER 2

THEORETICAL FRAMEWORK

Stakeholder Theory

It has long been held that corporations have legal obligations to serve the interests of their shareholders. Since shareholders own the firm's equity, they have certain rights and privileges over other groups, and any action taken by management must ultimately be justified by whether it furthers the interests of the firm's shareholders. The shareholder perspective has its roots in the principle of private property rights - the foundation of capitalism. The traditional wisdom is that private ownership is fundamental to social order as well as economic efficiency (see Gamble & Kelly, 2001). In this view, the corporation as a legal extension of its shareholders should be obliged to serve the shareholder interests (see Letza et al., 2004). In the past decade, the shareholder approach to property and corporation has been further justified by the principles of free market, economic efficiency, and profit maximization. Hayek (1969) among others posits that when individuals own private property and pursue self-interests, the most efficient economic activities are ensured. The logical extension is that corporations owned by shareholders should seek to maximize profits to enhance shareholder value. Also, Friedman (1962) argues that the only responsibility of corporation is to make profits for its shareholders, and that the request for corporate social responsibility can undermine the foundations of a free society with a free-market and private-property system.

The relatively new stakeholder theory clearly rejects the view that shareholders have a privileged place in the business enterprise (Freeman & Reed, 1983). It argues that corporations

should serve all groups or individuals who have a stake in the corporation, typically including employees, customers, suppliers, and local communities. While shareholder theory espouses the "free market" doctrine, stakeholder theory argues that the problems of free rider, moral hazards, and monopoly power inherent to the free market justify government intervention and corporate social responsibility. In the stakeholder view, corporations cannot maximize the shareholder interests at the expense of other stakeholders because doing so is neither moral nor economically efficient (Alkhafaji, 1989; Anderson, 1989). Hence, the claims of customers, suppliers, employees, and local communities must be taken into account, though in general they may be subordinated to the claims of shareholders (Freeman, 1997).

Since Freeman published his milestone book Strategic Management: A Stakeholder Approach in 1984, there has been more than 100 articles and a dozen books that focused on the stakeholder concept (Donaldson & Preston, 1995). In this evolving literature, stakeholder theory has been presented in three broad ways: descriptive, instrumental, and normative (see Donaldson & Preston, 1995). Descriptive stakeholder theory aims at describing specific corporate characteristics and behaviors. It addresses, for instance, how economic activity is structured through legal and other institutions. How do managers think about management? What do managers actually do in practice? Instrumental stakeholder theory intends to build up the connection between stakeholder management and firm performance. It concerns whether managers can meet specific performance goals through adopting the stakeholder approach. Normative stakeholder theory essentially attempts to provide guidelines for corporate governance, particularly on how firms ought to be governed and to whom managers ought to be responsible (Donaldson & Preston, 1995).

Freeman (1997) does not deny such categorization, but argues the descriptive, instrumental, and normative uses of "stakeholder" can be tied in the liberal ideal of autonomy, solidarity, and fairness. Taking value creation as a contractual process among stakeholders, Freeman (1997) posits that (1) each stakeholder must be able to determine when a contract exists and whether to participate in the contract; (2) if a contract between stakeholder A and B imposes a cost on C, then C has the option to become a participant to the contract, and the terms need to be renegotiated; (3) while all stakeholders need to share the costs of contracting, such agents as executives and directors must serve the interests of all stakeholders, and (4) the corporation should also be run "as if it can continue to serve the interests of stakeholders through time" (p. 74). Basically, these proposals can be viewed as guidelines for building up stakeholder firms and implementing stakeholder management.

While stakeholder theorists make it clear that corporations should take into account the interests of all stakeholders, they often fail to provide the conceptual specification of how to make tradeoffs among different constituencies with inconsistent and even competing interests. Because of this, stakeholder theory is typically criticized as incompatible with business and all substantive objectives, detrimental to both accountability and private property, and thus "incapable of providing better corporate governance, business performance or business conduct" (Sternberg, 1997, p. 3). In this regard, Jensen (2001) proposes that stakeholder theory can add the specification that the objective function of the firm is to maximize the total long-term firm value, and when the total long-term value is maximized, the array of satisfaction as a whole can be achieved. By this way, corporate executives can be in a better position to assess the tradeoff among competing constituencies (Jensen, 2001). Also, since the value scoreboard provides an

objective criterion against which executive performance can be measured, the managers can become accountable for the assets under their control (Jensen, 2001).

Stakeholder Approach to Corporate Governance

The traditional, dominant view of corporate governance is the principal-agent model, which is essentially the application of shareholder theory to corporate governance. According to this model, in the modern corporation where ownership and control are separated, managers as agents for shareholders may pursue their own interests at the expense of shareholders; the fundamental issue of corporate governance is thus to ensure shareholders to get a return on their investments (Shleifer & Vishny, 1997). Within this conceptual framework, agency theorists prescribe a number of governance mechanisms, such as large share holdings, independent boards of directors, alternative executive compensation, and the takeover market. Large shareholders are considered a solution to the agency problem because they not only have a big interest in profit maximization, but also have enough power to control the assets and the management of the firm (Shleifer & Vishny, 1997). Acting as a fulcrum between shareholders and managers, boards of directors are designed to monitor the management, ensuring that managerial decisions are in the best interests of the shareholders (Millstein & MacAvoy, 1998). Incentive plans reward executives financially for maximizing shareholder interests, thus aligning the interests of managers with those of shareholders (Monks & Minow, 2004). Furthermore, if all these mechanisms fail, the market for corporate change such as hostile takeovers and leveraged buyouts can be the last resort. Put together, the agent model emphasizes the role of the markets, particular the markets for capital, managerial labor, and corporate control, in ensuring managers and directors to act in the interests of shareholders in the firm.

The principal-agent model of corporate governance has been challenged by many other perspectives, among which stewardship theory has gained much popularity. In the principal-agent model, the "model of man" is "that of self-interested actor rationally maximizing their own personal economic gain"; in the stewardship model, however, the model of man is "that of a steward who is motivated by a need to achieve, to gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility and authority, and thereby to gain recognition from peers and bosses" (Donaldson & Davis, 1991, p. 51). Assuming that the behaviors of executives are aligned with the interests of shareholders, stewardship theory suggests that corporate governance empower rather than control the management. Thus, stewardship theorists support such governance practices as smaller board, the combination of CEO and chairman positions, the greater proportion of executive officers on the board, and the greater alignment of the interests of management and those of board members (Muth & Donaldson, 1998), though all of these would actually be viewed as dysfunctional in the agent model. It should be pointed out, however, that the stewardship view shares the core proposition of the principal-agent model, that is, the goal of enhancing corporate governance is to maximize the interests of shareholders, and what these two perspectives disagree with each other is on how to achieve that goal.

Table 1: Different Approaches to Corporate Governance

	Principal-agent model	*Stewardship model*	*Stakeholder model*
Governance purpose	Maximize shareholder wealth	Maximize shareholder wealth	Pursue multiple objectives of parties with different interests
Key roles	Shareholders are principal, and managers are agents	Shareholder can be principals but managers are stewards	Stakeholder are principals, and managers can be agents
Theoretical premise	The interests of managers are not aligned with those of shareholders	The interests of managers are aligned with those of shareholders.	The interests of shareholders are not congruent with those of stakeholders.
Governance philosophy	Monitor & control	Facilitate & empower	Coordinate & cooperate
Governance policy	Market governance	Self-regulation	Public policy intervention and self-regulation
Governance mechanisms	Large share holdings, independent boards of directors, alternative compensation, the takeover market, and etc.	CEO/chairman duality, executive reputation, small board size, more insiders on the board, and etc.	Dispersed ownership, insider ownership, board representation by various stakeholders, takeover control, fixed compensation for executives and directors, employee stock ownership, etc.

The fundamental challenge to the agent model comes from the stakeholder perspective, which claims that the objective of corporate governance is to maximize the interests of all stakeholders rather than shareholders alone. This is "not only because of ethical dissatisfaction with the exclusive privileging of shareholder interest, but also on the grounds of economic

efficiency" (Ogden & Watson, 1999, p. 527).The firm with a stakeholder orientation is ethical because it equally treat all constituents, providing a fair share of benefits and burdens, rights and duties to all stakeholders (Alkhafaji, 1989). The stakeholder approach to corporate governance is also economically efficient since firms which consider the interests of and develop trust relationships with suppliers, clients, employees, and communities can build up competitive advantages, which, in turn, lead to superior corporate performance (Svendsen, 1998).

As mentioned earlier, since the interests of stakeholders are typically inconsistent and even competing, one of the critical governance goals for a stakeholder firm thus is to maximize long-term firm value, which may solve the problems that arise from the diverse needs of stakeholders (see review, Jensen, 2001). This means that the firm and its managers should try to avoid any short-term financial behaviors; instead, they should focus on the firm's long-term returns when making decisions and taking actions. In this way, the governance task shifts from maximizing shareholder interest to pursuing the long-term value of the company.

Another crucial task of corporate governance, in the stakeholder model, involves encouraging "the active participation of all or many of its stakeholders" (Freeman & Reed, 1983, p. 95), and ensuring "effective negotiation, coordination, cooperation, and conflict resolution" between the firm and its stakeholders as well as among stakeholders (Kochan & Rubinstein, 2000, p. 370). Specifically, Blair (1995) argues that corporations should "enhance the voice of and provide ownership-like incentives to those participants in the firm who contribute or control critical, specialized inputs (firm specific human capital) and to align the interests of these critical stakeholders with the interests of outside, passive shareholders" (p. 322). Porter (1992) suggests that U.S. policy makers need to "encourage long-term employee ownership," encourage long-term owners who have a voice in governance, and "encourage board representation by significant

customers, suppliers, financial advisers, employees, and community representatives" (p. 16-17). Additionally, many scholars propose that companies need to make effort to develop tangible connections between the firm, its trading partners, and its employees in order to build trust relationships, which, in turn, support profitable investments and mutually beneficial exchanges (see Keasey, Thompson, and Wright, 1997).

Viewing the corporate as a social entity, stakeholder theory also argues that corporations are granted by the state not only as an economic entity for a commercial purpose but, more importantly, as a social entity for general community needs. Corporations, having a collective rather individual identity (Hall, 1989), "enter into our identity, our understanding of the specific person we are" (Warren, 2000, p. 130), "honor human dignity and promote overall welfare" (Sullivan & Conlon, 1997, p. 713), and thus "cannot be reduced to contractual alliances for the temporary pursuit of gain" (Warren, 2000, p. 130). In other words, the justification of a corporation does not depend on factual reasons, but on emotional faith and social belief (Campbell, 1997; Stoney & Winstanley, 2001). Therefore, managers have a moral obligation to ensure the endurance of the entity for the community welfare. In this view, corporate governance should be exercised and improved through appropriate internal control or legal intervention rather than such external markets as takeovers and leverage buyouts (Allen, 1995; Millon, 1990).

In practice, Japan and Germany are two economies that noticeably embrace the stakeholder model while rejecting the principal-agent model. In these two successful industrialized countries, firms typically have extensive stakeholder involvement and corporate goals are usually defined more widely than shareholder interest. While German firms typically have a social obligation to employees and local communities, Japanese companies particularly concern size and market share (Charkham, 1994). But both countries view the corporation as an

enduring social entity so that mergers are relatively few and hostile acquisitions remain almost unknown (Keasey et al., 1997). In these countries, major suppliers and customers may be connected with the firm through such ways as cross-directorates and interlocking shareholdings (Acs, Gerlowski, & Fitzroy, 1996); In addition, in these countries, employees are often offered significant stakeholder status and rights (Kochan & Rubinstein, 2000).

