

**D**ANISH **R**ESearch **U**NIT FOR **I**NDUSTRIAL **D**YNAMICS

DRUID Working Paper No 03-13

**Organization of the News Industry**  
**The Case of 'Making-or-Buying' Articles**

by  
Jan Vang

# Organization of the News Industry

## The Case of 'Making-or-Buying' Articles

**Jan Vang**

Department of Industrial Economics and Strategy  
Copenhagen Business School  
Howitzvej 60, 6.sal  
DK-2000 Frederiksberg  
[Jbvl.ivs@cbs.dk](mailto:Jbvl.ivs@cbs.dk)

### **Abstract**

In this paper the two canonical theories of the firm - transaction costs economics and the knowledge-based view of the firm – predictions on 'make-or-buy' are tested on the news industry. The news industry provides an interesting case on which to test the two theories since it is characterized by a high degree of urgency. Urgency refers to the need to catch and process inputs fast. A tendency that is becoming more widespread in other industries where the production cycle tends to be reduced. The test is done on original data on the newspaper industry collected by the author. The conclusions drawn are that that newspapers are organized differently than is predicted from the knowledge-based view of the firm and transaction cost economics. The newspapers do not specialize in core competencies measured in terms of topics covered. On the contrary, a precondition for outsourcing is well-developed competencies in house. The widespread use of integration cannot either be explained as a solution to hold up either, such as transaction cost economics predicts. The reason behind has to be sought in urgency.

### **Key words:**

**JEL Codes:** L82, D23

**ISBN 87-7873-145-3**

## 1. Introduction

This is an empirically oriented paper. The aim is to test and discuss transaction cost economics' (Williamson 1989, 1996, Coase 1937, Klein Crawford and Alchian 1978) and the knowledge-based view of the firm's (Prahalad and Hamel 1990, Quinn and Hilmer 1994, Loasby 1999) explanations of 'make-or-buy' on the news industry, more specifically when newspapers 'make-or-buy' an article. The theories are chosen because they are canonical in the sense that they are dominating the theoretical field (Poppo and Zenger 1998, Foss and Langlois 2002, Combs and Ketchen 1999). Testing them empirically is needed because there is a highly developed theoretical explanation of 'make-or-buy' (Manhke et al. 2003, Veugelers and Cassiman 1999), which has only seldom been tested on intellectual production characterized by a high degree of urgency. The newspaper industry was chosen mainly for three reasons:

i) It is an industry characterized by a high degree of urgency. Urgency is manifest in the newspaper industry in two ways. First, events that have to be covered are often evaporating fast. This means that the newspapers have to be fast on the spot to be able to write about it afterwards. This is urgency in acquisition. Second, articles covering events often have to be published fast after the event has happened. Delays in publication will reduce the value of the article. This is urgency in use. The question of urgency will be taken up in chapter two.

ii) It is public who produces each article – apart from editorials – and the newspapers included in the study have provided information of the contractual relationship between them and the journalists<sup>i</sup>. Hence, I have information on this contractual relationship for all the produced articles included in the sample in this study. Thus the newspaper industry provides an exceptionally good case for testing 'make-or-buy' questions on micro-level.

iii) The news industry is one of the industries that has had most years to experiment with the organization of production characterized by a high degree of urgency, both in acquisition and in use, hence it is not unlikely that organization of the industry carries the fruit of decades of knowledge accumulation on coping with urgency.<sup>ii</sup>

The testing/discussion is done on original quantitative and qualitative data collected by the author on the Danish newspaper industry in 2001. The quantitative data set includes

articles and notices from four Danish morning newspapers in week 14 2001. Measured in numbers of firms these firms cover more than 66,7 percentage of the market for omnibus newspapers in Denmark.<sup>iii</sup> Measured in circulation (2. half of 1999) – based on so-called accountancy corrected circulation numbers collected by Dansk Oplagskontrol (member of The International Federation of Audit Bureau of Circulation) – 70,2 percentage of the circulation is produced by the firms included in my population. The qualitative data are based on qualitative interviews with editors on the included newspapers, editors in other types of written press<sup>iv</sup> magazines and interviews (plus email communication) with branch organizations<sup>v</sup>.

The structure of the rest of the article is as follows. First, I present the two canonical theories of the firm's explanations on 'make-or-buy'. 'Make-or-buy' is contextualized to the news industry. This is followed by a presentation of what is meant by urgency. It is documented by examples from the newspaper industry. Afterwards the method behind the data collection is presented, and then I turn to the statistical findings on the use of the three alternative governance structures. Following this I discuss the correspondence between the empirical findings and the two canonical theories of the firm. Finally, I present an explanation as to why we find a different use of the alternative governance structures than those predicted by the canonical theories.

## **2. Urgency and how it appears in the News Industry**

In the introduction I suggested that urgency is important in the news industry, thus I will return to the questions: How is urgency different from temporal specificity and does it appear in the news industry? Urgency is related to temporal specificity (Masten et al. 1991, Nickerson and Silverberg 1999, Williamson 1989) as it is used in transaction cost economics. The unit of analysis is the transaction. Temporal specificity refers to the fast loss of values of assets in a specific relation (Masten et al. 1991, Nickerson and Silverberg 1999, Williamson 1989). The loss is generated by the hold up that is made possible because of temporal dependency of either the subcontractor on the customer or the customer on the subcontractor. Urgency refers to the fast loss of value the asset in all (potential) relationships or to the loss of opportunity costs of not being able to invest in an asset fast. Not because of hold up but because the firm – being either subcontractor or customer – failed to catch the value of an input before it evaporated (Choudhury and Sampler 1997) or

before it was used by a competitor. In the news industry temporal specificity refers to i) the potentials a freelance journalist have to make a hold up on the newspaper by threatening to delay his submission of an article; ii) the potential the editor have to make a hold up on a freelance journalist by threatening not to publish his article after it has been written unless the freelance journalist accepts a lower price than originally agreed upon. Urgency refers to that i) the article the freelance journalist has produced loses value to all newspapers if it is not published the day after it has been written; ii) that the journalist – being in house or freelance – has to cover a certain event fast to get the needed input to write an article. Urgency is manifest in two ways: in acquisition and in use (Choundbury and Sampler 1997). Urgency in acquisition refers to that an event that is happening needs to be captured and to be transformed into an article fast since the event is disappearing. This could be coverage of a bank robbery. The newspapers need to send a journalist and a photographer to the scene of the crime fast to be able to get good pictures and interviews with witnesses. Urgency in use refer to that the articles needs to be produced fast after the event has occurred since either because the event will be covered by other newspapers or because it simply has lost interest to the newspapers (because they assume it has lost interest to their readers).

Moreover, to qualify as an urgent event a high degree of unpredictability needs to be present. If the event can be predicted the journalist have to work fast. This does not refer to urgency but only to the high pace of the work. Hence, urgency refers to the fast response to the unpredictable. This means that if the newspapers know in advance that an event occurs two weeks later that requires immediate attention – at that time – then it is not urgency. When unpredictability is present the newspapers cannot know in advance when and where an event of a certain type is happening that needs urgent attention. I am not suggesting that all articles are equally urgent in character. Most topics of the articles produced are characterized by a certain degree of urgency either in acquisition or in use.<sup>vi</sup> Concerning urgency in acquisition. If the news section of a newspaper has 50 articles, it might be reasonable to say that 10-15 are articles on prescheduled events or follow up on earlier articles, 10-20 are articles on events that could be predicted by competent editors or journalists and the rest are radically new which is characterized by a high degree of urgency. However, this situation is in contrast to the culture and sport section in the newspapers where only around 10 percent of the articles are not reviews of book or films, which are prescheduled. Concerning urgency in use it is generally the case in the news industry that

the articles lose value fast either because the event covered is less ‘hot’ or because competitors have covered the event. However, this is usually less the case in culture and science topics than in most other topics.

