

News and corporate governance

What Dow Jones and Reuters teach us about stewardship

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Abstract: The outcomes of near simultaneous bids for the news organizations Reuters Group plc and Dow Jones & Co. Inc. in 2007 hinged on mechanisms of corporate governance put in place at each company to protect the integrity and independence of the editorial operations. Neither company is a particularly model of good governance, since the restrictions – super-voting shares at DJ, veto-power by the trustees of the Founders Share Company at Reuters – almost completely rule out an open market for corporate control. This paper looks at Reuters – and in even greater detail at Dow Jones, where the private actions of the board and shareholders came into rare public view. It suggests that stewardship theory plays a large role in protecting a perceived social value of the integrity of the news, figuring more heavily in crucial board decision-making than shareholder value. But the outcome of both cases means that the tension between the two is not easily resolved.

Keywords: Corporate governance, stewardship theory, stakeholder theory, mergers, takeovers, Reuters, Dow Jones, newspapers, news industry, financial information, journalism, case study

The resignation

Dieter von Holtzbrinck had done what he could. The deal wasn't concluded – the deal he had opposed – not by some distance, only the shareholders themselves could decide that. But the board of directors of Dow Jones & Co. Inc., publishers of *The Wall Street Journal* and purveyors of the most famous stock market index in the world, had decided to recommend a bid from the Rupert Murdoch's News Corp. to buy the company for \$5 billion. It was – every expert on Wall Street had said so – an excellent price. But to Holtzbrinck, scion of a famous German family and publishing company that publishes

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Handelsblatt, Germany's venerable business newspaper, who had been invited to join the Dow Jones board when the two companies bought shares in each other in 2005.

"Although I'm convinced that News Corp. offer is very generous in financial terms, I'm very worried that Dow Jones unique journalistic values will long-term strongly suffer after the proposed sale," he wrote to his fellow directors the next day, July 19, 2007. "Listening to our lawyers, one has to vote for a deal which is in the best (financial) interest for the shareholders, except if one can prove that such deal bears risks for the company that overcompensate the financial profits. I cannot prove that my worries are right. I can only refer to News Corp. business practices in the past, can only refer to Jim Ottaway's article in the Journal, etc. I do not believe that the 'Special Committee' can finally prevent Murdoch from doing what he wants to do, from acting his way." (von Holtzbrinck 2007).

Ottaway, another DJ director, had written: "I defend Rupert Murdoch's rights of free speech and press freedom. But I also defend the Dow Jones and American journalistic tradition of a strict separation wall between political opinions expressed vigorously on editorial pages, and news reported with as much factual objectivity as humanly possible" (Ottaway 2007b). As well as intervening with his editors, some years ago, Murdoch's News Corp. had been widely reported as caving into pressure from Beijing government to drop news channels, including the British Broadcasting Corp., from transmissions into China. Murdoch has repeatedly denied that political pressure led to the decision.

Holtzbrinck resigned from his position on the board.

The story so far...

News is a strange business. For decades it hasn't worked in any rational sense like a business at all. Newspapers tended to be owned by people who were already rich. A bit like sports teams, they weren't there to make money. Their *corporate purpose*, if one dares put a label like that on it, was to let the proprietor have fun. Some rich people enjoy watching

sports and inviting their friends and business associates down on the field to meet the players. Business is – or *was* – incidental. News was a little different. Proprietors owned newspapers for the glory, yes, for the "esteem" and "self-actualization" we learned about from Abraham Maslow (1943) in business school. But they often – perhaps mainly – wanted the opportunity to shape the thinking – or frighten the pants off – of the politicians and policy-makers around them. Think of the big names in the old world of the newspaper: Ochs of *The New York Times*, Bagehot of *The Economist*, Beaverbrook at *The Express*, Katherine Graham's *Washington Post*, the Chandlers' *Los Angeles Times*, McCormick's *Tribune*, Pulitzer's *World and Post-Dispatch* (see Edwards 1988 for a broad look at the British press).

Nor was it just the British and American newspapers. *Le Monde*, for example, has run as a collective more reminiscent of the Paris Commune of 1871. The *Neue Zürcher Zeitung* has always been more of a license to burn than to print money. The founders and even the current owners of *Die Zeit*, the *Frankfurter Allgemeine* and the *Süddeutsche Zeitung* all approached their mission in post-Hitler Germany with a selflessness that no doubt contributed greatly to their lack of drive for what business-folk call profit maximization. Even Axel Springer, the most zealously profit-minded of the German proprietors since the Second World War, saw *Die Welt* more as a way of making Germany safe for democracy and capitalism than as a means of making money. Money is what *Bild* was for.