Contexts of Media Companies

Stakeholder theory is particularly useful in analyzing the governance of media companies. That is because media companies often clearly posit to protect the interests of both shareholders and stakeholders. This is typically illustrated in the mission statement of New York Times Company:

> *The Company's core purpose is to enhance society by creating, collecting and distributing high-quality news, information and entertainment. The core values that enable the Company to achieve its core purpose are: (1) Content of the highest quality and integrity. This is the basis for the Company's reputation and the means by which it fulfills the public trust and its customers' expectations. (2) Fair treatment of employees based on respect, accountability and standards of excellence. (3) Creating long-term stockholder value through investment and constancy of purpose. (4) Good corporate citizenship. In support of the Company's core purpose and core values, the Board is committed to the editorial independence at all Company properties* (New York Times Company, 2009).

Generally speaking, there are three kinds of stakeholders that media companies have to take into account, namely, employees, customers, and local communities. First, media companies must consider their employees. In media and other knowledge-intensive companies, value is created largely by intellectual rather than physical capital, and "what shareholders invest in physical assets is less important to success than the skills and capabilities of employees, as well as intangibles such as brands and customer loyalty" (Carter & Lorsch, 2004, p. 33). The increasing importance of human capital even challenges the fundamental notion of who really owns the business. Legally, shareholders are still the owners, but in media companies, employees

must be considered owners as well, since their talent drives the results such as newspaper circulation and television viewership, and the results may disappear if they leave (Stern, 2008). This factually makes it meaningless to debate whether managers and directors should be responsible for only shareholders, or for all key stakeholders. In practice, the real problem for media companies is how to retain and motivate the employees they need.

Second, media firms have a basic responsibility towards their customers, which, however, have conflicting interests in many cases. As Stern (2008) suggests, a significant portion of media ethical dilemmas come from the situation in which media executives have to choose between the competing interests of two distinctive groups of customers: advertisers and audience. Both groups are integral to the success of media business: media audience provides attention to media products, and such attention is then sold by media companies to advertisers. But these two groups may have competing interests: news coverage that is true, objective, and in the interests of the audience may be detrimental to the reputation of the advertiser. This kind of problem is not new to media managers, but it has become more evident in recent years as the media market becomes increasingly competitive and many companies face the rising pressure of choosing between community-building journalism and lucrative advertising dissemination (see Adam, Craft, & Cohen, 2004). Thus media companies have to be more careful and creative when they plan to integrate the interests of both audience and advertisers to their governance framework.

Third, closely related to the responsibility towards media audience, a media company also has a basic responsibility towards the local community in which it operates. As agenda-setting theory suggests, decisions by news companies regarding what to cover and how to cover has the potential to affect the lives of everyone in the community, not just those who directly

consume the media content (McCombs & Shaw, 1972). To put it another way, if a news company decides to publicize a particular story, it is possible that the mere appearance of that story will guide the community toward addressing the issues raised by that news piece (Stern, 2008). In Spokane, Washington, for example, a newspaper covered the questionable online activities of the city's mayor, which eventually led to a recall election that asked for the participation of both the newspaper's readers and non-readers (Stern, 2008). Indeed, people have been found to be dependent upon the media system at all levels of society, not only because mass media are the primary means for getting information and entertainment, but also because media companies are social entities on which the communitys' emotional faith and social belief are based (see Blumler & Katz, 1974; Katz, Gurevitch, & Hass, 1973; McQuail, 2000). All these factors thus create particular ethical obligation and governance orientation on the part of media companies toward the general community needs.

The above analyses confirm the significance of various stakeholders in media business. Indeed, the stakeholder concept has influenced the governance system of media companies. In recent years, for example, many media firms including Viacom, News Corp., and New York Times Co. have adopted dual class shares, that is, dividing their common stocks into two classes for the purpose of limiting or removing the voting rights in one of the classes. Typically, the companies issue Class A to raise the bulk of equity while vesting the voting rights in the Class B stock, which is retained by managers and/or founding families. Such unequal division of voting power is criticized by agency theorists as evidence of poor corporate governance because a small number of investors hold the super-voting shares and can act in opposition to the interests of the majority. In the stakeholder view, however, such system that is not designed for serving the

managers' self-interests can provide the independence from capital that is necessary to maintain the integrity and independence of the editorial operation (see review, Picard, 2005).

By corporate law, boards of directors are charged with managing the businesses of the corporation. They often perform three roles, namely, control, strategy, and service, as summarized by Brennan (2006). The control role entails hiring, firing, monitoring, and compensating the management; the strategy role entails framing objectives and vision of the company, and formulating and reviewing company strategy; and the service role mainly involves providing administrative and managerial support to the CEO and other executives (Brennan, 2006). All these shows that boards of directors can play important roles in corporate governance. Return to media companies, the biggest issue may be how to ensure the stakeholders' voice can be heard and their interests can be represented in the boardroom. Also, media companies need to find a way to transform the board into an effective team while trying to balance the interests of different constituencies on the board.

In addition, media companies need to design appropriate compensation packages for their managers. A number of media companies now tie executive compensation to financial performance, as do other industries. However, stakeholder theorists suggest that executive compensation be tied in significant part to achieving journalistic quality goals such as circulation growth and editorial quality. A survey conducted by The Project for Excellence in Journalism (2004) reveals that American people now think "journalists are sloppier, less professional, less moral, less caring, more biased, less honest about their mistakes and generally more harmful to democracy than they did in the 1980s." Such decline in trust has been linked to a sense that newspapers are overly concerned with profits (Maguire, 2005), which is particularly reflected in

the design of performance-based executive compensation. Hence, media companies need to be more careful in determining the use of incentive plans for managers.

Finally, it should be pointed out that media firms often receive special legal protection and other regulatory benefits for the exchange of their obligation to serve the public interest. This is true not only for broadcast media which use public airwaves but also for print media which have long been protected by the First Amendment. Furthermore, Internet companies can also be regulated and sometimes get help from the governments which fund the development of the Internet for the public interest (Stern, 2008).

CHAPTER 3

LITERATURE REVIEW AND HYPOTHESES

The previous chapter has generally discussed the stakeholder perspective, the stakeholder approach to corporate governance, and the rationale of using stakeholder theory to analyze the governance system of media companies. In this chapter, the author seeks to operationalize the key propositions of stakeholder theory in an effort to examine the governance structure of media companies. Specifically, the author reviews the literature on four key mechanisms of corporate governance, i.e., ownership structure, board structure, compensation structure, and takeover control, and investigates from a stakeholder perspective how these governance mechanisms influence organizational performance of media companies. It is noted that the relationship between governance and performance has also been approached using some other models, particularly the agency model and the stewardship model. In the following literature review, the author thus draws on the agency model and/or the stewardship model as a comparison with the stakeholder perspective. In addition, due to a lack of empirical evidence on media companies' governance, the author mainly draws on the governance literature on other industries and applies such literature to media companies.

Ownership Structure

Agency theory posits that large shareholders can be effective in corporate governance since they are sophisticated enough to understand what action is necessary as well as powerful enough to make it efficient to do so (Monsk & Minow, 2004). Stakeholder theory does not deny the governance function of large share holdings, but is more concerned with what kind of

ownership is beneficial to the long-term interests of the company and (as an essential elements of those interests) the interests of employees, customers, suppliers, local communities, and other stakeholders. Prior research on corporate ownership has largely focused on institutional ownership, insider ownership, and ownership concentration. In this section, the author examines these aspects of media companies, and conducts a stakeholder analysis of the relationship between ownership structure and corporate performance.

Institutional Ownership

Institutional investors such as bank trusts, mutual funds, hedge funds, pension funds, and insurance companies have become a crucial part in the American capital market. It is reported that in 1980 institutional investors owned about 38% of the U.S. total equity market; in 2001, this number increased to 61% (Securities Industry Association, 2002). The influence of institutional investors is more evident in newspaper companies. In 1999, institutional investors owned about 70% of the shares in the 17 major newspapers (Cranberg, Bezanson, & Soloski, 2001). By 2004, they owned 93% of the stock in the 15 newspaper companies (Soloski, 2005).

However, empirical studies by both Wahal (1996) and Agrawal & Knoeber (1996) found no significant relationship between institutional stockholding and firm performance. Faccio and Lasfer (2000) even found a negative though weak relationship between ownership by pension funds and firm value. Also, focusing on newspaper companies, An et al. (2006) found that institutional ownership of newspaper companies was negatively associated with the subsequent year's profitability, as measured by return on equity and return on assets.

The seeming lack of the positive effects of institutional ownership may be explained by the nature of institutional investors. Because their reward system emphasizes short-term performance and their primary goal thus is a high current return, institutional investors typically

concern only the short-term interests of shareholders (Fortune, 1993). It is reported that mutual fund managers receive a bonus or penalty in large part based on how their funds perform relative to an index calculated quarterly (Starks, 1987). Also, investors are entitled to take their money at any time and at any price so that investment managers must be prepared to deliver profits (Monks & Minow, 2004). These kinds of situations thus discourage the fund managers from taking a long-term horizon on any particular companies that they invest in. If the stock price declines, fund managers may soon discontinue their investment in the target firm. This can explain why fund managers frequently engage in portfolio shuffling while keep searching for projects with the potentially highest short-term payoff (Johnson & Greeting, 1999).

As for news companies, the fundamental problem is that institutional investors have objectives which are basically opposed to news companies' commitment to public service in that these investors often pursue an investment return to the exclusion of everything else (Morton, 2006). Analyzing 30 largest institutional investors in 13 newspaper companies, Maguire (2003) found that some institution investors changed newspaper holdings every quarter, during a two-year observation period. Since investment managers focus entirely on the short-term interests of shareholders, and are reluctant to invest managerial time or firm resources in other groups, the increasing influence of institutional ownership in news companies have raised such concerns as the reduction in resources, the decline in news quality, the loss of editorial independence, and the diminishment of public service (Croteau & Hoynes, 2001; Picard & van Weezel, 2008; Underwood, 1995).

As for stakeholder theory, it essentially considers institutional ownership as harmful for firm value. As mentioned earlier, news companies should consider the interests of such stakeholders as employees, audience, advertisers, and local communities, which are essentially

vital for the companies' survival. It is also noted that the interests of stakeholders (e.g., readers and advertisers) are often inconsistent and even competing. An effective solution to this problem, as suggested in the stakeholder perspective, is to maximize the total long-term firm value, which may satisfy the diverse needs of stakeholders to a large extent (Jensen, 2001). This means that the firm and its managers should try to avoid any short-term financial behaviors; instead, they should focus on the firm's long-term returns when making decisions and taking actions. Overall, investment management funds may overly concern the short-term interests of shareholders, and are not positioned to invest managerial time or firm resources in other stakeholders. This is opposite to the stakeholder principle of maximizing the total long-term firm value. In the context of media companies, this dissertation thus proposes:

H1: The level of institutional ownership is negatively associated with the performance of media companies.

Insider Ownership

Insiders like managers and directors are sometimes viewed as being more interested in improving a company's short-term performance than pursuing its long-term value because their compensation is usually based on the short-term financial performance (Jacobs, 1991). When holding high equity ownerships, however, managers and directors may be more likely to consider the interests of stakeholders and pursue long-term firm value. According to Zahra, Neubaum, and Huse (2000), insider ownership is positively connected with corporate social responsibility because executives with increased equity have increased power to allocate resources among diverse stakeholders for ensuring continued support from stakeholders. Cochran and Wood (1984) suggest that executives with high equity may induce customers to be in favor of their companies' products, and then they are able to improve the companies' status

among such key constituencies as bankers, governments, and investors. Also, Hansen and Hill (1991) propose that managers who hold high equity may have more incentives to improve product quality and innovation through increasing spending on research and development. Likewise, Johnson and Greening (1999) argue that being concerned for long-term firm value may stimulate executives to invest in quality products and services and to avoid any bad actions that damage the public interest, which, in turn, often lead to negative reputation of the company.

Like the abovementioned stakeholder perspective, the agency model also predicts the positive impact of insider ownership. Agency theorists posit that firm performance can be improved by aligning the interests of managers with those of shareholders through increasing management stock holdings. When holding substantial equity ownership, insiders are more likely to act in accordance with the interests of shareholders (Bryan, Hwang, & Lilien, 2000; Perry & Zenner, 2000); otherwise, they are more likely to pursue their own interests such as job security, remuneration, status, and power, often at the expense of shareholders (Hill & Snell, 1989; Himmelberg, Hubbard, & Palia, 1999; Hoskisson & Turk, 1990; Zahra et al., 2000).