### **3. Make or Buy options in the News Industry**

What does ‘make-or-buy’ mean in the newspaper industry? A continuum of contract types is used in the news industry; that is different versions of ‘make-or-buy’ exist. They range from employment contracts to spot market contracts. As made clear by Coase (1937) and Simon (1951) an employee is an agent hired on an input-contract – in the sense that it stipulates the temporal input - that accepts the principal’s right to use direction within a zone of acceptance.<sup>vii</sup> The contract remains rather unspecified concerning the task to be undertaken by the employee. Moreover, the agent accepts that the residual income belongs to the firm (Grossmann and Hart 1986). Typically, employee contracts in the newspaper industry are based on pure input contracts with a fixed salary<sup>viii</sup>; occasionally they include elements of the output contract – contracts where the payment is based on the output/the product - where firms use bonuses in addition to the fixed salary. The newspapers also use relational contracting (Williamson 1986); in the trade known as permlance contracts. These contracts focus on the terms of the relationship rather than specifying the product in great details, neither is the termination date spelled out. Permlance contracts, as they are called in the news industry, are typically based on an intention of a long lasting relationship, where the permlancer has access to the firm’s strategic knowledge (including access to the newspaper’s intranet when existing). The contract also specifies the topic the permlancer is going to cover. Usually, the contract guarantees a certain minimum monthly payment to the journalist as long as he produces a minimum number of articles (quality is unspecified). The rights to use direction are not specified but usually the contracts include a reference stating the journalist must not work for competitors while working for the firm. Procedures for acceptance of articles that exceed the agreed minimum are not specified in the contract. Typically, additional articles from permlancers are accepted automatically. The newspapers also use three different types of freelancers. The different freelancers share that they are not having guarantees of minimum monthly payment; and formally the newspaper does not have any formal direction rights over them. They are paid per article. It is common that the

contracts are only verbal. One type of freelance is one with a longer affiliation with the newspaper where he has ‘monopoly’ rights to publish within a given topic in the newspaper; for example reviews of Latin American literature. Books are sent to him and he decided whether to write the article or not. If he decides to write the article it will almost always be published. Contracts do not specify anything on knowledge and information sharing between the newspaper and the freelance journalist. Typically, the editor and journalist communicate and occasionally the journalist gets feedback from the editor concerning the article he has written.<sup>ix</sup> He might participate in a meeting – or similar – with other free- and permancers working for the newspaper once a year. A second type of freelancers is the one who make an agreement with the editor to write a particular article. He does not need to have any monopoly right, nor does he need to have any long lasting relationship with the newspaper. A third type is a freelance journalist that sends his articles to the editor without prior agreements. In the following these types are collapsed into employees, perm lancers and freelancers and are seen as empirical manifestations of their theoretical equivalents, being respectively hierarchy, network and market.

#### **4. ‘Make-or- Buy’ – the Canonical Theories - and what it means for making or buying an article**

The theories of the firm can be divided into two types: transaction cost economics and the knowledge-based view. The aim of this section is to present their respective theoretical explanations on ‘make-or-buy’. These are contextualized to the news industry and its characteristics: more specifically, to the ‘making-or- buying’ of articles (with by-line).<sup>x</sup>

##### **4.1. Transaction cost economics and the ‘Make-or-Buy’ question**

In Williamson’s (1985, 1989, 1991, 1996) version of transaction cost economics the core question is whether an investment made by an agents leads to hold up. The agent considers making an investment that he knows can only at high costs be used in another relationship. Due to uncertainty and bounded rationality a complete contract cannot be written. Specifying exact prices, conditions of delivery, and so forth, needs to be changed in the future. Both parties are aware that adjustments are necessary. If they write as many conditions into the contracts as they can possible think of it makes the contract less flexible.

Thus, the customer can break the contract with reference to that the subcontractor did not live up to what was specified in the contract. If it is specified in the contract that the customer can dissolve the contract if delivery of a good or service is delayed in for example two days (which has been written into the contract for reasons of incentives) the customer can use this clause to have the contract renegotiated. Alternatively, a contract can be under specified which gives similar possibilities for canceling the contract. In this case the contract will be cancelled because the subcontractor does not live up to the quality as it is defined by customer or delivers at the time the customer decides, for example. The result in both cases will be renegotiations. The renegotiations will, however, be done in a different situation than the initial contract was made since the subcontractor has made relation specific investments after signing the now dissolved contract. In the initial situation the subcontractor had the possibility to make different investments and find different customers. The lowest price he would accept would be determined on his alternative options. The highest price the customer would accept is one resulting in a normal return on his investment. In between these two positions an agreement on the price will be reached where both partners will get at least a sufficient payment/price that they will not use their alternative options. However, when the contract is being renegotiated, the subcontractor will be interested in having covered as much of his relationship specific investments, which will be close to sunk costs if no new contract is signed. Thus he is willing to accept an offer that is significantly lower than in the initial contract. The price just needs to be better than if he has to carry the total loss himself. Since the subcontractor can predict this scenario he will not make relation specific investments. He might offer to make an investment in a general-purpose machine or similar, which is less efficient than a machine tailored to the specific relationship. Judged from an economical perspective it is, Williamson argues, an inefficient solution compared to the investment with a high degree of asset specificity. The general investment will either not be able to produce the needed quality or only at higher costs than what can be achieved by a specific investment. Hence, the aim is to create incentives for the subcontractor to make the relation specific investment. This is done by reducing the hold up-possibilities. Hold up is, for example, being reduced, if the customer buys a certain part of the shares in the subcontractors firm or by guaranteeing a certain minimum purchase that makes the investment at least breakeven. Nevertheless, there are investments that cannot be solved through such arrangements; hence integration is needed. Integration eliminates the



incentives for hold up since the firm will not gain anything from making a hold up itself. Hold up can also occur if the customer needs to make investment involving a high degree of specificity which depends on a 'difficult to replace' subcontractors input. The solutions follow those specified above but the incentive questions is on reducing the subcontractors hold up possibilities; if this cannot be achieved integration is the preferred solution.

Alternatively, hold up can be made possible because of temporal specificity (Masten et al, 1991, Lafontaine and Masten 2002, Nickerson and Silverberg 1999, Williamson 1989, Pirrong 1993) Temporal specificity does not refer to asset specificity in the most narrow sense (Lafontaine and Masten 2002); hence not to the subcontractor's hesitations towards investing, but to situations where customer is dependent on that the subcontractor delivers at a certain time. The subcontractor can then threaten to delay the delivery unless receiving a higher payment. The subcontractor can then increase his payment to just below the loss the customer would gain from not receiving the goods or service at a certain time. A reverse situation where the subcontractor is temporally dependent on the customer is also possible. The principle is the same as described above.

To sum up integration occurs either because the subcontractor needs to make specific investments that allow the customer to make or hold on him (or vice versa) or because the subcontractor can make a hold up because of the customer's losses, if he does not receive the good at a certain time (or vice versa).

Contextualized to the 'make-or-buy' an article-question one can argue that i) integration occurs when the subcontractor (free- or perm lance journalist) needs to make investments either in certain skills that are specific to that newspaper or undertake research in a topic which is only covered by this particular newspaper, since this allow the customer to make a hold up on him; ii) integration occurs in newspapers because the subcontractor (free- or perm lance journalist) can threaten to delay the submission of his article unless he receives additional payment.

#### **4.2 Knowledge-based Theory of the Firm and 'Make-or- Buy'**

Explaining the 'make-or-buy' from a knowledge-based view of the firm is complicated since no dominant school exists. The knowledge-based view of the firm has been associated with the so-called resource-based view of the firm (Barney 1986, 1991, 1991, Rumelt, 1984;

Wernerfelt, 1984). This theory applies the firm's resources as the unit of analysis (Rumelt, 1984; Wernerfelt, 1984) and argues that firms possess numerous resources, but it is the resources, that are unique, inimitable, non-substitutable and rare, which are the basis for competitive advantage (Barney 1986, 1991, 1999). Knowledge in this theory is just another resource with which the firm is endowed. This association is not adequate. From a knowledge-based approach this Richardian-approach is only helpful in identifying what characterizes knowledge valuable to a firm's sustained competitive advantage. Hence, it is argued, what is needed is a theory that explains the make or buy-question based on a Smithian approach explaining the learning (dis)advantages of specialization (Loasby 1999, Smith 1776). In other words a learning-approach to 'make-or-buy'. In transaction costs economics the market is supposed to be the chosen mechanism for coordination unless hold up-problems occur. In the knowledge-based approach no such a priority exists. The starting unit is the division of labor between individuals. The individual who specializes in fewer tasks can focus his learning, thus improve the efficiency by developing new tools and techniques, as argued by Smith (1776). Firms can also improve their efficiency by focusing their learning; this means that firms shall specialize in production where they have comparative learning advantages. Firms can then take advantage of their own learning environments and engage in networks relationships with subcontractors that will be able to deliver a cheaper or better product due to the learning advantages associated with their specialization. In the newspaper industry one should expect the individual newspapers to specialize – in the sense of in-house production – in the topic where they have an advantage over other newspapers and agencies. I suggest that the topics where they hold specialization advantages are those in which they are specialized; hence the topics in which one should expect them to have in-house can be calculated through using a revealed specialization index (see below). Subsequently, the newspapers would be expected to buy articles covering topics outside their main specialization area from agencies or free- or permlance journalists.