Nor was it just newspapers. Bill Paley's CBS News, with Murrow, Cronkite and company, was the justification for getting his license to print money with the non-news airtime in the 1950s and 1960s. CNN never made any serious money for Ted Turner, either, though he was painted as a money-grubbing right-winger when he deigned to try to buy the post-Paley CBS. The BBC's often excellent news is detached from a profit motive thanks to a statutory right to print money in the form of an annual tax on television sets (see Halberstam 1979 for an overview of newspaper and television in the US).

Nor was it just these daily doses of news. The news weeklies include Luce's *Time* made money, but that wasn't its purpose and it didn't maximize the Luce family fortune. *The Economist*, post-Bagehot, still claims to be a newspaper though it isn't, really. Its profits now are the envy of the business. But they weren't for many years and profit is not its purpose.

The same larger purpose applied to the news-folk who supplied them. The Associated Press, Agence France Press, Deutsche Presse Agentur and their like operate either as cooperatives of newspapers they serve or with the help of government money that keep the people informed about the world. United Press International wasn't like that. Formed in a rescue of the old United Press and International News Service, United Press International had ties to the Scripps newspaper chain, but it was at best their supplier of news and never made money. It doesn't survive (see Boyd-Barrett 1980 for a history).

Reuters and Dow Jones

News operations that make money do so because they capture a valuable market. Charles Dow and Edward Jones saw money to be made from Wall Street, and so transformed a small gossipy afternoon newsletter into the *Wall Street Journal* in 1889 to print the stock exchange quotes his little wire service transmitted as well as news. It was seen from the beginning as a way to make money by making news – the news that could make Wall Street traders money (Wendt 1982). But Dow Jones & Co. did so well with the old technology of newsprint and ink that it almost missed out on how the old ticker tapes from the 1920s became the electronic world of news that took hold in the 1970s and 1980s. It did get into the game, first through a joint venture with the Association Press called AP-Dow Jones, then on its own by buying a company called Telerate that sold financial data to banks and brokers on dedicated computer terminals. But it never made it big, eventually selling off Telerate and buying the AP out of the Dow Jones Newswires business, which without

Telerate's terminals had no real home. The world of fast financial information had almost entirely passed Dow Jones by.

For twenty years, that world was dominated by Reuters. The London-based global news agency had been a bit like Dow Jones in New York, carrying stock and commodity prices over telegraph cables. Knowing the news moved stock and bond prices, Julius Reuter started transmitting news, too. But rather than print it on paper and walk it around to brokers, he transmitted words as well as numbers on his telegraph. It worked well, for a while. But then the Depression hit in the 1930s. As a private company without either government aid (except, perhaps, surreptitiously during the Second World War) or a sustaining cooperative to keep it alive, it struggled to survive. For the global traders in London, foreign political news drove prices and collecting foreign political news was a lot more expensive than the task facing Dow Jones, which only really needed to get domestic company news when most big companies kept their headquarters in New York. Reuters found a way to turn the copper wires of its telecommunications network (subsidized by governments around the world) into gold again in the 1970s by transmitting gold prices, stock prices, bond prices and foreign exchange prices alongside its news (see Read 1992 for an authorized but largely uncensored history). It was a business model that would propel the struggling news organization into stock market superstardom, the hottest of hot stocks of the mid-1980s.

Dow Jones & Co. remained largely a family-run business even after it floated on the stock market itself. As ownership based through daughters, the name of the controlling family became the Bancrofts. They needed capital to expand the newspaper and raised it, as many had before, with an issue of shares to the market. But unlike most companies – most in the US and UK, that is – they did so while retaining a special class of shares for the family. Even in 2007, after the expansion of the company into a global media business, the Bancroft family and their close friends the Ottaways, whose family newspaper chain DJ

acquired in the 1970s, they still controlled nearly 64.2 percent of the votes upon which the company's future depended, even though they held just 24.7 percent of the stock.