A considerable body of empirical research has confirmed a positive relationship between insider ownership and corporate performance. For example, a meta-analysis by Dalton, Daily, Certo, and Roengpitya (2003) revealed that the equity holdings by managers and directors were positively associated with earnings per share. Both Jensen, Solberg, & Zorn (1992) and Friend & Lang (1988) found that insider ownership was negatively correlated with financial debt, which indicated that managers with high equity holdings had more incentive to reduce corporate debt and be less diversified. In addition, Blankenburg and Ozanich (1993) found that companies with greater insider control were less likely to be affected by the capital market or pursue short-term returns that might eventually damage long-term firm value. Therefore, this research proposes:

H2: The level of insider ownership is positively associated with the performance of media companies.

Ownership Concentration

Analyzing the 1993 data, Picard (1994) found that 25 different institutions owned at least 5% of equities of any one of the listed newspaper companies while these owners were known to have stronger incentives and power than other institutional investors to control the target company. In fact, when stock ownership is concentrated, it is relatively easy for the owners to coordinate and demand certain actions from the management. It has been suggested by agency theorists that large shareholders not only has the incentive to collective information and monitor the management but also have enough voting power to put pressure on the management, or even oust the management through such means as proxy fights and takeovers (Shleifer & Vishney, 1986). In other words, concentrated ownership can address the classic agency problem because shareholders with significant ownership have a natural interest in profit maximization as well as a strong ability to protect their interests (Shleifer & Vishny, 1997).

There is some evidence on the role of concentrated ownership in exercising corporate governance. For example, Kang and Shivdasani (1995) found that firms with concentrated ownership were more likely to replace management in response to poor performance than firms without it. Glassman and Rhoades (1980) found that the profitability was positively associated with 5% ownership by certain entities for a sample of 1406 bank holding companies. Likewise, focusing on the firms in the U.S. and U.K., Gugler (2001) found that owner-controlled firms (with a single block of equity exceeding 5%) significantly outperformed manager-controlled firms. All of these findings seem to support the agency view that concentrated ownership has a positive impact on corporate performance.

A fundamental problem, however, is that large shareholders often represent their own interests, which may not coincide with the interests of other groups such as employees, customers, and managers. Stakeholder theorists argue that when large investors use their control rights to maximize their profits, they may do so at the expense of other groups. This may include "straightforward expropriation of other investors, managers, and employees; inefficient expropriation through pursuit of personal objectives; and finally the incentive effects of expropriation on the other stakeholders" (Shleifer & Vishny, 1997, p. 758). Due to those expropriation problems, concentrated ownership may thus be detrimental to the interests of stakeholders and the economy efficiency of the firms as well. Therefore, this dissertation proposes:

H3: The level of ownership concentration is negatively associated with the performance of media companies.

Board Structure

Stakeholder theorists calling for greater attention to stakeholder interests have all recognized the potential significance of stakeholder representation within the board. They argue that stakeholder representation can promote procedural fairness by allowing stakeholder interests to be directly represented in corporate decision making (see Freeman & Evan, 1990; Jones & Goldberg, 1982). If moral competence is to be meaningful, however, "it must be built into the social structure of the enterprise" (Selznick, 1992, p. 352). It is argued that a simple way to enlarge stakeholder representation is to increase the size of the board: the more people on the board, the more likely that the interests of stakeholders can be represented (Freeman & Evan, 1990). It is also argued that stakeholder representation can be institutionalized through appointing a considerable proportion of non-independent directors (e.g., employees, suppliers,

customers, regulators, and community representatives) to corporate boards (Freeman & Evan, 1990; Porter, 1992), because these directors tend to have a strong stakeholder orientation and "are very conscious about the needs and expectations of the various constituencies of their firms." In addition to stakeholder representation, stakeholder theory also emphasizes effective coordination, cooperation and confliction resolution among stakeholders (Kochan & Rubinstein, 2000). This may be achieved by board interlocks, which function in strengthening the connection between the firm and its stakeholders and among stakeholders as well. In this section, the author applies the stakeholder model to the design of boards of directors, and investigates the impact of board size, board composition, and board interlocks on organizational performance of media companies. Again, since there is little research that examines the board of directors within media companies, this study develops hypotheses primarily on the basis of the general literature on boards of directors.

Board Size

The monitoring ability of boards of directors could first be affected by its size. Lipton and Lorsch (1992) suggest that large boards may be less effective than small boards since the former are more difficult to coordinate. Shaver (2005) states that larger boards suffer from a diffusion of responsibility, which encourages social loafing, elicits group fractionalization, and reduces group commitment to strategic change. Jensen (1993) specifically suggests an optimal board of seven or eight directors, saying that "when boards get beyond seven or eight people, they are less likely to function effectively and are easier for the CEO to control" (p. 865). Similarly, Firsteberg and Malkiel (1994) argue that a board with eight or fewer members "engenders greater focus, participation, and genuine interaction and debate" (p. 34).

The stakeholder perspective, however, suggests that large boards can improve the possibility of stakeholder representation. It is argued that the more people on the board, the more likely that the interests of various stakeholders are considered and the less likely that the decisions are made in favor of a few people. Previous research has offered some empirical evidence of the positive correlation between board size and firm value. For example, Shaver's (2005) analyzed 21 single-industry and conglomerate media companies and found that the board size was positively associated with the firm's market value and capital investment.

Consistent with the stakeholder view, the resource dependence perspective also suggests that large boards can enhance firm performance. It is argued that board size may reflect an organization's ability to contact environments (Booth & Deli, 1996). In the resource dependence view, large boards may be able to extract critical resources such as budget, funding and leverage from external environments, which, in return, will help improve corporate performance (Alexander, Fennell, & Halpern, 1993; Pfeffer & Salancik, 1978). Also, since many directors are themselves CEOs, they can also provide the firm's management with valuable advice that is not obtainable from the firm's employees (Zahra & Pearce, 1989). Bases on the above arguments, this dissertation puts forward the following hypothesis:

H4: The size of the board is positively associated with the performance of media companies.

Board Composition

Board composition, especially the proportion of independent directors on the board, is one of the most discussed topics in the governance literatures. Agency theorists propose that each board have a majority of independent directors, which "not only excludes employees but also anyone who has had any recent relationship with the company as a supplier, customer, or

professional adviser" (Carter & Lorsch, 2004, p. 16). In this view, a large proportion of independent directors can monitor the self-interested actions by managers so that shareholders can enjoy greater returns (Nicholson & Kiel, 2007; Rosenstein & Wyatt, 1990). Compared with insiders, independent directors are believed to be more effective monitor of firm management because of their independence from the management and the firm (Johnson, Daily, & Ellstrand, 1996).

By contrast, supporters of stewardship theory posit that a majority of insider directors can be more helpful in improving firm performance. As discussed earlier, stewardship theory argues managers are essentially trustworthy so that they will be good stewards of the assets entrusted to them and will naturally work to maximize profit for shareholders (Donaldson & Davis, 1991). Also, since insider directors may spend their working lives in the firm, they have a better understanding on the firm's businesses so that they can make better decisions (Bhagat & Black, 1999; Donaldson, 1990).

Stakeholder theory basically suggests that companies seek board representation by all or many of their stakeholders, such as suppliers, customers, creditors, former/current employees, and community representatives. It thus directly opposes the agency view that the board should include as many as independent directors, i.e., those who have no stakes in the firms. Also, while the stewardship perspective emphasizes the positive impact of insider directors (particularly executive directors), the stakeholder view goes beyond that, arguing that those affiliated or linked parties such as employees, customers, and local communities should also be included onto the board. In the stakeholder view, these non-independent directors can serve as the representatives and protectors of their own interests, enhancing not only corporate financial

performance but also corporate social performance (Wang & Dewhirst, 1992). So, this dissertation hypothesizes:

H5: The proportion of non-independent directors on the board is positively associated with the performance of media companies.

Board Interlocks

Board interlocks typically refer to the situation in which "a member of the board of directors of one company sits on the board of directors of another company" (Knowles, 1973, p. 5). In the principal-agent view, such arrangement may keep outside directors from providing disinterested advice and lead to ineffective monitoring because interlocking directors may look for each other's interests rather than for those of shareholders (Chhaochharia & Grinstein, 2007). In addition, interlocking directorates may violate the so-called duty of loyalty which requires directors to be unyieldingly loyal to the company's shareholders. It is argued that "if a board member sat on the boards of two companies with conflicting interests, he would be forced to resign from one board because clearly he could not demonstrate loyalty to the shareholders of both companies at the same time" (Monks & Minow, 2004, p. 200).

Stakeholder theorists state that within the nexus of contracts that constitutes the firm the most important one involves co-specialized investments, which can be seen in numerous integration, contracting, or strategic alliances (Blair, 1995). In the context of corporate governance, inter-firm relationships involving in co-specialized assets could be institutionalized by interlocking directorates (see Keasey et al., 1997). According to Schoorman, Bazerman, & Atkin (1981), interlocking directorship may result in horizontal connections among directors, which provide communication opportunities and thus information exchange on topics of concern. Interlocking directorship may also create vertical links between directors representing customers

and those representing suppliers, which allow the firm to reduce uncertainty about the firm's inputs/outputs, or broader market environments (Schoorman et al., 1981). In practice, a majority of Japanese and German companies have adopted interlocking directorship as a way to connect suppliers and major customers of the firm (Keasey et al., 1997). Also, focusing on the listed companies in Singapore, Ong, Wan, and Ong (2003) found that board interlocks were significantly correlated with a number of performance variables including market capitalization, return on assets, return on sales, and profit before tax. Based on these arguments and evidence, this research proposes the following hypothesis:

H6: The degree of board interlocks is positively associated with the performance of media companies.

Compensation Structure

Compensation can be an effective means to stimulate managers, board members, and employees to act in ways that maximize the total firm value. However, compensation packages that are poorly designed may have adverse effects, such as encouraging managers' and directors' short-term opportunistic behaviors and discouraging employees' commitment to the firm. Both stakeholder theory and agency theory acknowledge the significance of compensation system as a governance mechanism, but have different and even contradictory proposals on the design of compensation package. This dissertation argues that the stakeholder model is more appropriate than the agency model in guiding the design of compensation package. This proposition is tested by examining the relationship between compensation packages for CEO, board directors, and employees and organizational performance in media companies.

Fixed Compensation for CEOs

CEO compensation has become one of the most controversial aspects of the current governance debate (Keasey & Wright, 1997). While the media and politicians emphasize the size of certain CEO compensation packages, shareholders often focus not on “how much” but “how” (Jensen & Murphy, 1990; Monks & Minow, 2004). According to agency theory, the pay-for-performance tools like stock options can effectively align the interests of managers and with those of shareholders. Stock options refer to the situation in which the company gives an executive the right to purchase a specified number of the firm’s stock shares at a stipulated price for the term of the option (Colley, Doyle, Logan, & Stettinius, 2005). If the stock rises between the time of option awarding and exercising, the executive will get the benefit of the gain (Monks & Minow, 2004). Therefore, this kind of incentive plans may function in encouraging executives to act in the interests of shareholders since they reward executives for seeking and implementing the business strategies which can increase the firm’s stock value.

While most managers in the U.S. receive a large part of their compensation in a performance-based form like stock options or restricted stock, the relationship between incentive plans and firm performance seems not to be that straight. Although some researchers found a positive association between stock options and stock returns (e.g., Coughlan & Schmidt, 1985; Jensen & Murphy, 1990), others found no links between these variables (see Boyd, 1994; Kerr & Bettis, 1987). Within media companies, an analysis of 13 U.S. newspaper companies by Maguire (2005) revealed that there was a wide gap between the theory and reality of linking stock options to firm performance: while the firms with extensive use of options had a good performance, firms with little use of options showed strong financial results too.