xi

## **5. Data collection and Methods**

The data set includes articles from four Danish morning newspapers. Measured in numbers of firms these firms cover more than 66,7 percentage of the market for omnibus newspapers

in Denmark. Measured in circulation (second half of 1999) – based on so-called accountancy corrected circulation numbers collected by Dansk Oplagskontrol (a member of The International Federation of Audit Bureau of Circulation) – 70,2 percentage of the circulation is produced by the firms included in my population. The total number of circulation is 562560 copies and included in my sample is 394857 copies.

I collected data on the use of the three different governance structures within these firms, or more narrowly on the use of the governance structures involved in writing the articles.<sup>xii</sup> The data on the governance structures were collected by mapping the articles of the four newspapers in week 14 and 2001. The total population of articles included in the study was 1622 articles. These articles were used to generate a random but stratified sample on which I could get the data on the ‘employment-status’ on the included journalists. The sample included 266 articles.<sup>xiii</sup> They are distributed with 206 articles from large newspapers (large firms = readership larger than 500.000, non-large firms readership < 100.000, nothing in between) and 60 from non-large newspapers. I mapped the by-line, genre, topic and geographical location of the topic of the article. The by-line is used to get employment data on the journalist. Genre is used as a proxy for skill-intensity. Genre is dichotomized into analytical and news articles. Writing analytical articles requires topic-specialization (equals skill intensity). This is not the case for news articles.<sup>xiv</sup> Genres are use in generating hypothesis about external learning advantages. Topic is used for two purposes: i) differentiating between urgent and low-urgent topics and ii) identifying firms revealed specialization patterns, which are used to discuss the core-competence prediction. The geography variable is used to discuss whether geography influences the efficiency of the ‘make-or-buy’.

The included variables are only used to identify the distribution of the governance structures; they do not include explanatory variables as such. Explanations of the distribution of governance structures are based on qualitative interviews with editors.

First, I identify the distribution in the use of the three governance structures in the sample as such, dichotomized into large and non-large firms as well as for the individual firms. To avoid problems related to consistency the sample is always weighted. These data are used to give a general presentation of the ‘make-or-buy’ in the newspaper industry. Secondly, I identified the distribution in the use of the three governance structures in genres and thirdly in respect to ‘geography’. These data provides the background for the testing/discussion of

transaction cost economics since they allow me to identify differences between topics with a high or low degree of temporal specificity as well as how transportation time affects how newspapers deal with temporal specificity. Forth, I identify the genres. This links to knowledge-based view of the firm predictions about specialization advantages/focus on core competencies.

Forth, I identified if we can find specialization/governance structure patterns. This is done in the following way. First, a specialization index (SI) is being calculated:

$$SI = \frac{x_j^i / x_j^p}{x_t^i / x_t^p}$$

$x_j^i$  = firm i's production of articles in topic j

$x_t^i$  = firm i's total production of articles t

$x_j^p$  = sample p's production of articles in topic j

$x_t^p$  = sample p's total production of articles t

Then I calculate if the topics within which the newspaper is specialized are written more or less by in-house journalists than average is within this particular newspaper (SI<sub>2</sub>).

$$SI_2 = \frac{x_g^i / x_z^i}{x_q^i / x_y^i}$$

$x_g^i$  = firm i's production of articles in a topic within a given governance structure g

$x_z^i$  = firm i's total production of articles within a given topic z

$x_q^i$  = firm i's production of articles within a given governance structure k

$x_y^i$  = firm i's total production of articles y

If SI<sub>2</sub>=1 there is no difference between degree of in-house coverage of the topics in which the firm is specialized and in other topics. This indicates that firms do not focus on core competencies. If SI<sub>2</sub><0 then newspapers do not focus on core competencies. If SI<sub>2</sub>>0 it

means the firm produce more in house within the topics they are specialized which is a confirmation of the core-competence hypothesis.

Finally, I have calculated if these patterns identified at firm level are topic specific. This is done by comparing if the newspapers produce more or less in-house compared to average within the industry within a given topic (SI<sub>3</sub>).

$$SI_3 = \frac{x_g^i}{x_z^i} \bigg/ \frac{x_q^p}{x_y^p}$$

$x_g^i$  = firm i's production of articles in a topic within a given governance structure g

$x_z^i$  = firm i's total production of articles within a given topic z

$x_q^p$  = sample p's production of articles in a topic within a given governance structure q

$x_y^p$  = sample p's total production of articles y

If SI<sub>3</sub>=1 there is no difference between degree of in-house coverage of the topics in which the firm is specialized an in the average within this topic in the industry. This indicates that firms do not focus on what they are specialized in than average is within this topic within the industry. If SI<sub>3</sub><0 then newspapers focus less on their core competencies than average is within the particular topic within the industry. If SI<sub>3</sub>>0 it means the firm produce more in house within the topics they are specialized that the average is within this topic in the industry.

The quantitative data allow me to identify and unpack patterns in the make or buy practices in the newspaper industry. These findings are further unpacked through interviews with editor – eight editors were interviewed - on when they choose to ‘make-or-buy’ an article.

## 6. Empirical findings

The question I need to address now is: how widespread is the three different governance structures in the news industry? The first finding we can observe in the data set is that the hierarchy is the most widespread governance structure in newspaper industry. The majority of the newspaper articles – aggregated numbers on industry level - are made in-house (see figure 1).

**Figure 1: Governance structures in Newspapers, industry level,**

Roughly 3/4 (75,9 percent) of the production of articles with by line is made in house while slightly more than 1/10 (respectively 11,6 percent for networks and 12,5 percent are bought on the market). This gives a first indication of that newspaper production (i.e. urgent production) and hierarchy is positively correlated. Network and market transactions are only used seldom.

At the aggregate level the large newspapers weight heavily in the sample (and the population as such) so we need to see if hierarchy is as dominating if we dichotomizes the sample into large and small firms (see figure 2).

**Figure 2: Governance structures (dichotomized large/non-large) newspapers**

We find that employees make even larger shares of the articles in the large firms than average. 80,4 percent of the articles in the large newspapers are made by employees, while networks contribute with 9,5 percent. Markets accounts for 10,4 percent. Thus we find a major dominance of hierarchy among the large firms. However, when we zoom in on small newspaper a different picture starts to appear. In small newspapers, employees write lightly less than 6/10 articles (58,8 percent) while networks and markets contribute each with around 1/5 of the articles (respectively 19,6 percent of the articles are written by networks while freelancers write 21,6 percent of the articles). Large newspapers produce on average slightly more than 1/5 of their articles in house compared to the small newspapers, but for both small and large firms hierarchy is still the most dominant governance structures. Compared to the aggregate level the positive correlation between hierarchy and urgency it is less clear. But the pattern is different for market transactions and networks, where small firms, compared to large ones, have experienced a large growth in the use of networks while reducing the importance of market transactions at the same time that the larger ones have increased the importance of market transactions.

The data set allows us to analyze the details at the level too.