Reuters needed capital, too, to expand the development of its electronic data services for financial markets. It saw a dramatic reversal of its fortunes with the launch starting in 1973 of the Reuters Monitor. Monitor, a crude online service by today's standards, was revolutionary at the time, putting traders around the world in instant contact with each other. It laid the groundwork for acceleration of trading in all financial markets that followed. But keeping up with demand – and the need for further technology development – required more funds than the company was generating in profits. After a long and difficult internal debate about the effect outside capital would have on the independence and integrity of the news services, the company floated on the London Stock Exchange in 1984 (Lawrenson and Barber 1985 wrote a glowing account of those who won and lost out on the money). The float came after a decade of stagflation in the western world and the accumulation of wealth in oil-producing countries in the Middle East. Many Reuters managers feared that oil wealth would acquire the company, with the risk that the tradition of independence and objectivity of its news coverage would suffer. So rather than permit that it, like Dow Jones, adopted a capital structure that prevented outsiders seizing control. At the time, since it was rescued from near bankruptcy in the middle of the century, Reuters was owned by mainly its customers, the Fleet Street newspapers – the main national dailies – and the Press Association, a collective of regional UK papers. Struggling with antiquated technology and restrictive trade union practices, the newspapers saw selling shares as a way to generate the cash to fund their own modernization. But they still wanted their news supplied in the same reliable, truthful way. So they devised a structure to cash out without losing what they valued. The Reuters Trust Principles (Reuters 2007 update) restricted the rights of shareholders: no one party could control more than 15 percent of the stock. And the trustees of the Reuters Founders Share Company, a panel of eminent individuals drawn

mainly from the newspaper industry, would be able to veto any action that the board or shareholders might take that they thought might endanger the news service.

Editorial integrity is key

In doing so, both Dow Jones and Reuters embedded editorial integrity in the heart of their corporate structures, with different governance mechanisms but with the same effect. Both companies – like the New York Times Co., the Washington Post Co., like Rupert Murdoch's News Corporation, too, which had both *The Times* and *The Sunday Times* in London, the *New York Post* and various television stations and satellite networks around the world – created shareholding structures that would prevent them ever being taken over, unless the families or foundations that controlled these mechanisms agreed.

News organizations aren't the only companies that chose to take this approach. It is, in fact, the preferred form that companies around continental Europe took when they needed to raise outside capital. But it's quite uncommon in the United States and almost unheard of in Britain, the world's two largest and most sophisticated capital markets. The large investment institutions that provide capital in these markets – insurance companies, mutual funds and pension systems – don't like the idea of buying stock that has fewer rights. Protecting a company from a takeover is prevented an investor from realizing a capital gain. And that means the shares should always trade at a lower level than the economics of the business would justify.

The journalists and their supporters among the customers of Dow Jones and Reuters might well think that editorial integrity was worth the cost – the cost, that is, of having investors forego a bit of profit. Looked at another way, it was also the cost of having, as the accountants would say, a higher cost of capital than competing businesses that didn't restrict voting rights. And having a higher cost of capital will, over time, mean you lose out in the competition for tomorrow's customers.

The model breaks down at Dow Jones and Reuters

In May 2007, within two weeks of each other, the boards of Dow Jones & Co. Inc. and Reuters Group plc faced decisions that would transform their businesses and challenge the assumptions that lie behind the protections for editorial integrity that both companies had in place.

Dow Jones had largely missed the transition to electronic financial information, and its attempts to get into the market were certainly too little if not entirely too late. Profitability of the *Journal* suffered in the wake of the dot-com bust in 2000. The value of Dow Jones stock languished through good times and bad Figure 1.