The mixed nature of these results has led many to doubt whether the pay-for-performance system can achieve the owner-managers alignment. Abowd and Kaplan (1999), for example, argue that the valuation of options is intrinsically uncertain and subjective so that companies may underestimate the true cost of the options because of various accounting practices. Bertrand and Mullainathan (2001) argue that since the value of stock often fluctuates independently of managers' actions, stock options may also reward managers for good fortune of running the firm under favorable economic environments. Additionally, Benz and Frey (2007) posit that in the pay-for-performance system, managers are given the chance and the incentives to influence the standards of measurement against which they are compensated.

Stakeholder theorists basically reject the pay-for-performance practice that agency scholars advocate. As suggested by Tirole (2001), designing pay that is sensitive to the performance of stocks leads to a neglect of other stakeholders. In a similar vein, Maguire (2005) argues that stock options allows newspaper CEOs to acquire substantial stakes over time so that the CEOs may have reason to focus excessively on stock performance rather than other measures of newspaper success. Also, Jones (1995) points out that excessive executive compensation indicates an abuse of trust and a lack of trustworthiness on the part of managers, which, in turn, will cause inefficient contracting with the company's stakeholders and ultimately a decline in corporate performance.

In the stakeholder view, companies should choose fixed compensation systems because such systems entice managers to concentrate on work content rather than on compensation (Benz & Frey, 2007; Tirole, 2001). It is argued that fixed compensation packages can serve as "redistribution constraints," and thus discourage individuals from fighting over earning and induce them to devote more effort to real work (Frey & Osterloh, 2005; Hansmann, 2000). Thus,

fixed executive compensation packages may be particularly desirable for news companies since these companies often pursue social goals in addition to financial results, and ask their managers to devote to journalistic quality. Therefore, this research hypothesizes:

H7: The proportion of fixed compensation for CEOs is positively associated with the performance of media companies.

Fixed Compensation for Directors

Directors have a duty to use reasonable judgment to manage and supervise the business of a firm in the interests of stakeholders (Freeman, 1997). They are responsible for hiring, firing, evaluating, monitoring, and advising the management (Monks & Minow, 2004). Give their important roles, that how directors are compensated has also become an important issue in the corporate governance literature. According to agency theory, incentive plans like stock-options can function in aligning the interests of outside directors with those of shareholders, thus making it more likely that outside directors will monitor management. Consistent with this view, researchers like Hambrick and Jackson (2000) found that the use of incentive compensations for outside directors was positively associated with firm performance. Vafeas (2000) among others, however, did not find a significant relationship between director incentive plans and post-adoption firm performance.

In the stakeholder view, the stock-based compensation for outside directors may be detrimental to the interests of stakeholders. This is because such plans could stimulate outside directors to coax a short-term increase in stock price at the expense of the long-term value of the company (Monks & Minow, 2004). While incentive compensation could motivate directors to focus on the interests of shareholders, it may also lead to less consideration for other stakeholders. As Carter and Lorsch (2004) says, “the more shares a director owns, the more he

has a personal interest to worry about" (p. 48). If directors are concerned too much with their own financial gains, they may fail to support and empower management and consequently reduce firm performance (Carter & Lorsch, 2004; Muth & Donaldson, 1998). Compared to incentive plans, fixed compensation for outside directors thus may be more beneficial to the firm and its stakeholders. In fact, even agency theorists acknowledge that given a fixed remuneration, outside directors would prefer fixed cash compensation over stock-based pay because the latter may result in a loss of diversification relative to a cash retain ((Fich & Shivdasani, 2005). This leads to the following hypothesis:

H8: The proportion of fixed compensation for outside directors is positively associated with the performance of media companies.

Employee Stock Ownership Plans

Supporters of stakeholder theory like Blair (1997) and Porter (1992) argue that giving employees more authority over their work and more of an ownership interest make companies stronger and more productive. In the U.S., employee stock ownership plans (ESOPs) have been typically used to award a fraction of ownership in the firm to the firm's employees. According to Monks and Minow (2004), there are four reasons for using ESOPs: i) employees have minimal agency costs since they are the only party affected by the firm who are able to monitor its activities; ii) ownership is a responsibility as well as right. Employees are suited to this role "because of their ability to represent the interests of the suppliers of work and capital and the interests of the community;" iii) ownership "requires a level of vigilance that is hard to obtain from a holder of securities, a rather indirect form of ownership at best;" and iv) in order for the ownership function to be discharged with the corporate structure, there must be owners who are rationally informed and involved, unrestricted by laws and regulations in the exercise of their

ownership, and free from the "morbidity" arising out of removal from active involvement in the venture (p. 280). These arguments are consistent with Wills' (1998) observation that ESOPs highly match the principles of a stakeholder firm.

Although agency theorists argue that ESOPs may be used to entrench incumbent managers, such concern has not been supported by empirical studies. Indeed, Park and Song (1995) found that firms' financial performance significantly increased after establishing or expanding ESOPs, thus confirming the positive effects of ESOPs. Also, Blasi, Conte, & Kruse (1996) conducted a meta-analysis of 10 ESOP studies, and found that of the combined cross-sectional estimates (comparing ESOP and non-ESOP firms), 85% of those studies indicated higher productivity for ESOPs firms; and that of the combined estimates of ESOP adoption (comparing pre-and-post-adoption performance relative to non-adaptors), 82% were positive. Given these evidence, this dissertation hypothesizes:

H9: The adoption of employee stock ownership plans is positively associated with the performance of media companies.

Takeover Control

Agency theorists argue that if such governance mechanisms as large share holdings, independent boards of directors, and executive compensation fail to align the interests of managers and shareholders, takeovers can be a control mechanism of last resort (Jensen, 1986; Hart, 1995). Specifically, they argue that takeovers can contribute to corporate governance in two ways: "i) the possibility of a takeover, with the inherent threat of displacement, provides an incentive for managers to run the firm in accordance with the interests of shareholders"; and

ii) “the occurrence of a takeover provides an opportunity for a potential acquirer to correct managerial failure by replacing underperforming or opportunistic managers” (O’Sullivan, 1997, p. 122).

Despite such arguments, takeover efficiency has been criticized on a number of grounds. Grossman and Hart (1980), for instance, propose that takeover processes may be hindered by free rider problems in large companies with widely dispersed shareholdings. Malatesta (1983) argues that a takeover may be manipulated by managers of bidding firms who are pursuing the objectives that are not consistent with shareholder interest. In addition, scholars like Law (1986) and Schweiger & Walsh (1990) suggest that takeover processes may be hampered by the substantial transaction costs related to professional fees, post-acquisition integration, and regulation.

The strongest criticism of takeover as a governance mechanism comes from supporters of stakeholder theory. In the stakeholder view, takeovers can lead to many socially undesirable and economically inefficient consequences. This has been demonstrated in many companies, where hostile takeovers are followed by salary cuts and job losses (see Bhagat, Shleifer, & Vishney, 1990; Shleifer & Summers, 1988). Hence, takeovers are potentially opposite to the principle of being “an enduring social entity” that is stressed by stakeholder firms. It is also argued that a takeover threat may encourage management to focus on short-term firm value at the expense of the long-term viability of the firm. Specifically, Stein (1989) suggests that as firm resources are shifted from projects with long-term returns to projects which are less profitable but produce immediate returns, then it is likely that firm value will be reduced. In fact, firms which concentrate on long-term investment are often undervalued compared to their short-term

counterparts and thus become more attractive for acquiring firms (for review, see Shleifer & Vishney, 1990). Indeed, this has become particularly evident in today's newspaper industry.

A number of defensive tactics (e.g., dual class shares, staggered boards, poison pills, golden parachutes, and the elimination of cumulative voting) have been designed to thwart hostile takeovers. Whilst agency theorists criticize that defensive tactics function in protecting managers' own self-interest (Cary, 1969), supporters of the stakeholder perspective argue that those tactics may discourage managers from singularly focusing on maximizing short-term performance and instead encourage them to pursue long-range strategies that may increase the total firm wealth (see Linn & McConnell, 1983). Defensive tactics also make it more likely that companies survive and continue to meet the general community needs even in difficult times. Moreover, defensive tactics may allow executives to obtain a greater share of rents accruing to their firm-specific human capital (Hirschey, 1986). This may encourage additional human-capital investment, which is particularly desirable to knowledge-based organizations such as media firms.

In this section, the author provides an assessment of the roles and effects of takeover defenses in the governance process of media companies. Specifically, the author examines three defense tactics that are most frequently used by media companies, i.e., dual class shares, staggered boards, and poison pills.

Dual Class Shares

Under a dual class capitalization system, one class has more voting rights than the other. Specifically speaking, a handful of investors with a relatively small financial stake in the company hold a much larger part of the voting power. In most cases, the super-voting shares are not publicly traded, and controlled by the company's founders and their families.

In the agency perspective, unequal voting power creates potential conflicts of interests between insiders who control the votes and outsiders who provide the majority of firm equity (Smart, Thirumalai, & Zutter, 2007). This may hinder corporate performance, as confirmed by Gompers, Ishii, & Metrick (2004) which shows that heavy voting control by insiders weakens corporate governance. Dual class shares may also reduce the market value of the company since the voting shares are often excluded in the S&P 500 index. It is estimated that if News Corp. eliminates its current classified stock system, its market value would increase by more than 30% (i.e., more than $1 billion) (News Corporation, 2007).

The dual class share structure has its defenders, nevertheless. The News Corp., for example, argued that the firm's dual class shares system could "(a) promote stability and continuity in the leadership and management of the company, which allows the company to focus on long-term objectives, (b) enhance the company's ability to attract, retain and motivate highly qualified key employees, and (c) provide the company with greater flexibility in financing its growth" (News Corporation, 2007, p. 19). These explanations are basically consistent with the stakeholder view which emphasizes the maximization of long-term firm value. Also, as discussed earlier, founding families that control the majority of voting power often have a longer-term vision than investors who often focus on the firm's quarterly performance. In a word, the existence of dual class shares may enhance corporate performance.

H10: The adoption of dual class shares is positively associated with the performance of media companies.

Staggered Boards

Staggered boards refer to the situation in which directors are grouped into classes, with one class standing for election each year. Typically, a staggered board has three classes of directors, each class elected for a three-year term. While staggered boards are commonplace among all types of publicly traded companies, some people are acutely aware of the potential for managerial entrenchment behind such arrangement. Shareholder activist William Steiner from the Investor Rights Association of America, for instance, urged the board of Bausch & Lomb Company to eliminate its staggered board in 1997. He argued: "the Company's classified board of directors maintains the incumbency of the current board and therefore of current management, which in turn limits management's accountability to stockholders" (quoted from Bebchuk, Coates, & Subramanian, 2002, p. 900).

However, the arrangement of staggered boards seems to be consistent with the stakeholder model, which emphasizes protecting the interests of all stakeholders rather than merely stockholders. Specifically, staggered boards have been justified from a stakeholder perspective in several ways. First, they encourage board stability and continuity by reducing annual turnover of directors (Koppes, Ganske, & Haag, 1999). Second, they promote board independence since board members have a term of three years rather than one year so that they may be less influenced by managers (Koppes et al., 1999). Third, they make potentially abusive takeovers more difficult since only a fraction of the whole board is elected annually. Regarding staggered boards, the state of Massachusetts offers a particularly illustrating example. Initially in order to protect one local company from a potential hostile bidder, the state government enacted a law requiring all companies incorporated in this state to adopt staggered boards (Monks & Minow, 2004). Hence, in promoting board stability and independence and thwarting hostile

takeovers, staggered boards may put the incumbent board in a better position to maximize the interests of all stakeholders. This leads to following hypothesis:

H11: The adoption of staggered boards is positively associated with the performance of media companies.