**Figure 3: Governance structures, firm level**

Among the large newspapers firm D produces 84,3 of the articles in house while firm C produces 73,2 percent in house. Some internal variation exists between the large newspapers but the overall pattern is the same; hierarchy is by far the most widespread governance structure, while market and networks play only a minor role. For non-large newspapers we find that one newspaper – firm B - actually makes fewer articles in house than it buys outside the firm boundary (from networks and on the markets).<sup>xv</sup> In this employees only account for 44,1 percent of the articles, while network accounts for 42,2 percent and freelancer's journalists - market transactions - for 14,7 percent. Hierarchy is still the most used governance structure for this firm compared to the two other governance structures. What, however, is striking is that this firm relies highly on networks. Networks produce 42,2 percent of the articles; this contrasts 9 percent for firm A, 6 percent for firm B, and 5 percent for firm C. This means that the use of networks is more than 4-6 times than the other newspapers. Due to the very nature of network forms there is a gray zone in both ends, thus their actual difference might be influenced by the subjective judgment of the informants of say whether a certain subcontractor qualifies to be a network (permlancer) or is a freelancer (marked transaction). Despite these modifications, networks seem to be much more used by this firm. The last firm, firm A, also relies more on externally produced articles than do the large firms, but the vast majority are still produced in-house (66,7 percent).

The next question I pose is: is there a difference between the different topics in the use of the three governance structures, and if this is the case does it have to do with different degrees of urgency in the topics<sup>xvi</sup>? At the aggregate level (2001) the newspapers concentrates their coverage on three areas (see figure 4): economic affairs (32,9 percent of the articles), culture (24,1 percent) and politics (21,5 percent), but sport is also important with 10,9 percent.

**Figure 4: Governance structures and topics**

Apart from culture articles, the vast majority of articles within all other topics are written by in house staff; the percentage varies from 75,9 percent to 90,9 percent (social affairs) while

only 65,5 percentage of culture articles are written in house. Typically around a tenth of the articles within the different topics are written by either freelancers (market transactions) or perm lancers (network). Important diversions are culture where 17,2 percentage of the articles is written by freelancers and 17,2 percentage by perm lancers, and that perm lancers are hardly ever used in sports (3,7 percentage).<sup>xvii</sup>

Sports and culture stand out in terms of urgency since the newspapers tend to cover events which are announced a long time ahead; being football matches, new book, new opera, etc. and only a small amount of the articles involve urgent aspects. In house coverage of culture displays a different pattern than the other topics (less in house production) but this is not the case for sports (81,5 percent), which is close to average. A discussion on why follows below.

When we dichotomize the population into large and small firms (see figure 5), we find – as should be expected because small newspapers in general writes less in house – that a smaller percentage of all the topics they cover are written in house compared to large newspapers.

**Figure 5: Governance structures and topics, population dichotomized in large and small**

For example, 65,6 percentage of the economics articles are written by in house staff in the small newspapers, while 85,1 percent are written by in house staff in the large ones; for politics the numbers are 71,4 percent versus 76,6 percentage (sports cannot be included since the small newspapers did not write on sports in this week). But what is striking is that the large newspapers maintain a high degree of in house production of culture articles (72,9 percent) while in the small ones only 30 percent are written in house. When we look at the use of market transactions and network we find that, outside economics and politics, market transactions are hardly ever used by the small newspapers, maximum is 10 percent for culture (economics and politics are on respectively 25,0 and 28,6 percentage). And outside culture, where the majority of the articles are written by perm lancers (60 percentage), and social affairs, where 33,3 percentage is written by permlancers, networks are seldom used. For the large newspapers market transactions are used slightly more but distributed more evenly between the different topics than is the case for the small newspapers. But networks are used much more (and again more equally distributed between the different topics) but oddly enough networks are used much less in culture (8,3 percentage), which is the area where the small newspapers use network most.<sup>xviii</sup>



If we look at the genres, can we find a pattern that can tell us something about urgency and governance structures? I have dichotomized the population into two categories: news articles (often urgent) and analytical (seldom urgent); this is naturally a rather rough proxy since we find many news articles with a low degree of urgency in evaporation (though almost always in use) while analytical articles often are urgent in use and/or evaporation, nevertheless the majority of the news articles tends to be urgent while the majority of the analytical articles tends to be less-urgent (often written the day after a major event). At the aggregate level (2001) – see figure 6 - we find that in house journalists are used slightly more (5,8 percent points) when newspapers write a news article than they write an analytical article.

**Figure 6. Governance structures crossed with genre in Newspapers, industry level**

72,9 percent of the analytical articles is made in house, while 78,6 percentage of the news articles is made in house (average is 76,6 percentage). Markets transactions are used more for analytical articles than for news articles (15,3 versus 10,4 percentage), while network transactions amounts to roughly the same (11,8 versus 11 percentage).

In the same vein we can see if there is a correlation between newspapers topic-specialization and use of governance structures. This links to the discussion about focus on core competencies (using specialization index as a proxy for whether firms focus on core competencies); and secondly it links to the discussion of whether in house core competencies are a precondition for outsourcing since it reduces the information and/or knowledge asymmetry between the subcontractor and the customer. This reduction is important under temporal specificity, where time to search for an independent contractor and verify his articles content is highly limited. What does the statistics say? First we compare firm-specialization (compared to industry level) and governance structures. What is striking (see figure 7) is that firm A, B, C each has one area with a high degree of specialization; firm D does not display any significant specialization.

For firm A its specialization is in economics (specialization index is 2,6) while firm B is specialized in culture (with a specialization index on 2,0), firm C is almost equally specialized in politics (1,6) and in culture (1,3). Thus it makes sense to claim that newspapers display a certain degree of topic specialization. But do they focus on core competencies and outsource in other areas? In the areas where they are specialized the use of in house staff is relatively less compared to the industry average. Firm A has a core hierarchy index of 0,9 (economics), firm B of 0,5 (culture) and firm C on respectively 0,9

(politics) and 1,0 (culture). This means that they are more inclined to outsource in the topics where they are more specialized than average within this topic in the industry. We cannot identify a clear pattern in the outsourcing of the specialized activities when it comes to replacing hierarchy by either market or network. Firm A tends to outsource to markets (spec. index 3 of 2,6 in economics) while network is used seldom (specialization index 3 of 0,6 in economics). Firm B hardly ever uses markets (comparatively, that is) for specialized activities while it often uses network.

However, this hints strongly that firms do not focus on core competencies and outsource other activities. Moreover, it suggests that in house competencies are needed for outsourcing in this context, knowing whom is not sufficient to replace know how. However, we still need to demonstrate that the individual firm's specialization is not a typical firm pattern but a pattern that is different from the average use of outsourcing in the firm. Firm A is so highly specialized in economics that for technical reasons one should not expect to find a difference between use of outsourcing in economics and the firm average. Hence, we find that 'make' (spec. index 2) for economics is 1,0 while the 'buy' index is 1,0 and 'network' index is 1,1. But when turning to firm B and C we find that 'make' is used less than average in culture in firm B, and culture and politics in firm C. Firm B tends to use network contacts within the topics where it is specialized while markets are used less than average is in the newspaper. For firm C we find that they use networks more than average in politics (spec. index 2 on 2,5) while they use markets much less (0,3), however in culture we find that market transactions is the one where there is a positive difference from average in the firm (spe. index 2 on 2,3) while network is less than average.

Finally, we will draw our attention to geography in the sense that urgency manifests itself differently depending on geography. The majority of the investments the firms have made in coverage are – measured in output articles – in domestic affairs. Around eight out of ten articles (80,9 percentage) are about domestic affairs leaving 2 out of ten articles (19,1 percentage) for international affairs, and Denmark is a tiny little country with a population of five millions in an area of 42.000 square meters. Hence apart from few places outside Denmark the newspapers do not have sufficient economy of scale for having a full time journalist stationed there. This means that if an urgent event occurs outside Denmark, the way it is reported suggests a connection between hierarchy and geography. If the

benefits of hierarchy in coping with urgency were independent of geography (transportation time versus search time), we should find the same pattern in the distribution in the use of the three different governance structures within domestic and foreign affairs. However, if this is not the case we showed that geography modifies the efficiency of hierarchy. In both domestic and foreign affairs we find that the majority of articles are made in house (see figure 8).

**Figure 8: Governance structures crossed with geography, industry level**

82,2 percentage of the domestic articles are made in house while 61,7 of the foreign affairs articles are made in house. In domestic affairs 10,5 percentage of the rest of the articles are made by freelance journalists (market transactions) while only 7,3 are made by permlancers (network). Furthermore, newspapers tends to rely more on network for foreign affairs where 21,7 of the articles are made by permlancers and 16,6 are made by freelancers. The chi-square test indicates that hierarchy is used significantly less – on 3 star levels – in foreign affairs than is the case in domestic affairs.