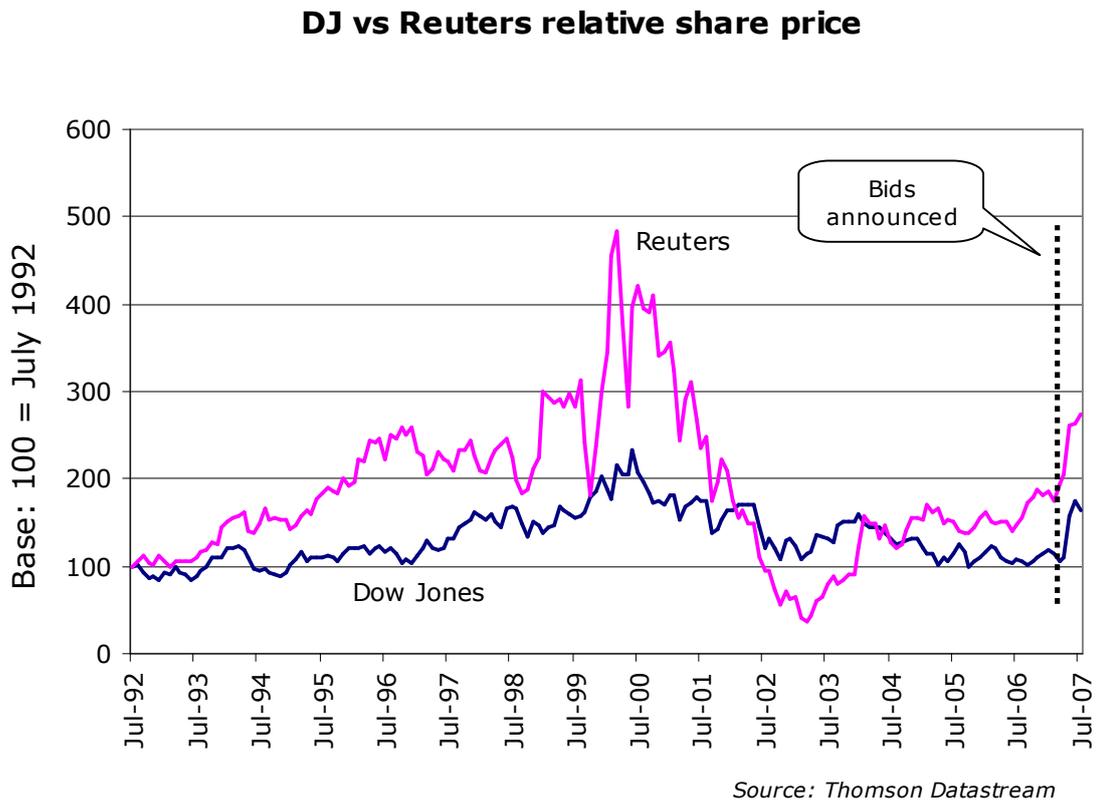


Figure 1 - Share prices of Dow Jones and Reuters in US dollars

The dominant position of Reuters, though, would come under assault from a complete newcomer in the business. A former Salomon Brothers trader, Michael Bloomberg, saw the need for news from the user's point of view. With funding from Merrill Lynch, he built a

new type of financial information platform in the late 1980s that would integrate data, making it much more useful to financiers trying to gather disparate data to decide on an investment. "The Bloomberg" became the hottest terminal on Wall Street, and then around the world. Bloomberg stored financial data and news for years, making them instantly accessible on his terminals. The systems developed by Reuters and Dow Jones-Telerate, by contrast, were dominantly "real-time" information systems, which through away information almost as soon as it was created. A few years later Bloomberg would add a news services, hiring the *Wall Street Journal* reporter Matthew Winkler to build a new type of real-time news service. Bloomberg News became Bloomberg Magazine and Bloomberg Radio and Bloomberg Television, too. Dow Jones Newswires got pushed off more and more desks of the financial traders. Reuters and DJ eventually learned lessons and Reuters built systems that worked more like Bloomberg's, while DJ withdrew from the race. The Reuters market share had suffered, though, and in the years between 2000 and 2003 saw its share price collapse from more than £16 to less than £1 (former Reuters journalists-turned-business-executives Mooney and Simpson 2003 give an account of the malaise at the company). Both DJ and Reuters learned, though, to store their news for retrieval from the archives, and for several years shared a joint venture to do so in Factiva. Reuters share price would recover, but by early 2007 it had only managed to get back to around £4 a share. That came with thousands of job losses – though a disproportionately small number came from among the journalists. There were job transfers, too. Some of the work that Reuters journalists had done in New York and London moved to Bangalore in India (Reuters 2004), a decision that led directly to the departure of one of the top editors after a heated debate (Nordberg 2005). It is, of course, to be expected that the decision to treat editorial jobs less harshly in the cutbacks came from understandable strategic reasons in the content business like Reuters, even more than concern about offending sensitivities of company culture or the Reuters Trust Principles.

Thomson bids for Reuters

For more than a year senior management at Reuters had held discussions with Thomson Corp. of Canada about a merger valuing Reuters at about £6.50 a share. The Thomson family still owned about three-quarters of Thomson Corp. stock. The group published databases of business information, textbooks and, like Reuters only much smaller, financial information. They were also newspaper proprietors. Rupert Murdoch bought *The Times* and *The Sunday Times* from Thomson in 1981s. But the family wasn't bailing out of anything except the morass that was Fleet Street at the end of the 1970s. Thomson was instead, concentrating its efforts, having bought Canada's leading serious newspaper, *The Globe and Mail* in Toronto a year before. It has since disposed of it.

The fit with Reuters was pretty good. Both had financial businesses where overlaps could be eliminated to save money and differences could be exploited for new sales. Because of Reuters' size in that market, and the highly regulated nature of the financial markets both companies served, the deal would have to overcome competition and regulatory hurdles. Other aspects seemed straightforward. Thomson's legal and health information businesses provided steady cash, and the textbook business could be sold to help pay for the acquisition of Reuters. Textbook publishers had been sold at record prices over the past two years, so it seemed a very good time to sell. The chief executive of Thomson was willing to stand down in favor of the Reuters CEO. After a cash-and-shares deal, the Thomson family would control 53 percent of the stock. And that would violate the provisions of the Reuters Trust Principles.