Poison Pills

Poison pills refer to the shareholder rights plans that, when triggered by a hostile acquisition attempt, give target shareholders the right to purchase additional shares or to sell shares back to the target company (the "flip-in" pills) and/or the potential acquirer (the "flip-over" pills) at very attractive prices. When triggered, poison pills impose significant financial penalties on a hostile acquirer. An important question thus arises: how do poison pills affect the performance of adopting firms? The traditional management entrenchment view posits that poison pills decrease firm value because they insulate managers from the threat of external takeovers. Consistent with such view, Ryngaert (1988) found significant negative returns during the pill adoption period in his analysis of 380 firms. Malatesta and Walking (1988) reported similar findings (1988) in their study of 113 firms adopting poison pills between 1982 and 1996. Additionally, Bebchuk et al. (2002) found that poison pills provided a powerful takeover defense particularly when combined with staggered boards.

In the stakeholder view, corporations are not a bundle of resources intended solely for the maximization of stockholder value. They must take into the interests of all stakeholders, especially the firm's employees. Prior research has shown that hostile takeovers often have a negative consequence on pay, job security, and working conditions (Shleifer & Summers, 1988). The existence of poison pills may thus function in promoting managerial stability and protecting employees and other stakeholders against abusive nature of hostile takeovers. Poison pills may

even protect the interests of stockholders because it enables the management to increase takeover premiums (Comment & Schwert, 1995; Gordon, 2002).

Such arguments for poison pills have been supported by several empirical studies. For example, a recent study by Danielson and Karpoff (2006) found that operating performance actually improved after the firm adopted pill adoption, and firm's post-pill performance was not dependent on the preexistence of staggered boards. Brickley, Coles, and Terry (1994) also reported that the market reacted favorably to poison pill announcements when the board included a majority of outside directors. This indicates that the market could distinguish between poison pills which are adopted to entrench managers from those which are intended to benefit shareholders and stakeholders as well, as suggested by O'Sullivan (1997). Thus, this research hypothesizes:

H12: The adoption of poison pills is positively associated with the performance of media companies.

Summary of the Literature Review

Overall, stakeholder theory provides a substantial basis for examining the governance system of media companies, and there is considerable support in the literature for adopting such perspective. This dissertation seeks to contribute to the media management, stakeholder theory, and corporate governance literature by examining how various governance mechanisms are associated with corporate performance. The hypotheses addressed by this dissertation are reprised in Table 2.

Table 2: Determinants of Corporate Performance

Variable	Hypothesis	Sign
Ownership structure		
Institutional holdings	H1	–
Insider ownership	H2	+
Ownership concentration	H3	-
Board structure		
Board size	H4	+
Board composition	H5	+
Board interlocks	H6	+
Compensation structure		
Fixed compensation for CEOs	H7	+
Fixed compensation for directors	H8	+
Employee stock ownership plans	H9	+
Takeover control		
Dual class shares	H10	+
Staggered boards	H11	+
Poison pills	H12	+

CHAPTER 4

METHODS

This dissertation takes a quantitative approach to examine the impact of media firms' ownership structure, board structure, compensation structure, and takeover control on their financial and organizational performance. This chapter describes the methods that were undertaken.

Sample and Data Collection

The data used in this dissertation involved almost all publicly traded media companies filed with the U.S. Securities Exchange Commission (SEC) during the 4-year period 2004-2007. Following Advertising Age's practice in its annual media companies ranking, media companies were defined in this research as those whose media content and distribution businesses are supported by advertising. Companies under consideration included such traditional media businesses as newspapers, magazines, book publishing, radio, broadcast television, cable television, and film production/distribution. They also included cable operators, direct broadcast satellite, and electronic information services/new media companies. Furthermore, this research selected only media companies whose proxy statements and annual reports were filed with the SEC for each year of this period (i.e., 2004-2007) (since proxy statements along with annual reports can most of the information required for data analysis). In addition, in order to measure the effects of ownership change on corporate performance, this study included companies that had merged or reorganized as long as they continuously operated during the observation period.

Based on the abovementioned selection standards, this study identified 75 sample media companies and had 300 firm-year observations for statistical analyses.

The data regarding media firm's ownership structure were largely obtained from the SEC filing def 14a. The board structure data were collected mainly from the corporate governance database RiskMetrics and two SEC filings including def 14a and 10-k. The compensation structure data were collected from the SEC filings def 14a and 10-k, news releases, and news reports. The takeover control data were obtained mainly from RiskMetrics, the SEC filings def 14a and 10-k, annual reports, news releases, and relative news reports. Finally, the data on financial performance and such control variables as firm size and firm risk were all retrieved from Compustat North America database. The data on industry effects were obtained from two SEC filings def 14a and 10-k.

Predictor Measures

This research first measured the effects of ownership structure (including institutional ownership, insider ownership, and ownership concentration) on firm performance. Specially, the degree of *institutional ownership* was measured as the proportion of outstanding common shares held by institutional investors such as mutual funds, hedge funds, pension funds, investment banks, insurance companies, and other kinds of institutions. The degree of *insider ownership* was calculated as the proportion of outstanding common shares held by managers and directors of the company. *Ownership concentration* was defined as the percentage of equity ownership held by those with 5% or more of outstanding common shares.

Since the literature reveals a mixing and even conflicting relationship between board size and firm performance, the range of *board size* was determined for all companies in the study. It was calculated as the total number of directors on a board.

In this research, board members were categorized into two groups: independent director and non-independent directors. Following RiskMetrics' practice, a director would be identified as non-independent if he/she was linked to the company through certain relationships, and his/her views might be affected because of such links (RiskMetrics, 2008). Specifically, the present study considered any director non-independent who was:

(1) a current or former employee of the company or of a majority-owned subsidiary;
(2) a provider of professional services—such as legal, consulting or financial—to the company;
(3) a customer of or supplier to the company;
(4) an employee of an affiliate of which the company owns less than 50%;
(5) a designee under a documented agreement by a group (such as a union) or significant shareholder;
(6) a family member of an executive officer;
(7) a part of an interlocking directorship whereby a director and/or executive of the company sits on a board of another company that has an executive and/or director who also sit on the original company's board;
(8) a recipient of the company's charitable giving; and
(9) any other type of affiliation that may compromise the ability or incentive of a director to perform oversight duties in the best interests of shareholders (RiskMetrics, 2008).

After non-independent directors were identified, the *board composition* variable for each board was measured by the number of non-independent directors divided by the total board size.

Board interlocks were measured by the total number of outside directorships and management positions held by the firm's directors. Suppose that a media firm has three directors who hold multiple directorships and/or management positions: Director A is a director of Company X, Y, Z; Director B is a director of Company U, and Director C is both a director of Company V and the CEO of Company W. In this case, the media firm has six board interlocks, involving Company X, Y, Z, U, V, and W. Management positions are treated as directorships since high-ranking executives could have as much influence as directors on the focal firm (Bunting & Barbour, 1971). Directorships and/or management positions in public and non-profit

organizations are also included because those organizations could be instrumental in facilitating social and political cohesion, which is integral to stakeholder firms.

The *fixed compensation for CEOs* variable was measured by the proportion of base salary in the CEO's total compensation. *Fixed compensation for directors* was measured by the average proportion of fixed remuneration in the outside directors' total compensation. In order to avoid an enormous calculation task of obtaining the precise, continuous data, this study decided to use the ordinal data to indicate the percentage of fixed compensation for directors. It would be coded as 1 if less than 25% of directors' compensation was fixed; 2 if 25-50%; 3 if 51-75%; and 4 if more than 75%. The percentage here was calculated as all directors' fixed remuneration divided by their total compensation. In addition, e*mployee stock ownership plans* was dummy coded 1 if the firm adopted them, and 0 if otherwise.

All three takeover control variables were nominal data. The *dual class shares* variable was dummy coded 1 if the firm adopted them, and 0 if otherwise. The s*taggered boards* variable was dummy coded 1 if the firm used them, and 0 if otherwise. Likewise, the *poison pills* variable was dummy coded 1 if the firm adopted them, and 0 if otherwise.

Criterion Measures

In the stakeholder view, there are three criteria against which corporate performance can be measured, namely, financial criterion (profitability), systematic criterion (such as survival and growth), and social criterion (such as the responsiveness to society and ethical behavior) (Kakabadse, Kakabadse, & Kouzmin, 2001). This study made use of the first two criteria while ignoring the last one. Because if the firm underperforms from a financial perspective, or fails to survive or grow, efforts to address social concerns may be not sustainable due to the lack of financial resources.

To measure a firm's profitability, two account-based indicators were used: return on assets (ROA) and return on equity (ROE). These two measures have been used extensively in the finance and management literature (see Chaganti & Damanpour, 1991; Klein, 1998). *ROA* is used to measure a firm's efficiency in utilizing its assets. In the current study, it was calculated as net income divided by total assets. *ROE* is used to measure a firm's profitability that reveals how much profit a company generates with the money shareholders have invested. In this research, it was calculated by dividing net profits over shareholder equity.

In addition, this study used sustainable growth rate (SGR) to measure the firm's systematic performance. SGR from one year measures how much a firm can grow its revenues in the subsequent year without issuing new equity, modifying the dividend policy, or taking on more debts in order to finance the growth (Sampath & Kambil, 2005). Factoring out dividends from return on equity, this index often takes a longer term view than that which may be expected if performance is measured from the shareholder perspective (Peebles, 2007). *SGR* was calculated using the following formula: return on equity / (1- dividend payout rate). Here dividend payout rate was calculated as dividends divided by net income.

Other Measures

This dissertation controlled firm size, firm risk, and industry effects as potentially confounding factors. Because large, complex firms may constrain the ability of individuals or groups to initiate change (Dalton & Kesner, 1983), this paper took into account firm size as a control variable. As a proxy for *firm size*, the natural logarithm of companies' total assets was calculated. Also, since the riskiness of a firm can affect the management's attitude toward activities that have the potential to elicit savings, incur costs, or build market (see Waddock & Graves, 1997), this study measured the firm's riskiness as another control variable. As a proxy

for *firm risk*, this study calculated the firm's debt to total assets ratio, though the firm's cash flow can also be a useful proxy.

Industry effect was also controlled since a media firm's performance may be affected by the structural characteristics of the industry sector in which it operates. For example, newspapers have experienced constant decline in readership and advertising sales, which can largely be attributed to the emergence of the Internet. Television is also negatively affected by the Internet, but not as much as newspapers. By contrast, magazines seem to be less likely affected by the Internet, due to their long-established segmentation of content and readers. To account for industry effect, all sample companies were categorized into the following media sectors: publishing (including newspapers 2711 and magazines 2721), broadcasting (radio 4832 and broadcast television 4833), cable (cable television 4841 and cable service providers), online media, and others. The membership for a given sector was largely determined by their ISC number (e.g., 2711 represents newspapers). In this way, the *industry effect* variable was coded 1 if the firm belonged to the publishing industry, 2 if the broadcasting industry, 3 if the cable industry, 4 if the Internet industry, and 5 if others. Table 3 offers an overview of variables and their respective measures.

Table 3: Variables and Measurement

Variable	Description
Predictor variable	
Institutional ownership	Percentage of outstanding common shares owned by institutional investors
Insider ownership	Percentage of outstanding common shares owned by managers and directors of the company
Ownership concentration	Percentage of equity ownership held by those with 5% or more of outstanding common shares
Board size	Number of directors
Board composition	Proportion of non-independent directors on the board
Board interlocks	Total number of directorships and management positions held by board members
Fixed comp. for CEO	Proportion of the base salary in the CEO total compensation
Fixed comp. for directors	Coded as 1 if less than 25% of directors' compensation (on average) was fixed; 2 if 25-50%; 3 if 51-75%; and 4 if more than 75% (calculated as all directors' fixed remuneration divided by their total compensation).
ESOPs	Dummy coded 0 if no, 1 if yes
Dual class shares	Dummy coded 0 if no, 1 if yes
Staggered boards	Dummy coded 0 if no, 1 if yes
Poison pills	Dummy coded 0 if no, 1 if yes
Criterion variable	
ROA	Net income divided by total assets
ROE	Net income divided by shareholders' equity
SGR	ROE / (1-dividend payout ratio)
Control variable	
Firm size	Natural logarithm of total assets
Firm risk	Debt/asset ratio
Industry effect	Coded 1 if publishing (including newspapers, magazines, and books), 2 if broadcasting (radio and broadcast television), 3 if cable (cable television and cable service providers), 4 if online media (computer programming, data processing etc.), and 5 if others

CHAPTER 5

RESULTS

Since data were collected on 75 public media firms spanning a 4-year period, this dissertation adopted fixed-effects model for regression analysis. According to Jensen and Murphy (1990), such model can help reduce the problem of omitted (i.e., unmeasured or unobserved) variables. In this chapter, I first present summary statistics for all independent, dependent, and controls variables, and then offer fixed-effects regression results on the relationship between various governance structure and corporate performance in media companies.

