

Icelandic media firms viewed from the perspective of agency theory

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Abstract

It has previously been proposed that agency theory (principal-agent approach) might be applied to media organizations to understand how media owners make sure that their companies are managed according to their wishes. Thus, the purpose of the present study was to investigate: a) whether agency theory is applicable to three Icelandic media companies, and b) how the theory manifests itself in the management practices of these companies. The media companies that were examined were: the Icelandic National Broadcasting Service (RÚV ohf.), 365 miðlar ehf. and Árvakur hf. Qualitative interviews were conducted with three editors-in-chief, two CEOs/publishers, the director general of RÚV and the news director of RÚV in May of 2012. Two of the interviewees were also part-owners of the media companies.

The results indicated that it is, indeed, possible to analyze management practices of media organizations from the perspective of agency theory. However, it varies how much the companies are driven by profit maximization, for instance – on which agency theory places an optimum emphasis. The media house 365 miðlar ehf. turned out to be the best example of how the underlying constructs of agency theory are incorporated into the management practices of a media organization.

Keywords: Agency theory; stakeholder theory; media organizations; media management

Introduction

In 2011, the Icelandic parliament, Alþingi, passed a new Broadcasting Act. The law states that media providers, in cooperation with journalists and the journalists' unions, shall form guidelines on editorial independence and submit them to the Media Committee for an approval. In particular, the law on media emphasizes that the guidelines shall cov-



er how the editorial autonomy of journalists and editors is ensured (Lög nr. 38/2011). The law does not allow for the owner and the editor being one and the same person, and the only rationale that is given for this clause is that it is self-evident that the public is more likely to trust the objectivity, and news stories, of media outlets that operate in accordance with such rules rather than media that do not (Þingskjal 215 2010-2011).

The Icelandic law on media epitomizes the socially sanctioned notion that owners' control of media organizations does not reach beyond the threshold of the newsroom. One could claim that the belief that the mass media are the fourth estate (e.g. Splichal 2002) is the undercurrent for the social pressure on the separation of ownership and control in the newsroom; that the media serve some kind of a democratic function in society that other business organizations do not (e.g. Keane 1991). Thus, it is found to be essential to minimize any influence that owners of media organizations might have on the editorial room.

Hence, the government mandates that media owners relinquish control of their businesses to their subordinates – which is what George Seldes and other members of the U.S. Newspaper Guild advocated in the 1930s (McChesney 2004). This separation between the ownership and control raises the issue of an agency problem but Napoli (1997) has proposed that agency theory may be effective in examining and explaining relationships at the organizational level within media organizations.

Research on media companies has been scarce (Picard 2003) and no previous studies on media management in Iceland exist. Thus, it is the main goal of the present study to investigate whether agency theory is applicable to the management of media organizations in Iceland and how the theory manifests itself in the management practices of these companies. The theory is discussed in the context of stakeholder theory that has been offered, mostly by business ethicists, as an alternative to agency theory in the management of companies.

1. Literature review

1.1 Critique of commercial media ownership

The idea that journalism plays a vital and a significant role in democracies is evident in the *Report of the Special Investigation Commission* whose purpose it was to examine and analyze the reasons behind the collapse of the Icelandic financial institutions in the fall of 2008. In a special chapter on the mass media, it is stated that strong and independent media provide the foundation for enlightened public discourse that is essential for democratic states (Árnason, Nordal and Ástgeirsdóttir 2010).

Some perceive commercial media, and their owners, to pose a threat to democracy. McChesney (1999/2000) has argued that “the media have become a significant anti-democratic force” (p. 45), “a poison pill for democracy” (2000, p. 2) that “smuggles in values conducive to the commercial aims of the owners and advertisers as well as the political aims of the owning class” (2003, p. 305).

This is congruent with Herman and Chomsky's (2002) propaganda model of the media. They claim that although journalists believe that they are reporting the news ob-

jectively, the news is filtered through several filters, including the ownership of the media, advertising, experts and other agents of power. Furthermore, Herman and Chomsky (2002) maintain that the media defend the political agenda of privileged groups in society. McChesney (2004) has gone as far as to say that journalists and editors internalize and adapt the values of the media owners.