The first port of call, then, wasn't the regulators or the competition authorities; it was the trustees of the Reuters Founders Share Company. When first created, the Founders Share Company was chaired by Katherine Graham, majority owner of *The Washington Post*. But that was 1984, and by 2007 many of the trustees, including its chairman, Pehr Gyllenhammar, were business people. Gyllenhammar had a long association with Reuters,

having joined the main board when it floated on the stock market in 1984. Then he was CEO of the car- and truck-maker Volvo. He had gone on to become chairman of a major UK insurance company. To no one's surprise, Gyllenhammar and the other trustees decided that the Thomson deal was fine. And the Thomson family, through their family trust, promised to respect the Reuters Trust Principles.

Murdoch bids for Dow Jones

News of the Reuters-Thomson tie-up slipped out into the market on Friday, May 4, 2007, but it wasn't until the following Tuesday that either of these news companies could manage to bring themselves to make an official disclosure. The leak was probably prompted by news on May 1 that News Corp., the Australian-turned-American publisher and broadcasting company controlled by the Australian-turned-American Rupert Murdoch, wanted to acquire Dow Jones & Co. for a staggering 55 percent premium over its recent share price. The bid valued Dow Jones at \$5 billion. It had been trading a level worth \$3.5 billion before the news. Wall Street analysts had been saying for years that management of Dow Jones, headed by former journalists, simply lacked the business acumen to run a company with two of the best known brands in the world. The share price, which had moved in a tight range over many years, seemed to reflect that. The financial community, not least the hedge funds that had come to dominate stock-market trading in recent years, saw an opportunity in Murdoch's bid to make some quick money, and soon much of the non-family stock had passed into their hands.

It's useful to recall how Murdoch achieved his position. He inherited a small chain of newspapers in Australia, and managed to increase circulation, revenues and profits. He bought television stations and used the cash flow to buy newspapers in Britain, including *The Times* and *The Sunday Times* from Kenneth Thomson, but also some downmarket tabloid

papers, including the country's largest selling daily, *The Sun*, and largest selling Sunday paper, *The News of the World*. All four were shareholders of Reuters before it went public.

Though it's never been officially confirmed, many executives at Reuters have said over the years that Murdoch is the shareholder who pushed through the decision to have Reuters float. The managing director at the time was Gerald Long. With a crew haircut and a military bearing, Long wanted nothing to do with selling shares to the financial markets. What happened next was this: Long was offered the job of chief executive of News International, the holding company for Murdoch's newspapers in Britain, including *The Times* and *The Sunday Times*. Long jumped at the chance. His role at Reuters, now upgraded to chief executive, went to Glen Renfrew, a long-serving Reuters executive who had started his career as a newspaper reporter in Australia. Renfrew was a strong supporter of the idea to float. When Reuters became a public company, Murdoch's News Corp. had an asset that was to become worth hundred of millions of pounds sterling. Murdoch used those shares as collateral to raise loans before eventually selling them to outside investors. The proceeds were the money he used to buy newspapers, television stations and the Fox movie studios in America as well as start a satellite television company in Britain we now know as BSkyB.

But buying Dow Jones and its prize asset and brand, *The Wall Street Journal*, meant winning over the Bancroft family and their concern about editorial integrity. Murdoch's UK papers were right-wing in their politics, so not dissimilar to the opinion pages of the WSJ. But Murdoch had a public reputation of intervening in news coverage, too, calling editors and even reporters and telling them what angle to take. The Fox interests in the US had spawned a Fox News Network, decided conservative in its viewpoint aimed at giving a counterpoint to what he perceived now as the *left-wing* orientation of CNN, the news service, you'll recall, that was so right-wing before. This raised alarm bells among the crusaders for editorial integrity at the *Journal*, including the recently retired CEO Peter

Kann, and his wife Karen Elliot House. She had been reporter and then publisher of the WSJ, and he had been a reporter and editor before his move into management.

Which way would the Dow Jones board vote? Which way would the Bancroft family vote? On what basis would they make their decisions? And what of the outside shareholders – who held a clear majority of the stock but a clear minority of the votes? What rights did they have? For the answers to those questions we need to consider the purpose and practice of corporate governance.

Corporate governance in the news

The restrictive voting rights at both Reuters and Dow Jones run afoul of what many institutional investors consider appropriate practice for listed companies. Why at Dow Jones should the Bancroft family and friends retain a 64 percent share of the vote when they had less half that share of the capital at risk? Why at Reuters should the trustees of the Founders Share Company have veto power when it had no capital at all in the business and it represented, in the final analysis, the interest of customers – and only a small portion of the customers at that?