**7. Match with existing theories**

I will now turn to discuss the match between the empirics and the predictions/explanations on ‘make-or-buy’ from the knowledge-based theory of the firm and transaction cost economics. The first question I wish to discuss is whether we can say that firms focus on core competencies, thus behave in accordance with the knowledge-based view of the firm. As explained the knowledge-based view of the firm argues *that firms specialize in (integrate) their core competencies and outsource activities where they do not hold core competencies*. If one accepts that it can be tested on the empirical hypothesis *that newspapers use employees within the topics where the highest frequency of publications and use either free- or permlancers in the less important topics*, then the empirical study shows that firms tends to specialize their activities. But when one compares the use of alternative governance structures on core and non-core topics, then nothing seems to indicate that firms use integration more in core areas than in non-core topics. Hierarchy is the most widespread governance mechanism in all newspapers. But the use of hierarchy is more widespread in

larger firms than in smaller firms but this is a general phenomenon not related to specific core competencies. Interviews with the editors on the smaller newspapers revealed that they wished to use integration more but it is beyond their financial possibilities. Thus we might refer to it as that they do not have sufficient economy of scale to use hierarchy as much as they wish. What seems to play at least a certain role in determining whether a newspaper uses integration or non-integration is the urgency dimension of the topics. Topics where prescheduled (i.e. low-urgent) events are less prevalent than in the others do find some support in the fact that newspapers use integration more widespread in urgent areas than in low-urgent topics; this last aspect is amplified when one compares larger to smaller firms. This, however, is only supported by one topic (culture) but not sports (which is the other topic with a high degree of prescheduled events). Why this difference exists and what the implications are is difficult to identify. One can speculate about it and I suggest that sports has until recently been mainly descriptive (as opposed to analytical) where culture has been analytical, thus there has been better external learning environment-advantages associated with culture. Universities are filled with art professors who wish to write to the newspapers (and almost for free) and authors (who do not want to write for free) that are skilled analytics too. This external environment does not exist in sports. Sportsmen usually have not been skilled writers and universities are not providing a pool of knowledge within this topic, which has the same size.<sup>xix</sup> However, this explanation is partial since it cannot explain why firms do not use independent contractors more when the reduced payment is taken into account.<sup>xx</sup> One possible explanation that has been mentioned is that covering sports is a wrong career move, since it is considered very little prestigious, thus freelance journalists would not opt for working within this field (and the waste majority of freelance journalist do not have special competencies in covering sports either). Why do the newspapers not use only independent contractors in low-urgent topics? First, sometimes urgency is prevalent within low-urgent topics, thus a minimum staff might be needed if one buys the urgency argument. The data cannot say if the urgency dimension is sufficient to explain the size of the in house staff in low urgent topics. The differences between small and larger newspapers seem to indicate that this is not the case. However, larger newspapers do cover more urgent events within culture than smaller newspapers do so it provides a partial explanation. One possible additional explanation argues that newspapers need a minimum staff to sustain a minimum critical mass to be able to develop new ideas, link different topics to each other,

and in general develop an absorptive capacity for external knowledge: an absorptive capacity that allows the newspapers to make external knowledge relevant to the firm. Moreover, the existence of external learning environments – which delivers knowledge either at a low cost or for free – also reduces the advantages of focusing on core competencies, since newspapers will never be able to create learning environments that ‘resembles’ those at the universities. This is, first of all, a resource question since universities receive far more financial resources. However, the existence of this type of an external learning environment is not sufficient to explain why firm mainly rely on integration/hierarchy, since the firm could still consist of one editor only who uses independent contractors (freelancers) to take advantage of the ‘external’ environment. Later I will return to why I suggest that urgency is important in answering this question, despite one cannot claim a simple linear relationship between urgency and integration.

The existence of external learning environments links back to the question of journalists need for firm specific knowledge. Is it because of the need for firm specific knowledge that firms integrate, thus does the core competence refers to the need to be in possession of firm specific knowledge? The interviews with editors seem not to support this, since the differences between the competencies between the newspapers are minor. The journalists can write for all newspaper with limited training time and produce front-page articles after being hired only for a short while; even trainees can write front-page articles. Many aspects of the products are also codified – published articles - hence non-employees can analyze and learn the demands from the newspaper. Sub-firm specific micro competencies are needed in newspaper-production. Integration/hierarchy can also be explained with reference to micro competencies and firm buzz (Storper and Venables 2002). These micro competencies refer to that the journalist and editor need to know each other, both for the journalist to be able to respond fast to the editor’s wishes and for the editor and journalist to function socially together in an environment characterized by a high degree of stress. Access to firm buzz is also a precondition for knowing what is on the agenda, which needs not to be codified in newspapers. However, these two explanations of integration more points towards need for being present than for certain core competencies.

Even if we accept a need for certain firm specific competencies/knowledge, then this hardly explains the use of integration/hierarchy since the needed firm specific competencies can be acquired through being employed in a minor short period (a few years

for example). This is possible because the newspaper firms do not change their products frequently.

What are the implications for knowledge-based view of the firm? The study does challenge the notion that the use of alternative governance structures is determined by internal specialization advantages. Firms simply do not specialize according to the predictions. The study does support the knowledge-based view of the firm that development of an absorptive capacity is needed to take advantage of external learning environments, as well as indicates that a minimum critical in house knowledge mass is needed. Moreover, the study also indicates that a firm needs to have internal competencies in-house before they can outsource activities within this field. Hence, they cannot focus on core competencies only. Urgency enforces this since firms do not have the time to use external sources to verify the content of articles (where they do not know/trust the journalist), thus they need to have competent in house journalists capable of doing it.

## **7.2 Transaction Cost Economics and the Newspaper Industry**

The first question we need to ask is: can integration be explained as solutions to hold up? As explained transaction cost economics says *that knowledge and temporal specificity generates potential for hold up or subcontractors refrain from undertaking the activity, thus it leads to integration*. In the news industry this means that *newspapers use employees because they – in case they were perm - or freelancers – would posses competencies (know how) that would allow them to make hold up on the newspaper. Or newspapers use employees because freelancers can make a hold up and demand more in payment by threatening to delay the submission of the article*.

The study does not suggest that integration is to be understood as a solution to hold up from free- or permlance journalists. Few journalists possess know how that allow them to make a hold up in the long run. Most articles follow a industry specific standard; not a firm specific. The first section of the three largest newspapers are written according to same skeleton which is the classical news articles (structured after decreasing importance), same lix-number, etc, where the main difference is the angle of the story, use daily language, not abstract language; show it, do not tell it-techniques, and so forth. There are hardly any demands for interfaces between the articles, nor is it impossible to break with the

dominating style of the newspaper. The articles can be written well by most journalists. Hence, an editor can easily find a replacement. This however naturally includes search time and eventually verification time. In other words the degree of knowledge specificity is highly limited, thus hold up is not prevalent, but one could still argue that urgency prevented the editor from finding another freelance journalist, thus the journalist could make a hold up on the newspaper (temporal specificity). But the possibility of using this threat is reduced by the fact that the freelance journalists need to engage in continuous interactions with newspapers/editors to sustain a minimum standard of living, hence even if they have good opportunities to make a hold up – demanding double payments, for example – this is not a suitable strategy since they might succeed in this once (say if the newspaper really needs the article for tomorrow’s edition). A freelance journalist needs to sell more than ten articles a month to have just a decent standard of living. In short repeated interaction reduces the hold up potential despite temporal dependency. This is further reduced by the tendency of journalist not to possess non-replaceable skill. As a rescue-operation most freelance journalist can be partially replaced by the use of bureaus notes (or translations of articles from foreign newspapers).