Summary Statistics

Table 4 offered summary statistics relating to the ownership structure of sample media companies. It was clear from the table that across the period there was an increase in institutional ownership. The mean institutional ownership of media companies increased from 15.55% (standard deviation: 15.10) in 2004 to 22.04% (standard deviation: 21.33) in 2007. Regarding insider ownership, the results showed that the percentage of equity owned by executives and directors slightly decreased over the same period. In 2007, the mean insider ownership was 27.23% (standard deviation: 14.10), comparing to a mean of 29.41% (standard deviation: 15.00) in 2004. In addition, the average percentage of equity ownership held by those with 5% or more of common stocks slightly increased from 47.16% (standard deviation: 27.03) in 2004 to 49.95% (standard deviation: 27.64) in 2007. Overall, it seemed that there was no significant change over time in institutional ownership, insider ownership, and ownership concentration, due to the high

amount of variance in these variables. This thus justified the use of firm-year observations in the subsequent regression analysis.

Table 4: Summary Statics of Ownership Structure Variables

	2004	2005	2006	2007
Institutional ownership				
Mean	15.55	19.55	20.11	22.04
Median	11.55	14.10	14.70	15.00
S.D.	15.10	18.21	18.58	21.33
Minimum	0.00	0.00	0.00	0.00
Maximum	51.70	65.00	80.00	86.59
Insider ownership				
Mean	29.41	28.56	27.64	27.23
Median	15.00	14.88	14.02	14.10
S.D.	28.67	28.36	28.25	28.31
Minimum	0.00	0.00	0.00	0.00
Maximum	94.90	95.00	93.30	93.20
Ownership concentration				
Mean	47.16	49.08	49.04	49.95
Median	46.34	49.13	50.00	56.00
S.D.	27.03	26.88	25.78	27.64
Minimum	0.00	0.00	0.00	0.00
Maximum	94.80	94.80	94.70	92.15

Table 5 presented summary statistics relating to board structure across sample companies. In terms of total size, an average board had 9 directors throughout the period. While the average number of independent directors increased from 6.00 in 2004 to 6.37 in 2007, the average number of executive and affiliated directors (i.e., non-independent directors) decreased from 3.23 in 2004 to 3.12 in 2007. Though the change was not remarkable, it reflected the industry trend of brining more independent directors into the board. Meanwhile, the average percentage of non-independent directors on the board decreased from 35.67 (standard deviation: 16.22) in 2004 to 33.15% (standard deviation: 15.94) in 2007. The average number of board interlocks

also decreased: in 2004 an average board has approximately 11 board interlocks (standard deviation: 6.52) which compared to approximately 10 (standard deviation: 6.14) in 2007. Overall, while the board size generally remained unchanged over the period, the influence of stakeholders on the board appeared to decline, in terms of the decrease in the number of board interlocks and the percentage of non-independent directors on the board. But this study did not expect significant change in these variables, mainly due to their high amount of variance, so that the use of firm-year observations in the subsequent regressions was also justified.

Table 5: Summary Statics of Board Structure Variables

	2004	2005	2006	2007
Board size				
Mean	9.23	9.33	9.36	9.49
Median	9.00	9.00	9.00	9.00
S.D.	2.58	2.59	2.78	2.75
Minimum	5	5	5	5
Maximum	15	15	17	18
Number of independent directors				
Mean	6.00	6.11	6.01	6.37
Median	6.00	6.00	6.00	6.00
S.D.	2.29	2.43	2.21	2.33
Minimum	0	0	0	0
Maximum	11	12	12	12
Number of non-independent directors				
Mean	3.23	3.22	3.35	3.12
Median	3.00	3.00	3.00	3.00
S.D.	1.47	1.56	2.06	1.58
Minimum	1	1	1	1
Maximum	6	7	15	6
Non-independent directors as a percentage of total board members				
Mean	35.67	35.23	35.40	33.15
Median	33.33	33.33	33.33	30.00
S.D.	16.22	16.90	16.80	15.94
Minimum	10.00	7.69	7.69	8.33
Maximum	100.00	100.00	100.00	100.00
Board interlocks				
Mean	10.84	9.68	9.73	9.52
Median	9.00	8.00	8.00	8.00
S.D.	6.52	6.18	6.52	6.14
Minimum	2	2	2	1
Maximum	30	32	35	32

Table 6(a) offered summary statistic for compensation variables. The table showed that the CEOs of media companies experienced an increase in both base salary and total compensation: their mean salary increased from approximately $900,000 in 2004 to approximately $1 million in 2007, and their mean total compensation increased from approximately $6 million in 2004 to $6.5 million in 2007. However, the percentage of base

salary in CEOs' total compensation decreased on average from 36.74% (standard deviation: 25.77%) in 2004 to 34.37% (standard deviation: 26.81%) in 2007. This implied that CEO compensation became less dependent on the use of base salary within media industries. Instead, it became more associated with such incentive plans as stock options. Due to the high amount of variance in the data, however, it seemed that there was no significant change over time in the percentage of base salary. Thus this study used firm-year observations in the subsequent regression analysis when measuring the impact of executive base salary. With regard to board members' remuneration, table 6(a) suggested that the percentage of fixed remuneration in directors' total compensation remained around a mean value of 2.00 over the period. In other words, on average directors' fixed remuneration was more than 25% but less than 50% of their total compensation. In addition, table 6(b) showed that among 75 sample companies only a few (approximately 7) adopted employee ownership plans over the observation period.

Table 6(a): Summary Statics of Compensation Structure Variables

	2004	2005	2006	2007
Base salary for CEO (thousand dollars)				
Mean	903	974	984	1001
Median	675	756	800	783
S.D.	988	1018	914	1132
Minimum	0	0.001	0.001	0.001
Maximum	5773	5806	5613	8100
Total compensation for CEO (thousand dollars)				
Mean	5993	5120	6458	6505
Median	2257	2377	2435	2046
S.D.	9524	6822	8533	8339
Minimum	0	26	118	129
Maximum	48766	34660	39824	36816
Base salary as a percentage of total compensation for CEO				
Mean	36.74	35.91	32.16	34.37
Median	30.15	30.00	24.66	30.49
S.D.	25.77	25.41	23.93	26.81
Minimum	0.00	0.00	0.00	2.00
Maximum	100.00	100.00	100.00	100.00
Fixed remuneration as a percentage of total compensation for directors (ordinal data)				
Mean	2.25	2.16	2.17	2.09
Median	2.00	2.00	2.00	2.00
S.D.	0.87	0.92	0.88	0.86
Minimum	1	1	1	1
Maximum	4	4	4	4

Table 6(b): Presence of ESOPs

	2004	2005	2006	2007
	Yes (%)	Yes (%)	Yes (%)	Yes (%)
ESOPs	6 (8.0)	6 (8.0)	7 (9.3)	8 (10.7)

Summary statistics for takeover control variables were presented in Table 7. According to this table, for each year of this period, more than half of the sample media companies (approximately 56%) adopted dual class, over one third (approximately 38%) staggered boards,

but less than one fifth (approximately 18%) poison pills. Given the valence of poison pills, it was not surprised that it was not as fashionable as dual class or staggered boards.

Table 7: Summary Statics of Takeover Control Variables

	2004	2005	2006	2007
	Yes (%)	Yes (%)	Yes (%)	Yes (%)
Dual class	42 (56.0)	42 (56.0)	41 (54.7)	42 (56.0)
Staggered boards	28 (37.3)	28 (37.3)	27 (36.0)	26 (34.7)
Poison pills	13 (17.3)	13 (17.3)	13 (17.3)	13 (17.3)

Summary statistics for the financial and organizational performance of sample companies were presented in Table 8. The return on assets exhibited a mean value of 1.59 with a range from -67.38 to 69.14, and the mean return on equity was 3.10 with a highly broad range from -283.98 to 158.03. With regard to sustainable growth rate, it also had a board range from -283.98 to 158.03 with a mean value of 0.29. These numbers suggested that overall media companies still kept profitable, but there was a huge difference between the worst and best media companies, in terms of return on assets, return on equity, or sustainable growth rate.

Table 8 also presented summary statistics for control variables. The mean level of total assets (natural log) was 21.60 with a range from 16.85 to 28.27. The mean value of debt/asset ratio was 33.08, with a highly skewed range from 0 to 136.97. In addition, the bottom part of the table showed a reasonable spread across sample media industries. There were a total of 75 companies and 300 observations over the four-year period. Among them, 28% were publishing companies, 32% broadcasting companies, 16% cable companies, 14.7% online media, and 9.3% others.

Table 8: Summary Statics of Performance and Control Variables

	Mean	Median	S.D.	Minimum	Maximum
Performance variables					
ROA	1.59	2.77	11.64	-67.38	69.14
ROE	3.10	7.52	46.54	-283.98	158.03
SGR	0.29	5.29	47.35	-283.98	158.03
Control variables					
Total assets (natural log)	21.60	21.31	2.13	16.85	28.27
Debt/assets ratio	33.08	26.48	28.31	0.00	136.97

Industry sector	*# of firm*	*# of observation*	*% of total firms (observations)*
Publishing	21	84	28.0
Broadcasting	24	96	32.0
Cable	12	48	16.0
Online media	11	44	14.7
Others	7	28	9.3
Total	75	300	100

Fixed-Effects Regression Analyses

This dissertation used general linear models to conduct a series of fixed-effects regressions on the relationship between various governance structure and corporate performance. First of all, I examined the correlations of all continuous variables (see Table 9) as well as the means and standard deviations of all categorical variables (see Table 10). Then I tested respectively the regressions of corporate performance on four sets of governance mechanisms (i.e., ownership structure, board structure, compensation structure, and takeover control), and tested simultaneously the regressions of corporate performance on all variables within each set of governance mechanism. This was largely because of the specific design of the current study, i.e., attempting to investigate the effects of those structural mechanisms on media firms' performance.

Table 9: Correlations of All Continuous Variables

	1	2	3	4	5	6
1. Institutional ownership						
2. Insider ownership	-0.19					
3. Ownership concentration	0.21	0.61				
4. Board size	-0.24	-0.17	-0.27			
5. Board composition	-0.18	0.30	0.23	-0.07		
6. Board interlocks	-0.23	-0.24	-0.49	0.64	-0.05	
7. Fixed comp. for CEOs	0.08	0.22	0.26	-0.38	0.14	-0.25
8. Fixed comp. for directors	-0.04	0.12	0.11	-0.08	0.39	-0.11
9. ROA	-0.24	0.02	-0.09	0.08	0.26	0.18
10. ROE	-0.19	0.10	-0.01	0.12	0.12	0.19
11. SGR	-0.15	0.11	0.03	0.07	0.11	0.16
12. Firm size	-0.30	-0.22	-0.40	0.64	-0.17	0.65
13. Firm risk	0.35	0.18	0.25	0.07	0.00	0.02
	7	8	9	10	11	12
8. Fixed comp. for directors	0.25					
9. ROA	-0.01	0.16				
10. ROE	0.05	0.10	0.63			
11. SGR	0.06	0.10	0.59	0.97		
12. Firm size	-0.46	-0.26	0.12	0.05	0.03	
13. Firm risk	-0.02	-0.08	-0.31	-0.09	-0.07	0.08

Note: Figures shown are Pearson correlation r.