Company law in both the UK and the United States says that boards of directors should work in the sole interest of their shareholders.² Holtzbrinck's resignation letter from the Dow Jones board, however, suggested that there were other issues at stake, ones he regarded as bigger than securing the best deal for shareholders. The Founders Share Company at Reuters made explicit that there was more to the purpose of this company than maximizing the return to shareholders.

Corporate governance – how the activities of a company are monitored and controlled – has become a major topic of concern for corporate executive and government policy-makers

² In the US, company law is a matter for individual states. In practice most states follow the lead of Delaware, where about half of US public companies have their legal seat, Dow Jones among them.

alike. Concern about the field had tended to emerge from the shadows in the wake of crises. The first surge of interest in the field started after the Great Crash of 1929 on Wall Street and the global economic depression that followed in its wake. It became a hot topic in the UK in the early 1990s following a rash of corporate failures. The worst of these was that of the newspaper proprietor Robert Maxwell, who had, among other offences, appropriated the pension funds of staff at Mirror Group Newspapers in the UK and *The New York Daily News* to prop up his failing finances. Complacent board of directors at the companies throughout his empire, made up of cronies and "yes-men", had acquiesced to it. Maxwell disappeared while at sea on his yacht, never to be seen (Wearing 2005 gives a good account of the case).

Corporate governance came to the fore in the US in 2001 and 2002 following the collapse of the energy trading company Enron Corp. and of the telecommunications giant WorldCom Inc. just a few months later. Part of the response was legislative. The Sarbanes-Oxley Act of 2002 (Library of Congress 2002) put severe new constraints and obligations on directors of US companies. A reform of company law in Britain, underway before Enron, took new directions before its final adoption in 2006 (UK Parliament 2006). The European Union took an interest and countries around the world either passed laws (e.g. Germany, Australia) or adopted new private-sector codes of conduct (e.g. Britain, France and many others).

Theories of corporate governance

Central to the governance debate has been the issue of how to prevent executives like Maxwell or Jeffrey Skilling at Enron and Bernie Ebbers at WorldCom from using company money as if it were their own. These directors are, after all, fiduciary *agents* of shareholders, the *principals* behind the business. Boards of directors are there in part as watchdogs over management. It wasn't always this way. Many businesses start out with the sole owner as manager of the business. But listing on stock exchanges means invited outsiders to

participate in ownership, and it becomes their money that's at stake. In the 1930s when surveying the wreckage of the Great Crash, Adolf Berle and Gardiner Means (1932/1991) identified this change as having an impact in how companies were managed, and to what purpose. The term "agency theory" came to be used to describe the problem. Having a strong the board of directors and strong shareholder rights were seen as the solution (Jensen and Meckling 1976).

But agency theory hasn't been sufficient to describe what actually takes place in boards of directors, nor to prescribe how directors should act. Most directors, in line with company law, see their duty as being to promote shareholder value, either in how they allocate strategic resources (McNulty and Pettigrew 1999; Stiles 2001) or through their contribution to reducing the cost of doing business from the contacts or the credibility they lend to the company (Williamson 1988). But others argue that directors have other duties that go beyond maximizing wealth for shareholders. "Stakeholder" theory, a deliberate play on the American word "stockholder", asserts that directors have obligations to people other than shareholders – suppliers, customers, and especially employees and the broader society (Freeman and Evan 1990; Evan and Freeman 1993; Crowther and Caliyurt 2004). It's a view not widely accepted in corporate boardrooms, even among directors who view good relationships with these interest groups as essential to the long-term profitability of the enterprise.

The journalists at Reuters and Dow Jones – whose interests the restricted voting rights protect – have clearly been grateful for the support. There was scarcely a murmur from those at Reuters at the thought of a merger with Thomson. Indeed, the concern about editorial integrity was probably greater during the second half of the 1980s, when both Rupert Murdoch and Robert Maxwell – fierce *personal* as well as business rivals – both sat on the Reuters boards of directors.

Not so at Dow Jones. The shape of decision-making in corporate boardroom is normally very sensitive and confidentiality precludes outsiders from ever analysing how the decisions were made. Even at Dow Jones, however, which is in the business of making corporate reporting transparent, the transparency that accompanied this deal was extraordinary.

Journalists decried the News Corp. bid, fearing Murdoch's reputation for intervening in editorial decisions at the newspapers News Corp. owned. Murdoch agreed various measures to safeguard editorial integrity ("Text of Dow Jones Editorial Agreement" 2007), but for many, that didn't seem enough. "The staff, from top to bottom, opposes a Rupert Murdoch takeover of Dow Jones & Co. Since the early part of the 20th century, the Bancroft family has stood up for the independence and quality of The Wall Street Journal and has built it into one of the world's great newspapers," a statement from Independent Association of Publishers' Employees, the journalists' main trade union, said shortly after the bid announcement. "Mr. Murdoch has shown a willingness to crush quality and independence, and there is no reason to think he would handle Dow Jones or The Journal any differently" (IAPE 2007).