A final point, which I will draw attention to, is that there is a distinction between transaction costs and production costs. This distinction is the foundation for transaction costs economics and it is a dualism that seems problematic for urgent production (and other kinds of production too (see Milgrom and Roberts 1992, Brusoni et al. 2001<sup>xxi</sup>) since search costs or search time cannot be reduced to transactions but are deeply influenced by the production costs, to keep it in transaction costs terminology. The firms do the majority of outsourcing in areas where they have specialized (in terms of by-line articles) since under urgency they do not have much time to identify (discover new independent contractors), search for (find those independent contractors they have used previous) and verify the content of articles submitted by the independent contractors since if they did spend a significant time to verify the content, for example, other competitors might get the information about the idea (as it is called: do not test your story until it dies, journalist) or somebody else might just be able to publish it before (or certain firms might be able to run damage control). If we add a distinction from the knowledge-based literature between know whom and know how, investment in the first two aspects of transactions (discovery and true search) these might - to a reasonable extent - be reduced to investments in transactions – that is to know who to

contact. This does not necessary depend on the production costs, since background checks of the independent contractors can be made based on rather transparent and simple criteria: where do they publish, which topics, where have they been quoted, etc., and this ‘market for independent contractors’-search and discovery can be done continuously (not only when something urgent occurs). But when something has to be verified fast (because of urgency) before it can be published, then the editors need to have certain competencies in house to be able to judge the quality and correctness of the articles submitted, hence transactions in this case become dependent on production costs. This, I believe, is even more widespread in markets where reliability/trustworthiness is important such as in ‘serious newspapers’ as included in this population than in so-called tabloids (much closer to entertainment).<sup>xxii</sup> One assumption above is that we talk about by-line articles; newspapers can without any problems in terms of search and verification outsource to bureau’s since they tend to be available to all newspapers; that is the case for Reuters, Ritzau, APP, etc., where different subscriptions arrangements occur but shared for all of them are that they don’t contribute – much – to the different newspapers competitiveness since they are available to all other newspapers too.<sup>xxiii</sup> What are the implications for TCE? Depending on how one read TCE this story has different implications. I suggest seeing it as challenging TCE in two ways. First, firm specific knowledge is limited and not the source of hold up. Temporal specificity does include some degree of temporal specificity, however, due to the need for repeated interaction between the journalist and the editor/newspaper hold up are very unlikely to be the reason behind integration. Moreover, the dependency of in house competencies does challenge the idea that production costs and transaction costs can be separated. The costs of using the market depends on the in house competencies that are build up through direct participation in the production.

#### **6.4 Urgency and integration**

We will now turn to explore how far urgency can explain the widespread of integration. Newspapers have to collect many articles everyday that are not planned ahead despite that some are planned or continuations of previous published articles. Lets say it takes an editor on average five minutes of communication time pr. article with employees, assuming the editor has to collect 50 articles a day (these numbers are based on interviews with editors). If



we do not include advantages of firm specific knowledge to employees versus independent contractors, we will find that if just every second independent contractor is occupied to other side – he has more customers because he does not want to be exposed to hold up - this will result in extended search and communications time. In pure communication time this means he has to spend - if we only have one editor taking care of this task - 6,25 hours communicating to journalists instead of communicating only 4,2 hours. That means it will take roughly two hours more for the same editor to collect the same number of articles, and that is under conditions that favors the independent contractor more than is the case in the real world, where needed communication time with employees is smaller than for independent contractors, as we will turn to soon. But the savings because of reduced payment pr. article could finance several editors that could do the searching. Based on standard payment a newspaper could hire more than 15 additional editors, thus should have more than sufficient economic reasons to use this model. Since they are capable of making this simple calculation themselves, we need to find the answer to why they do not somewhere else.

But couldn't this be made by networks instead, so that the newspaper could take advantages of the higher-powered incentives and low costs outside the firm and still remain flexible for several reasons? If the networks had two customers, couldn't the event that should be covered be predicted, so it could be planned ahead a conflict with the network so to avoid extended search time. It is difficult to say exactly how much can be planned ahead, what the costs of planning ahead eventually would be in terms of value loss because of not catching events that evaporated fast or were published by competitors before oneself. This way of reasoning comes close to Coase's (1972, Winter 1991) argument for integration: it allows for the use of direction. The editor (boss) can tell the journalist to go and cover event X. Coase, however, never pointed to the importance of time/urgency in his text but only to that price-signals were not sufficient. There are also limitations to the use of direction. Above it is assumed that there is a correspondence between the interests of the employees and the employer or that employee outside options are so limited that they accept doing things against their interests. But is it a problem with employees with good outside options in the sense that it prevents events from being covered? It is hard to give a simple answer to this question since it depends naturally on the individual employee's competencies but also on conjuncture within the industry, where low conjuncture lead to fewer outside

options for employees in general but maybe less so for those possessing certain specialized skills; it depends as hinted at on specialization and it depends on the firm, some firms are better capable of attracting employees with attractive outside options; they can offer higher salaries, better working conditions, and more time for investigative journalism. In the large firms the high degree of specialization among the journalists tends to minimize these conflicts but less so on the smaller newspapers. However, the information asymmetry between editor and journalist also tends to make this problem less outspoken in the sense that the journalist is often the specialist in his field and knows more about what happens in the field than his editor. Thus if there are events he does not want to cover he can choose not to inform the editor about their existence, or twist the information so that another event seems more important. Using this kind of information asymmetry strategically for the journalist depends on his knowledge, on what competing journalists will publish, on the topic, since he can run into problems if the other newspaper runs articles that the journalist didn't want to do for his own reasons.

The question of hierarchy also crucially depends on the way journalism is made nowadays, not on journalism as such. First, as explained above the newspapers tends to compete on being fast as opposed to analytical, apparently the value of being fast is considered higher than 'adding' value to an event in term of writing in dept on the topic, thus using specialized journalists does not add significant value to the product. It is claimed that for the mainstream reader adding analytical content to articles might even work counterproductive, since these readers will then consider the articles 'too heavy' or 'too long'. Finally, one should add that urgency cannot explain it alone. It cannot explain why sports articles are not written solely by freelance or permlance journalists. Moreover, urgency can only limitedly explain why larger newspapers do use integration more widespread than small one.

## **7. Conclusion and further research**

In this paper I conclude that newspapers are organized differently than is predicted from the knowledge-based view of the firm and transaction cost economics. The newspapers do no specialize in core competencies measured in terms of topics covered. On the contrary, a precondition for outsourcing is good competencies in house. The widespread use of

integration cannot either be explained as a solution to hold up either. Hold up is not widespread in the industry because of absence of need for firm specific knowledge and that temporal dependency is being annulled by repeated interaction. Partly, urgency provides an explanation as to why integration is so widespread. Under urgency firms need to be able to respond fast. Integration provides as solution to this since it eliminates the search time that is needed to use market transactions because of the possibility to use direction. The efficiency of direction is modified by physical distance and employees outside options.

The conclusions are based on the newspaper industry only, thus need to be tested in mass media-industries before they can be generalized. Moreover, there is a need for additional research on the functioning of market for information goods characterized by a high degree of urgency. Inspired by Knight one can suggest that markets for news articles (as inputs to newspapers) hardly exists because the need to be sold the same day as produced and this involves to high a degree of risk for the freelance journalist. While the payment for articles are higher for investigative journalism investigative journalism involves a high degree of uncertainty about the outcome of the product. Hence, the risk might be to large for a freelancer to carry. The newspaper can better run risks.

Finally, production planning (Richardson 2002) provides some insights that are to be developed. From this perspective the ‘make-or buy’ question can be said to center around the size of the output and its implications. Integration from this perspective equals a fixed cost which capacity should be utilized to a full extent. If not utilized the investment might not pay off. This points to that stability in the demand for a certain good should influence the ‘make-or-buy’ decision. Derived from this, one can argue that firm should not rely on internal production for satisfying peak demands since the firm will stand with an unrealized fixed cost afterwards. The existence of a certain fixed cost – in house capacity – would then lead to the use of internal staff even when better alternative market options exists. This, I suggest, can be linked to newspaper production and addressing questions like: how does the firm existence of an internal capacity for coping with situations with a high degree of urgency affect the use of in house staff when there are less urgency. And how does the existence of in house journalists affect the production of ideas for articles, subsequently their execution. These questions follow naturally after posing the make or buy-questions as done in this paper.