Table 10: Means and Standard Deviations of All Categorical Variables

	ROA		ROE		SGR	
	Mean	S.D.	Mean	S.D.	Mean	S.D.
Dual class shares						
Yes	1.38	9.23	2.59	40.83	-0.09	41.69
No	1.84	14.13	3.73	52.99	0.77	53.79
Staggered boards						
Yes	2.23	10.92	3.51	45.71	1.87	46.73
No	1.22	12.04	2.86	47.12	-0.61	47.81
Poison pills						
Yes	5.98	6.25	17.61	28.05	16.36	29.67
No	0.67	12.29	0.06	49.05	-3.08	49.67
ESOPs						
Yes	5.18	4.98	16.05	21.27	11.86	25.01
No	1.23	12.05	1.82	48.16	-0.86	48.89
Industry effect						
Publishing	3.65	8.13	11.91	29.66	9.34	31.73
Broadcasting	-4.06	13.69	-12.78	58.18	-15.15	58.41
Cable	0.74	6.99	0.61	53.49	-3.22	54.14
Online media	8.63	13.35	15.25	38.24	11.33	40.36
Others	5.18	6.76	16.28	22.12	14.73	22.33

Table 11 provided the regression results of the relationship between ownership structure and corporate performance**.** As shown in Table 11, there was a negative relationship between institutional ownership and each of three performance variables, including ROA ($p < 0.10$), ROE ($p < 0.05$), or SGR ($p < 0.05$). The results thus provided support for hypothesis 1, which predicted that institutional ownership was negatively associated with media companies' performance. Hypothesis 2 predicted that insider ownership was positively associated with corporate performance. This was also supported by the results, which revealed that there was a positive relationship between insider ownership and ROA ($p < 0.05$), ROE ($p < 0.05$), and SGR ($p < 0.05$). In terms of ownership concentration, the results showed a negative impact of ownership concentration on firm performance, but such impact was not statistically significant.

Therefore, hypothesis 3 predicting the negative impact of ownership concentration on firm performance was not supported.

Table 11: Regression of Corporate Performance on Ownership Structure

Variable	Hypothesis	ROA	ROE	SGR
Institutional ownership	H1	-0.07	-0.40	-0.35
		-1.66*	-2.21**	-1.88*
Insider ownership	H2	0.07	0.33	0.31
		2.36**	2.48**	2.25**
Ownership concentration	H3	-0.01	-0.11	-0.03
		-0.33	-0.76	-0.18
Firm size		0.45	-2.23	-0.36
		1.31	-0.15	-0.24
Firm risk		-0.09	0.03	0.03
		-3.37***	0.28	0.24
Industry effects dummy				
Publishing		-1.59	-5.50	-7.04
		-0.69	-0.56	-0.70
Broadcasting		-9.23	-35.50	-37.25
		-3.96***	-3.54***	-3.63***
Cable		-6.15	-27.08	-27.95
		-2.43**	-2.49**	-2.51**
Online media		2.33	-3.29	-5.79
		0.92	-0.30	-0.52
R Square		0.25	0.13	0.12
Observations		300	300	300

Notes: (1) Figures shown are coefficient estimates and t-statistics.
*(2) *p < 0.10; **p < 0.05; and ***p < 0.01*

Table 12 offered the regression results of the relationship between board structure and corporate performance. For the test of hypothesis 4 -- that the size of the board was positively associated with firm performance, I found no support from the results. Table 12 showed that board size was negatively related to ROA, positively related to ROE, and again, negatively related to SGR. All these relations were not statistically significant. However, this table showed a positive impact of board composition on ROA ($p < 0.01$), ROE ($p < 0.05$), and SGR ($P < 0.05$).

The results thus provided considerable support for hypothesis 5, which proposed that the more non-independent directors on the board, the better performance. In addition, hypothesis 6 suggested that the more interlocks, the better performance. The results suggested that there was a positive relationship between board interlocks and ROA ($p < 0.10$), ROE ($p < 0.01$), and SGR ($p < 0.01$). Hypothesis 6 was thus confirmed.

Table 12: Regression of Corporate Performance on Board Structure

Variable	Hypothesis	ROA	ROE	SGR
Board size	H4	-0.07	0.99	-0.10
		-0.22	0.71	-0.07
Board composition	H5	0.25	0.44	0.40
		6.94***	2.72***	2.43**
Board Interlocks	H6	0.24	1.64	1.64
		1.86*	2.82***	2.74***
Firm size		0.40	-2.96	-2.74
		0.98	-1.61	-1.44
Firm risk		-0.09	-0.04	0.01
		-4.40***	-0.42	0.11
Industry effects dummy				
Publishing		-0.30	-3.37	-4.72
		-0.14	-0.34	-0.46
Broadcasting		-7.58	-25.44	-28.07
		-3.48***	-2.56**	-2.75***
Cable		-3.71	-14.53	-16.88
		-1.61	-1.38	-1.56
Online media		5.05	7.69	3.46
		2.07**	0.72	0.30
R Square		0.33	0.13	0.11
Observations		300	300	300

Notes: (1) Figures shown are coefficient estimates and t-statistics.
*(2) *p < 0.10; **p < 0.05; and ***p < 0.01*

Table 13 provided the regression on the effects of compensation structure on firm performance. The results provided substantial support for both hypothesis 7 and 8. Hypothesis 7 proposed that the higher the percentage of base salary in a CEO's total compensation, the better

firm performance. As shown in Table 13, this was supported by the regression results: fixed compensation for CEO was found to have a positive effect on ROA ($p < 0.10$), ROE ($p < 0.10$), and SGR ($p < 0.10$). Hypothesis 8 predicted that the higher the percentage of fixed income in directors' total compensation, the better firm performance. The results strongly supported this: fixed compensation for directors was found to be positively associated with each dimension of firm performance, ROA, ROE, and SGR, all being at significance level 0.01. However, this study did not find a significant relationship between ESOPs and either of the three performance variables. Hypothesis 9 on the positive effect of adopting ESOPs was thus not supported.

Table 13: Regression of Corporate Performance on Compensation Structure

Variable	Hypothesis	ROA	ROE	SGR
Fixed compen. for CEOs	H7	0.05	0.22	0.22
		1.74*	1.90*	1.87*
Fixed compen. for directors	H8	3.94	9.26	9.28
		5.30***	2.79***	2.73***
ESOPs	H9	-0.03	2.56	0.80
		-0.02	0.27	0.08
Firm size		1.12	2.48	1.89
		3.34***	1.66*	1.24
Firm risk		-0.08	0.02	0.01
		-3.67***	-0.17	0.13
Industry effects dummy				
Publishing		-2.35	-6.65	-8.54
		-1.05	-0.66	-0.84
Broadcasting		-9.36	-32.39	-35.01
		-4.06***	-3.14***	-3.33***
Cable		-6.12	-21.31	-23.89
		-2.51**	-1.96*	-2.15**
Online media		4.92	4.30	1.43
		1.98**	0.39	0.13
R Square		0.29	0.11	0.10
Observations		300	300	300

Notes: (1) Figures shown are coefficient estimates and t-statistics.
*(2) *p < 0.10; **p < 0.05; and ***p < 0.01*

Table 14 provided the regression results of the relationship between takeover controls and corporate performance. Regarding dual class, the results showed there was a positive relationship between dual class and ROA, ROE, and SGR, but only the effect on ROA being significant ($p < 0.05$). This provided partial support for Hypothesis 10, which proposed that adopting dual class was positively related to firm performance. The results also offered partial support for hypothesis 12, which predicted that the adoption of poison pills was positively associated with corporate performance. As shown in Table 14, there was a positive effect of poison pills on ROA, ROE, and SGR, but only the effect on SGR was statistically significant ($p < 0.10$). Finally, there was no support for hypothesis 11, which proposed the positive effect of adopting staggered boards on firm performance. Indeed, I found a negative relationship between staggered boards and each dimension of firm performance, though such relationship was not significant.

Table 14: Regression of Corporate Performance on Takeover Control

Variable	Hypothesis	ROA	ROE	SGR
Dual class	H10	2.94	7.98	9.63
		2.13**	1.33	1.58
Staggered boards	H11	-0.18	-4.64	-3.15
		-0.13	0.77	-0.52
Poison pills	H12	2.07	12.14	15.38
		1.08	1.47	1.82*
Firm size		0.23	-0.60	-1.39
		0.69	-0.42	-0.96
Firm risk		-0.10	-0.06	-0.03
		-4.38***	-0.57	-0.26
Industry effects dummy				
Publishing		-2.94	-9.34	-12.96
		-1.19	-0.87	-1.19
Broadcasting		-9.09	-31.52	-34.39
		-3.71***	-2.97***	-3.18***
Cable		-4.97	-18.35	-20.96
		-1.95*	-1.66*	-1.86*
Online media		2.23	-3.17	-6.76
		0.86	-0.28	-0.59
R Square		0.22	0.08	0.08
Observations		300	300	300

Notes: (1) Figures shown are coefficient estimates and t-statistics.
*(2) *p < 0.10; **p < 0.05; and ***p < 0.01*

CHAPTER 6

CONCLUSIONS AND DISCUSSIONS

It has been widely recognized that corporate governance can play a key role in improving firm performance. When implementing various governance mechanisms, however, companies must address a fundamental question: should corporate governance focus on protecting the interests of only shareholders or should corporate governance expand its focus and consider the interests of other groups? While agency theory asserts that the exclusive focus of corporate governance should be to ensure the interests of shareholders, stakeholder theory argues that corporations should serve all groups or individuals who have a stake in the corporation. Like that of other industries, corporate governance of media companies has generally followed the agency model of maximizing shareholder wealth. But the weakness and failure of such model in recent years suggests that it may be meaningful to approach the issue from an alternative, stakeholder perspective.

Taking into account all stakeholders, the stakeholder model emphasizes the pursuit of long-term firm value, the active participation of various stakeholders, the endurance of organizations, and the trust relationship between firms and stakeholders. All of these principles are essentially congruent with the dual goals of media companies as fulfilling an economic responsibility towards shareholders and a social responsibility towards the public. Thus, this dissertation suggested that media companies enhance corporate governance from the stakeholder perspective and that corporate governance of media companies go beyond the pure shareholder-maximization goal and consider the interests of such stakeholders as employees, audience,

advertisers, and local communities. In order to test this position, this dissertation analyzed 75 publicly traded media companies filed with the U.S. SEC from 2004 to 2007 and investigated from a stakeholder perspective the effects of four sets of governance mechanisms (i.e., ownership structure, board structure, compensation structure, and takeover control) on corporate performance.

First of all, this dissertation examined the relationship between three ownership variables (i.e., institutional ownership, insider ownership, and ownership concentration) and firm performance. Regarding institutional ownership, this study found that the more shares owned by institutional investors, the worse firm performance (in terms of ROA, ROE, and SGR). This offered support for the stakeholder view that institutional investors tend to pursue the short-term interests of shareholders so that institutional ownership has a negative impact on firm value. Regarding insider ownership, this study revealed that the more shares owned by such insiders as executive officers and board members, the better firm performance (again, in terms of ROA, ROE, or SGR). This thus confirmed the stakeholder perspective that if management and board members have increasing shares in their firm, they are more likely to pursue long-term firm value. In fact, these results were generally consistent with An et al.'s (2006) research which found that institutional ownership of newspaper companies was negatively associated with profitability while insider ownership had a positive impact on profitability, which was measured by ROA and ROE. With regard to ownership concentration, stakeholder theory implies that ownership concentration has a negative impact on firm performance because large investors may use their control rights to maximize the returns at the expense of other stakeholders. The findings presented in this study documented a negative effect of ownership concentration on media firm's performance, but such impact was found insignificant. This may be explained by the mixed

nature of large share holders. In this study, ownership concentration was measured by the percentage of equity ownership held by large investors, i.e., those with 5% or more of company stock. And as shown above, if the majority of large shareholders are institutional investors, the firm may have a bad performance; if the majority of shares are held by executives and board members, however, the firm may have a good performance. Since I did not distinguish the types of large investors in this study, the lack of significant relationship between ownership concentration and firm value could thus be expected. Furthermore, as Barclay and Holderness (1991) suggest, the effects of ownership concentration on firm performance may also depend on the specific skills that large investors bring to the firm.