Moreover, it didn't seem enough to James Ottaway, a Dow Jones director and head of the Ottaway family trust, which had seven percent of the votes. "It's a bad thing for Dow Jones and American journalism that the Bancroft Family could not resist Rupert Murdoch's generous offer," he said in a statement issued on July 31, once it became clear that News Corp.'s offer had found sufficient support to prevail. "It is ironic indeed for the Bancroft family to have to pay 30 shekels of silver to their investment bankers, and 30 shekels of gold to their corporate lawyers, for scaring some of them into betraying their 105-year family loyalty to Dow Jones independence" (Ottaway 2007a).

The phrase "scaring some of them" is telling, and reminiscent of Holtzbrinck's *démarche* of two weeks earlier. Holtzbrinck said: "Listening to our lawyers, one has to vote for a deal

which is in the best (financial) interest for the shareholders, except ..." (von Holtzbrinck 2007). These two directors felt there ought to have been an "exception" to the rule of shareholder value. It wasn't, however, because the journalists *as employees* deserved special consideration. The basis of their concern lies more in what we know as "stewardship" theory.

Stewardship at Dow Jones

Stewardship theory draws on organizational psychology and suggests that self-esteem and fulfillment loom large in their decision-making, as Maslow (1943) had suggested in his hierarchy of needs. As a prescription, however, the stewardship approach contends that individual directors should look after the interests of someone or something larger than personal or corporate self-interest. Some may be guided by a code of conduct or statement of corporate purpose, bearing a responsibility that supersedes mere shareholder value considerations (see Muth and Donaldson 1998 for a discussion). There are suggestions of this in Holtzbrinck's quote with its "except ..." The matter at stake in his and Ottaway's minds wasn't the rights of the journalists as employees, but the more abstract and even *moral* good of journalistic integrity. *The Wall Street Journal* was something akin to a sacred trust held through generations by the Bancroft family. These non-Bancrofts weren't alone in having doubts about the deal. The Bancroft family, whose members weren't of a single mind about the offer, issued a statement saying: "Accordingly, the Family has advised the Company's Board that it intends to meet with News Corporation to determine whether, in the context of the current or any modified News Corporation proposal, it will be possible to ensure the level of commitment to editorial independence, integrity and journalistic freedom that is the hallmark of Dow Jones" (Bancroft Family 2007). The family also indicated it was open to other options that might achieve value Murdoch offered with stronger promises on editorial independence. The talks with others, including Pearson plc,

publishers of the *Financial Times*, and the US television network NBC, came to nothing, and the vote to go with News Corp. left the family narrowly divided.

Along the way, though, one family member issued a public rebuke to himself and his kinfolk for the poor quality of stewardship of they had made – but stewardship of business, the brands and, by implication, the financial assets that other investors had entrusted to the Bancrofts by buying shares that left the family in control. Crawford Hill, a cousin of the Bancrofts and a holder of super-voting DJ shares, bemoaned the missed opportunities of recent years, when the family didn't act as owners should, but instead were passive and quiescent as the franchise stumbled through the Telerate debacle. He cited the legendary investor Warren Buffett saying DJ might have become a business worth \$50 billion, not \$5 billion, and he wrote: "So, we never really figured out how to be owners when we needed to most" (Hill 2007). But Leslie Hill, a family member who opposed the deal, resigned as a Dow Jones director when the deal was announced. She acknowledged in a letter to the board that the deal was good in financial terms, but it failed to outweigh "the loss of an independent global news organization with unmatched credibility and integrity" (Ellison and Karnitschnig 2007).

For Leslie Hill, as for Ottaway and Holtzbrinck – and we can guess the rest of the Bancroft family – stewardship of the family's legacy of strong journalistic integrity involved a moral choice that involved an appeal to a higher, *a priori* good, not a *utilitarian* decision based on shareholder value alone (Nordberg 2007). Crawford Hill's ethical choice, though, was for *active* participation by the family during the past 25 years of strategic drift to create strategic value, a utilitarian concept, alongside the *a priori* end of journalistic integrity. The failure to do so meant, perhaps, that it was time for someone else – even Rupert Murdoch – to assume stewardship, if perhaps for ethical aims somewhat different from what the Bancrofts had embraced.

The absence of financial performance and the missed opportunities that Crawford Hill bemoaned may have been mismanagement. But one can't help but wonder whether the root of the problem lay in a corporate purpose and a flawed governance structure that protected it from a hostile takeover, that is, from the full rigors of a market for corporate control. Boards of directors are, after all, at best the second line of defense in corporate governance. The first is the force of a competitive market.