## References

- Barney, J. (1986). Strategic Factor Markets: Expectations, Luck and Business Strategy, *Management Science*, Vol. 32, Issue 10, pp. 1231-41.
- Barney, J. (1991). Firm resources and sustained competitive advantage, *Journal of Management*, 17, 1, pp. 99-120.
- Barney, J (1999). "How a Firm's Capabilities Affect Boundary Decisions," *Sloan Management Review*, 40, 3, Spring 1999, pp. 137-145.
- Brusoni , S, Prencipe, A, Pavitt, K (2001). Knowledge specialization, organizational coupling and the boundaries of the firm: why do firms know more than they make?. *Administrative Science Quarterly*, vol. 46:597-621.
- Choudhury, V and J, Sampler (1997). Information Specificity and Environmental Scanning: An Economic Perspective. *MISQ* 21 (1), pp. 25-53.
- Coase, R. (1937). The Nature of the Firm, *Economica*, 4, pp. 386-405.
- Jensen, M. C., and W. H. Meckling, (1992) "Specific and General Knowledge, and Organizational Structure," in Les Werin and Hans Wijkander (eds.) *Contract Economics*, Cambridge, MA: Blackwell, 251-281.
- Kakabadse, A. and Kakabadse, N. (2002). Trends in outsourcing: Contrasting US and Europe, *European Management Journal*, 20, 2, pp. 189-198.
- Klein, B., Crawford, R. G. and Alchian, A. (1978). Vertical integration, appropriable rents, and the competitive contracting process, *Journal of Law and Economics*, 21, pp. 297-326.
- Combs, J. and Ketchen, D. (1999). Explaining interfirm cooperation and performance: Toward a reconciliation of predictions from the resource-based view and organizational economics, *Strategic Management Journal*, 20, pp. 867-888.
- Grossman, S and O. Hart (1986). The cost and benefits of ownership: A theory of vertical and lateral integration. *Journal of Political Economy*, 94, pp. 691- 719.
- Loasby, Brian J. Knowledge, institutions and evolution in economics. The Graz Schumpeter Lectures, nr.2 Routledge, London, 1999 , 168 s.

- Lafontaine, F and Masten S.E (2002). Contracting in the absence of specific investments and moral hazard: understanding Carrier-driver relations in the US trucking. Unpublished.
- Lundvall, B.-Å., (ed.) (1992), National Systems of Innovation: Towards a Theory of Innovation and Interactive Learning, London: Pinter Publishers, 1992.
- Mahnke, V, Overby, M and Jan Vang (2003). Strategic IT outsourcing. CBS/INF Workingpaper 05
- Masten s.e, J. Meehan and E. Snyder (1991). "The Costs of Organization" (with). *Journal of Law, Economics, and Organization* 7, Spring 1991.
- Nickerson, J.A. and B. Silverman (1999). Why aren't all truck drivers owner-operators? Unpublished.
- Pirrong, S. C. (1993). Contracting practices in Bulk ship building markets: A transaction cost explanation, *Journal of Law and Economics* 36, pp. 937-976.
- Prahalad, C. K., & Hamel, G. 1990. The core competence of the corporation. *Harvard Business Review*, 68: 79-91.
- Quinn, J. B. and Hilmer, F. (1994). Strategic outsourcing, *Sloan Management Review*, 35, 4, pp. 43-66.
- Quinn, J. B. 1992. *Intelligent enterprise: A knowledge and service based paradigm for industry*. New York: Free Press.
- Richardson, G. B 2002: The organization of Industry re-visited. Druid Paper.
- Rindfleisch, A., & Heide, J. B. 1997. Transaction cost analysis: Past, present, and future applications. *Journal of Marketing*, 61, October: 30-54.
- Rumelt, R. P. (1984). Toward a strategic theory of the firm, in Lamb, R. eds. *Competitive Strategic Management*, Prentice Hall, Englewoods Cliffs, pp. 556-570.
- Simon, H. A. (1951). "A Formal Theory of the Employment Relationship", 1951, *Econometrica*.
- Smith, A (1776). *The Wealth of Nations*. Downloaded.
- Storper, M. and A. J. Venables, 2002, "Buzz: the Economic Force of the City." Druid conference paper.

- Veugelers, R. and Cassiman, B. (1999). Make and buy in innovation strategies: Evidence from Belgian manufacturing firms, *Research Policy*, 28, pp. 63-80.
- Wernerfelt, B. (1984). A resource-based view of the firm, *Strategic Management Journal*, 5, 2, pp. 171-180.
- Williamson, O. E. (1985) The economic institutions of capitalism: firms, markets, relational contracting. The Free Press.
- Williamson, O. E (1989). Transaction cost economics. In Schmalansee, R and R, Willin (eds), Handbook of Industrial organization. Amsterdam, North-Holland.
- Williamson, O. E. (1991). Strategizing, Economizing, and Economic Organization, *Strategic Management Journal*, 12, pp.75-94.
- Williamson, O. E. (1996). The mechanisms of governance. Oxford University Press.
- Winter, S. 1991. On Coase, competence and the corporation. In: O. E. Williamson and S. Winter, eds., Oxford University Press, New York: 179-195.
- Zenger, T. R; & Hesterly, W. S. 1997. The disaggregation of corporations: Selective intervention, high-powered incentives, and molecular units. *Organization Science*, 8,3: 209-222
- Zenger, T. & L. Poppo. 1998. Testing alternative theories of the firm: Transaction cost, knowledge-based, and measurement explanations for make-or-buy decisions in information services. *Strategic Management Journal*, 19, 9: 853-877.

### **Other sources**

Newspaper Association of America 2002

World Media Handbook

Dansk Oplagskontrol

## FIGURES:

**Figure 1: Governance structures in Newspapers, industry level**

	Frequency	Percent	Valid Percent (a)*
	2001		
Hierarchy	197	73,9	<b>75,9</b>
Market	33	12,2	<b>12,5</b>
Network	30	11,3	<b>11,6</b>
Total	260	97,4	100,0
Missing	7	2,6	
Tot incl. Missing	267	100,0	

\* Including all newspapers

**Figure 2: Governance structures (dichotomized large/non-large) newspapers**

Firm size	Governance structure	Percent	Valid Percent (a)	Valid Percent (b)
Non-large	Hierarchy	53,3	<b>58,8</b>	58,8
	Market	19,6	<b>21,6</b>	21,6
	Network	17,8	<b>19,6</b>	19,6
	Total	90,7	<b>100,0</b>	100,0
	Missing	9,3		
		100,0		
Large	Hierarchy	79,9	<b>80,4</b>	84,3
	Market	10,1	<b>10,1</b>	6,9
	Network	9,4	<b>9,5</b>	8,8
	Total	99,4	<b>100,0</b>	100,0
	Missing	0,6		
		100,0		

**Figure 3: Governance structures, firm level**

	Governance structure	Frequency	Percent	Valid Percent
Firm				
Firm A (non-large)	Hierarchy	24	58,3	<b>66,7</b>
	Market	9	22,2	<b>25,4</b>
	Network	3	6,9	<b>7,9</b>
	Total	35	87,5	<b>100,0</b>
	Missing	5	12,5	
		40	100,0	
Firm B (non-large)	Hierarchy	8	42,9	<b>44,1</b>
	Market	3	14,3	<b>14,7</b>
	Network	8	40,0	<b>41,2</b>
	Total	19	97,1	<b>100,0</b>
	Missing	1	2,9	
		20	100,1	
Firm C (large)	Hierarchy	53	71,9	<b>73,2</b>
	Market	12	15,8	<b>16,1</b>

	Network	8	10,5	<b>10,7</b>
	Total	73	98,2	<b>100,0</b>
	Missing	1	1,8	
		74	100,0	
Firm D (large)	Hierarchy	112	84,3	<b>84,3</b>
	Market	9	6,9	<b>6,9</b>
	Network	12	8,8	<b>8,8</b>
	Total	133	100,0	<b>100,0</b>
	Missing			

**Figure 4: Governance structures and topics**

	Economics	Politics	Sport	Crime	Social	Science	Culture
Hierarchy	78,2%	75,9%	81,5 %	88,9	90,9	85,7	65,5
Market	10,3%	11,8%	14,8 %	0	0	14,3	17,2
Hybrid	11,5%	12,2%	3,7 %	11,1	9,1	0	17,2