This dissertation also examined the relationship between board structure of media companies and their performance. Contrary to my hypothesis, I observed no relationship between board size and firm performance. A possible explanation for this lack of correlation was that the composition rather than the size of the board truly matters. Even if the firm had a large board, that did not mean that most of board members represented the interests of stakeholders. Indeed, this study did find the impact of board composition on firm performance. The results clearly indicated that the proportion of non-independent directors on the board was positively related to each dimension of firm performance, ROA, ROE, and SGR. This offered strong support for the stakeholder view that advocates board representativeness by various stakeholders. While nowadays companies are bringing more and more independent directors into the board for the purpose of better governance, the evidence presented in this study showed that they may be moving in the wrong direction. In addition, the results on board interlocks showed that ROA, ROE, and SGR were all positively related to the number of board interlocks in media companies. This offered support for the stakeholder management approach which emphasizes coordination,

cooperation, connections between the firm and its stakeholders and among stakeholders as well (Kochan & Rubinstein, 2000). Indeed, these findings also lent support to the resource dependence perspective which considers interlocking directorates as effective way to acquire outside resources for firm benefit (Boyd, 1990; Pfeffer & Salancik, 1978).

This dissertation also looked into the impact of CEO compensation, director compensation, and employee ownership plans on media firms' performance. My interest arose from the longstanding debate among corporate governance researchers and practitioners about the merits of closely tying executive and director compensation to firm performance, which has increasingly been adopted by media companies. The results revealed that the percentage of base salary for CEOs was positively associated with media firms' performance, so was the percentage of fixed remuneration for board members. In other words, fixed compensation for CEOs/directors had positive effects on return on assets, return on equity, and sustainable growth rates in media firms. This thus provided strong support for the stakeholder approach to corporate governance while rejecting the agency view that emphasizes the positive effects of incentive compensation. In terms of employee compensation, I found no relationship between employee stock ownership plans and firm performance. This result thus did not support the hypothesis that the adoption of employee ownership plans was positively related to firm value. The lack of correlation could partly be explained by statistical problem related to sample size. As shown in Table 3(b), only 6-8 of 75 sample companies adopted employee ownership plans during each year of the observation period. This might not be an ideal size for statistics analysis.

In addition, this dissertation tested whether such anti-takeover devices as dual class shares, staggered boards, and poison pills enhanced the value of media firms. This question has been much debated: while supporters of agency theory define negative, advocators of

stakeholder theory define positive. Putting this highly controversial question to an empirical test, I found that different takeover mechanisms had different effects on media firms' performance, some positive and some negative, some on return on assets and some on sustainable growth rate. In terms of dual class, the results showed that it was positively related to only on return on assets (at a significant level). As for poison pills, it had a positive impact only on sustainable growth rate (at a significant level). These results partially supported the stakeholder view that takeover control functions improving financial and organizational performance of media firms. Contrary to my hypothesis, the adoption of staggered boards was found to be negatively associated with firm value, though not statistically significant. This might be interpreted using the following observations by Bebchuk et al. (2002): firstly, firms with staggered boards were more likely to keep independent than firms without those; secondly, firms that keep independent often failed to deliver the same returns as offered by potential acquirers; and thirdly, firms with staggered boards might also fail to make up for such benefits as higher premium in the eventually completed transactions. According to Bebchuk et al. (2002), the combination of these things related to staggered boards may cause or at least reflect reduced firm performance.

In summary, through a series of empirical tests of the relationship between ownership structure, board structure, compensation structure, takeover control, and media firms' performance, this dissertation found that stakeholder-oriented governance mechanisms generally led to better performance of media firms, which would ultimately satisfy both shareholders and stakeholders. This research thus contributed: (1) to the media management literatures through offering a systematic examination on the corporate governance of media companies; (2) to the stakeholder perspective through opening up a new and empirical line of inquiry; and (3) to the corporate governance research through challenging its traditional shareholder-maximizing

paradigm. Moreover, the present study had important implications for media practitioners and regulators since it proposed and verified a number of governance mechanisms that could be put into practice. The mechanisms included reducing institutional ownership, increasing insider ownership, enlarging board representativeness, increasing board interlocks, fixing executive and director compensation, and reinforcing takeover control through dual class and poison pills. Some of these mechanisms significantly differed from what is currently practiced in media firms. For example, while more and more firms used incentive plans to compensate their executives, the results presented in this study indicated that returning to base salary systems could better enhance the value of the firm. Also, the SEC required member-listed firms to have a majority of independent directors on the board, but my findings suggested that bringing more stakeholders/non-independent directors into the board might be more helpful for enhancing firm value. Indeed, the SEC regulation on boards have produced some unintended consequences, such as breaking the balance of power between independent and non-independent directors, or providing inequitable control rights to large shareholders, as indicated by Linck, Netter, and Yang (2008) among others.

Although the current study advanced our understanding of corporate governance of media companies through adopting a stakeholder perspective, it has some limitations. Firstly, the results suggested that institutional investors generally degrade firm value by focusing on short-term interest of shareholders. Thanks to the lack of relevant data, this study did not distinguish the types of institutional investors. Therefore, it could not rule out the notion that some type of institutional investors such as pension funds and university foundations might be more likely to integrate the long-term interests of the company and correspondingly the interests of the company’s employees, customers, suppliers, and communities (Monks & Minow, 2004).

Secondly, although family ownership was commonplace in media industries (see Cranberg et al., 2001; Soloski, 2005), this study did not specify the role of firmly ownership in corporate governance. This author observed that some families owned the shares as institutional investors, and some as executive officers and board members, but the analyses of institutional and insider ownership could not disclose any information about the effects of family ownership as a distinctive group and its implication for stakeholder theory. This study failed to do so in large part due to the lack of data regarding family ownership. Thirdly, this dissertation focused solely on the formal structure of corporate governance and ignored the social and psychological factors that might influence the function of governance mechanisms. For instance, this study did not examine such issues as shareholder activism, board process, as well as demographics, experience, and education background of board members. Many of these factors play an important role in corporate governance. Fourthly, this study mainly focused on the effects of corporate governance on firm performance. In reality, however, there are many other factors that may affect a media firm's performance, such as business strategy, technological innovation, managerial leadership, law and regulation, and the prevailing macro-economic environment. Future studies may need to consider these factors if they attempt to examine the overall picture. Finally, in terms of statistics, the distributions of certain variables such as ROE and SGR were not truly normal, which might violate the normality assumption. Unfortunately, the substantial difference in corporate performance and thus the non-normal distributions of performance variables were not uncommon in the business context. In fact, the extreme values in the data that partly contributed to the non-normality problem might provide useful information on the magnitudes of forecasts, confidence intervals, and economic analysis.

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APPENDIX

Names, Revenues, and Industry Sectors of 75 Sample Media Companies

Company Name	Revenue	($ mil.)			Industry Sector
	2004	2005	2006	2007	
A.H. Belo Corp.	779	822	818	739	Publishing
Daily Journal	35	34	32	35	Publishing
Dow Jones & Co.	1,574	1,673	1,784	436	Publishing
E.W. Scripps Co.	2,168	2,154	2,498	2,517	Publishing
Gannett Co.	7,381	7,599	8,033	7,440	Publishing
Gemstar TV Guide	732	604	571	628	Publishing
Journal Communications	821	765	672	583	Publishing
Journal Register Co.	476	557	506	463	Publishing
Lee Enterprises	683	861	1,129	1,128	Publishing
Martha Stewart Living	187	210	288	328	Publishing
McGraw-Hill Co.	5,251	6,004	6,255	6,772	Publishing
Media General	900	918	983	932	Publishing
Meredith Corp.	1,162	1,221	1,598	1,616	Publishing
New York Times Co.	3,304	3,373	3,290	3,195	Publishing
News Corp.	20,802	23,859	25,327	28,655	Publishing
Private Media Group	52,367	40,837	42,934	36,750	Publishing
Primedia Inc.	1,307	991	849	315	Publishing
R.H. Donnelley Co.	681	957	1,896	2,680	Publishing
Thestreet Com	35	34	51	65	Publishing
Tribune Co.	5,276	5,596	5,518	5,063	Publishing
Washington Post Co.	3,300	3,554	3,905	4,180	Publishing
ACME Communications Inc.	47	41	35	32	Broadcasting
Beasley Broadcast Crop.	122	124	125	134	Broadcasting
CBS Corp.	22,526	14,536	14,320	14,073	Broadcasting
Citadel Broadcasting Corp.	412	420	433	720	Broadcasting
Clear Channel Comm.	9,419	6,610	7,067	6,817	Broadcasting
Cox Radio Inc.	438	438	441	445	Broadcasting
Cumulus Media	320	328	334	328	Broadcasting
Emmis Communications	319	344	377	360	Broadcasting
Entercom Communications	424	433	441	468	Broadcasting

Entravision Communication	259	281	292	250	Broadcasting
Fisher Communication	142	137	155	160	Broadcasting
Gray Television	347	262	332	307	Broadcasting
Hearst Argyle Television	780	707	785	756	Broadcasting
Lin TV Corp.	311	315	420	396	Broadcasting
Nexstar Broadcasting Group	281	226	265	267	Broadcasting
NTN Buzztime	36	41	33	31	Broadcasting
Radio One	320	371	367	330	Broadcasting
Regent Communication Inc.	64	86	85	98	Broadcasting
Saga Communications Inc.	135	141	143	144	Broadcasting
Salem Communication Corp.	197	212	228	174	Broadcasting
Sinclair Broadcast Group	708	692	715	718	Broadcasting
Sirius XM Radio Inc.	67	242	637	922	Broadcasting
Spanish Broadcasting System	156	170	177	180	Broadcasting
Westwood One Inc.	562	558	494	451	Broadcasting
AT&T Inc.	40,787	43,862	63,055	118,928	Cable
Cablevision Systems Corp.	4,933	5,176	5,928	6,485	Cable
Charter Communications Inc.	4,977	5,254	5,504	6,002	Cable
Comcast Corp.	20,307	22,255	24,966	30,895	Cable
Dish Network Corp.	7,151	8,426	9,819	11,090	Cable
Henry Bros Electronics Inc.	30	42	42	58	Cable
Liberty Media	7,051	7,960	8,613	9,423	Cable
Outdoor Channel Holdings	40	43	49	47	Cable
Playboy Enterprises Inc.	329	338	331	340	Cable
Time Warner Inc.	42,089	43,650	44,224	46,482	Cable
Verizon Communications	7,977	8,448	8,154	9,492	Cable
Viacom Inc.	8,132	9,610	11,467	13,423	Cable
CNET Networks Inc.	246	291	354	387	Online Media
Earthlink Inc.	1,382	1,290	1,301	1,216	Online Media
Google Inc.	3,189	6,139	10,605	16,594	Online Media
Harte Hanks Inc.	1,031	1,135	1,185	1,163	Online Media
IAC/InterActiveCorp	4,188	5,754	6,278	1,333	Online Media
Lodgenet Interactive Corp.	266	276	288	486	Online Media
Microsoft Corp.	36,835	39,788	44,282	51,122	Online Media
Monster Worldwide Inc.	846	987	1,117	1,351	Online Media
RCN Corp.	487	561	586	636	Online Media
United Online	449	525	523	514	Online Media
Yahoo Inc.	3,575	5,258	6,426	6,969	Online Media
DirecTV Group	11,360	13,165	14,756	17,246	Others
Dreamworks Animation SKG	1,078	462	395	767	Others
General Electric Co.	152,886	150,242	163,391	172,738	Others

Lamar Advertising Co.	884	1,022	1,120	1,210	Others
Source Interlink Co.	357	1,527	1,855	2,254	Others
Valassis Communications	1,044	1,131	1,044	2,242	Others
Walt Disney Co.	30,752	31,944	34,285	35,510	Others

Source: U.S. Securities Exchange Commission Website