Stewardship at Reuters

The Reuters merger with Thomson, while still facing regulatory scrutiny, was a much quieter affair. The Thomson family had long taken a stewardship approach to their businesses, at least until the point when they faced the decision to exit a business. Editorial independence was apparent at *The Times* and *The Sunday Times* during Kenneth (later, Lord) Thomson's ownership. But the sale of the titles to Murdoch in 1981 came amid frustration over what were called at the time the "Spanish practices" of Fleet Street trade unions that prevented the introduction of labor-saving technologies at the newspapers. Murdoch acquired them and promptly launched the opening salvo in what came to be called in competing newspapers the "Battle of Wapping". Murdoch moved the papers away from Fleet Street into a rundown neighborhood to the east of London's financial district, using the wealth from his stake in Reuters he acquired with the newspapers to engineer a modernization that transformed the industry as a whole.

The revival of Reuters after 2003 came in part despite a governance structure that protected it, too, from hostile bidders and the rigors of a market for corporate control. But its board and management were less passive than those at Dow Jones, less steeped in the traditions and rituals of the stewardship elements of their roles. But they were also subject to a pretty harsh competitive environment, where the onslaught from Bloomberg made

manifest the consequences of further inaction. The market worked where a stewardship-led culture of corporate governance had failed.

The new Thomson-Reuters will use the Reuters name and reputation – its *brand* in the language of marketing – for the news and financial information businesses. The word "Reuters" may be the name of the German-turned-Englishman who founded the company, but as Lawrenson and Barber (1985) recall, it sounds a lot like the Chinese word for "truth".

Conclusions

For many of the people at Dow Jones, though not for a majority of votes on the day, journalistic integrity was an end in itself, not a means to the end of greater profit and increased market share. Fairly steady cash flow and a bullet-proof shareholder structure seemed to prevent it from the most punishing effects of a free market for corporate control, but not from falling behind its industry and missing opportunities for the growth that might have enhanced its broader social role that the stewardship model of corporate governance was meant to promote.

For many people at Reuters, journalistic integrity is the basis on which it conducts the entire business. If the news is true (as it can be) and free from bias (as it can be), then clients can trust the financial data and transactions services to have integrity, too. But there's no doubt that a complacency fostered by a dominant market position and a bullet-proof governance structure based on the stewardship model prevented it – for a while – from experiencing the full rigors of the market, including the market for corporate control.

It is too early to say how these cases will develop. But let's reflect for a moment how two such closely linked companies – often competitors, sometimes collaborators – from two different countries both relied upon a heresy in corporate governance: that shareholder value and shareholder rights were *not* supreme. This model of corporate purpose and the structures of corporate governance that sustain it seem to underpin a lot of news

organizations. We know that financial markets strive on having news that is independent, and as free as possible from bias. Corporate governance itself works in the main through the transparency of corporate reporting. Indeed, Sir David Walker, in promoting guidelines for disclosure by the UK private equity industry, thought that the news media would, in part, be guarantors of governance. "I'm a great fan of the media," he told the *Financial Times*. "I think the media will do a very good job of identifying X who is not conforming to the standards" (Arnold 2007).

Perhaps news – on political matters, too, including the news the Rupert Murdoch's News Corp. may have suppressed from reaching his Chinese television viewers – is something that is more important than shareholder value, even in a public company made up private sector shareholders. We see protections for editorial integrity in place at many of the most distinguished news organizations in the world – The New York Times Co., for example. Outside shareholders buy into these companies knowing that their voice – their votes at the annual meeting – won't count for very much. *Caveat emptor* – let the buyer of such shares beware. Some buy them precisely because they see a *social* value in the purpose of free and independent news. But similar structures are used to prop up the corporate control of business people whose purpose may be rather less worthy of a sense of stewardship from their directors. William Randolph Hearst is widely credited – or discredited – for having used the newspapers he owned to start a war. But at least he owned them outright. Silvio Berlusconi, who controlled a media empire through a pyramid structure that gives him effective control well beyond his share of the equity, used his newspapers and television stations to propel him into the prime minister's job in Italy and keep him there when others would have failed.

And what of Rupert Murdoch? He has run News Corp. in many ways as though it was his personal property, yet he owned less than a third of its shares. Dow Jones – its journalists and the readers of its newspapers and newswires will be wondering about his

commitment to the stewardship model of governance. Evidence to-date is that outside shareholders might be more concerned that the he will use these companies he only partly controls for his own purpose – the "agency problem" in corporate governance – than that he will let sentimental stewardship prevent a focus on strategic value.

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