**Figure 5: Governance structures and topics, population dichotomized in large and small**

	Economics	Politics	Sport	Crime	Social	Science	Culture
<b>Small</b>							
Hierarchy	65,6%	71,4	0	0	66,7	100	30
Market	25,0%	28,6	0	0	0	0	10
Network	9,4%	0	0	0	33,3	0	60
<b>Large</b>							
Hierarchy	85,1%	76,6	81,5	88,9	100	83,3	72,9
Market	0	8,5	14,8	0	0	16,7	18,8
Network	14,9%	14,9	3,7	11,1	0	0	8,3

**Figure 6: Governance structures crossed with genre in newspapers, industry level**

	Analysis	News	Total	Chi-square
Hierarchy	62	129	191	Ns
				(0.497, Df 2)
	<b>72,9%</b>	<b>78,6%</b>	<b>76,7%</b>	
Market	13	17	30	
	<b>15,3%</b>	<b>10,4%</b>	<b>12,0%</b>	
Network	10	18	28	
	<b>11,8%</b>	<b>11,0%</b>	<b>11,2%</b>	
	85	164	249	
	100,0%	100,0%	100,0%	



Figure 7

	Spc. Index 1	Spc. Index 2 (‘Make’)	Spc. Index 2 (‘Buy’)	Spc. Index 2 (‘Network’)	Spc. Index 3 (‘Make’)	Spc. Index 3 (‘Buy’)	Spc. Index 3 (‘Network’)
Firm A							
Eco	2,6	1,0	1,0	1,1	0,9	2,6	0,6
culture	0,2	0,0	0,0	0,0	0,0	0,0	0,0
social	1,3	0,0	0,0	0,0	0,0	0,0	0,0
science	0,5	1,5	0,0	0,0	1,2	0,0	0,0
crime	0,0	0,0	0,0	0,0	0,0	0,0	0,0
politics	0,3	1,0	1,3	0,0	0,9	3,0	0,0
sport	0,4	0,0	0,0	0,0	0,0	0,0	0,0
Firm B							
Eco	0,4	0,7	2,2	0,8	0,4	3,2	2,9
Culture	2,0	0,7	0,7	1,5	0,5	0,6	3,5
Social	3,4	1,6	0,0	0,8	0,7	0,0	3,7
science	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Crime	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Politics	0,0	1,3	2,7	0,0	0,8	3,6	0,0
Sport	2,1	0,0	0,0	0,0	0,0	0,0	0,0
Firm C							
Eco	0,4	1,2	0,0	0,9	1,1	0,0	1,0
Culture	1,3	0,9	2,3	0,0	1,0	1,9	0,0
Social	0,5	1,3	0,0	0,0	1,1	0,0	0,0
science	1,4	0,7	3,7	0,0	0,6	3,5	0,0
Crime	1,1	1,3	0,0	0,0	1,1	0,0	0,0
Politics	1,6	0,9	0,3	2,5	0,9	0,4	2,2
Sport	1,0	1,3	0,0	0,0	1,2	0,0	0,0
Firm D							
Eco	0,9	1,0	0,0	1,4	1,1	0,0	1,1
Culture	0,9	0,9	1,4	1,5	1,1	0,6	0,8
Social	1,2	1,2	0,0	0,0	1,1	0,0	0,0
science	1,1	1,2	0,0	0,0	1,2	0,0	0,0
Crime	1,4	1,0	0,0	1,9	0,9	0,0	1,5
Politics	0,9	1,1	1,7	0,8	1,2	1,1	0,6
Sport	1,4	0,9	2,9	0,6	0,9	1,4	1,4

**Figure 8: Governance structures crossed with geography, industry level**

	Home	Foreign	Total	Chi-square
Hierarchy	157	37	194	***
				(0,002,Df 2)
	<b>82,2%</b>	<b>61,7%</b>	<b>77,3%</b>	
Market	20	10	30	
	<b>10,5%</b>	<b>16,6%</b>	<b>12,0%</b>	
Network	14	13	27	
	<b>7,3%</b>	<b>21,7%</b>	<b>10,7%</b>	
	100,0%	100,0%	100,0%	

<sup>i</sup> Information on the individual journalists were presented to me in an anonymous way. This was a necessity since contractual relationships are confidential. The procedure for collecting the information is described in the methodological chapter.

<sup>ii</sup> On the other hand, the news industry is unique in several ways. At least in Europe it is only recently that the news industry has become strongly profit motivated (apart from the tabloids). The newspapers have often had an ideological foundation – and eventually a formal connection to a political party, trade union, or similar – which has placed limitations on their possibilities for experimentation. For example newspapers closely associated with the trade unions have not had ‘good’ possibilities for experimenting with the use of freelancers.

<sup>iii</sup> Tabloids are excluded.

<sup>iv</sup> More specifically, I have interviewed editors at magazines that were published weekly and monthly. This was done to contrast the statements made by editors at the newspaper since the magazines have a shorter degree of temporal specificity in use (and often also in acquisition). Originally, I intended to make a comparative study between newspapers and magazines – because of their different degree of temporal specificity - but no suitable cases existed.

<sup>v</sup> These include both trade unions, associations of publishers, etc.

<sup>vi</sup> This statement refers to newspapers included in the study.

<sup>vii</sup> For a critique of this definition, see James Jr (1998, 2000)

<sup>viii</sup> This included fixed formal rule/payment for overtime and similar.

<sup>ix</sup> Most often the freelance journalist will not get formal feedback but the placement of the article in the newspaper, and so forth, signals the value the editors has attributed to it.

<sup>x</sup> Bureau notes are not included. They do not contribute to the different newspapers sustained competitive advantage.

<sup>xi</sup> This choice can naturally be criticized along lines as the topic in which the public most is not necessary the most important to the newspapers survival, etc.

<sup>xii</sup> I didn’t include bureau notices in the measurement, which can be criticized, but I didn’t for three reasons. There are many and they are small thus it would be highly time consuming and they wouldn’t be comparable to by-line articles. However, firms don’t compete on them since they are available to all newspapers. But they do affect governance structures.. I didn’t include necrologies and similar either.

<sup>xiii</sup> To avoid that the stratifying of the sample affects the final results I have weighted this ‘out’ in the data. Weight was measured as:  $(PF/SF)*(ST/PT)$  where PF is part of population, PT is population in total, SF is part of sample and ST is sample in total (see empirical chapter for example on calculation).

---

<sup>xiv</sup> As will be shown later demands for firm specific knowledge is highly limited, hence from a knowledge-based theory analytical article is expected to be written by perm- or freelance journalists affiliated with external learning environments specialised within a certain topics.

<sup>xv</sup> Networks are calculated as being outside the firm.

<sup>xvi</sup> The reason behind introducing urgency here is that I will return to this concept later on.

<sup>xvii</sup> Crime and social affairs are suffering from rather few observations, thus I do not place too much emphasis on the low numbers of market transactions.

<sup>xviii</sup> Due to the low number of observations in some topics we cannot run non-parametric tests here.

<sup>xix</sup> The question of why culture and sports, at least until recently, have had a different need for analytical articles is beyond the scope of this paper but it might not be wrong to assume that it is being read by different segments.

<sup>xx</sup> Typically, a freelance receives less than 2/3 of the payment an in house journalist gets for an identical article. Differences occur within them and some newspapers pay perm- and freelance relatively higher than their employees. The calculation is based on averages payment reported for perm- and freelance journalists versus average monthly payment for employees in the same newspaper divided by the number of articles published by the employees (employees without additional job description apart from writing articles). Since rent for office, sick leave, education etc is not included the real difference is larger.

<sup>xxi</sup> I will limit my comments to the problems stemming from urgency.

<sup>xxii</sup> Is not this a return to asset specificity? I don't claim above, as will be clear below, that asset specificity is not important but that hold up-problems are not important. Moreover, I suggest below that there are higher degrees of asset specificity in micro social competencies than in intellectual competencies but that these don't generate hold up's.

<sup>xxiii</sup> I have not included bureau notes; mainly the newspapers use them for small notes, not full articles.

However, if one – for example – measures percentages of square meter of newspaper-pages that was written in house versus outsourced – including bureau's – the one would get a pattern suggesting that outsourcing is more important than I suggest. However, for reason of competitiveness, I suggest to focus on by-line articles.