Bagdikian (2000) has maintained that news stories tend to be imbalanced in favor of the corporate elite as certain stories are covered and others are not. He argues that the media are sympathetic to wealth maximization by corporations and that they omit stories that might negatively affect their own profitability. Moreover, he pointed out that market dominant media have the power to influence people's political opinions, and according to Habermas (2006), the media exert power by forming public opinions.

Habermas (2006) has stressed the importance of independent media since the owners of media companies can transform media power into political pressure and to acquire political influence. Habermas' claims are consistent with the research by McNight (2003, 2009, 2010) who showed that there was a link between Rupert Murdoch's ownership of newspapers and their political biases; the scale mostly being tipped in favor of conservative populism.

As reviewed above, commercial ownership of media tends to be viewed in a negative light – hence, the need for editorial autonomy. However, owners' direct participation in editorial meetings doesn't have to be detrimental to news production. For example, one could mention Katharine Graham's involvement at the *Washington Post* during Watergate. Nevertheless, Graham has admitted that her larger responsibility was to the company's shareholders (Graham 1998). Also, rarely does the literature on media ownership take into account that journalists may have their own agenda. Jónas Kristjánsson (2009), former editor-in-chief and owner of the newspaper *DV* in Iceland, has stated that in the early 1990s the newspaper employed journalists who used their position to advance the interests of individuals outside the company. Thus, editorial autonomy does not guarantee that journalists work in the interests of the public.

1.2 Agents and principals

According to Jensen and Smith (1985), “an agency relationship is a contract in which one or more persons (the principal(s) engage another person (the agent) to take actions on behalf of the principal(s) which involves the delegation of some decision-making authority to the agent” (p. 2). Agency problems can be found at all levels within organizations, and the relationship between the principal and the agent does not necessarily have to be hierarchical (Jensen and Meckling 1976). Agency cost is defined as the sum of the principal's cost to monitor the actions of the agent, the cost of the agent to reimburse the principal for any harm he may cause him (bonding cost), and the monetary value of any loss that the principal may incur because of a decision that the agent made that did not maximize the interests of the principal (Jensen and Meckling 1976). Within firms, monitoring by managers is reciprocal as managers may monitor both other managers below them and above them (Fama 1980).

Wiseman, Cuevas-Rodríguez and Gomez-Mejia (2012) have offered an alternative version of agency theory:

... both agents and principals, have socially derived interests that may or may not coincide, nor must they automatically reflect wealth maximization. That is, some agents may genuinely desire to serve the principal, while others may seek to serve *a principle* even when it conflicts with the wishes of *the principal* ... (p. 204).

This modified form of agency theory by Wiseman et al. (2012) is relevant to the current discussion because it captures the expectations which society has of journalists. They are expected to serve *a principle*, i.e. the public, but not *the principal*, i.e. the media owners, without any monetary compensation, while Jensen and Meckling (1976) would probably argue that journalists at privately owned media companies should first and foremost work in the interest of the owners to maximize the shareholders' wealth, and that owners should introduce processes, including monitoring, to keep the journalists from straying from this goal.

Agency theory has been criticized for its simplistic and pessimistic assumptions about human behavior, i.e. assuming that people will always act opportunistically (Lubatkin 2005), for being self-activating (Arce 2007), for freeing business students from being morally responsible (Ghoshal 2005) and for providing an undersocialized account of human behavior (Granovetter 1985). Lubatkin (2005) points out that money isn't the sole driving force behind people's actions and that it is important to keep in mind that firms operate in a dynamic social environment. Some have argued that agency theory is outdated and hasn't been empirically validated and others have said that it isn't compatible with management theory, which places much stronger emphasis on the multifaceted aspects of organizations (Dühnfort, Klein and Lampenius 2008; Lubatkin et al. 2007).

1.3. Stakeholders rather than shareholders

Stakeholder theory has been proposed as an alternative to agency theory (e.g. Agle et al. 2008). Freeman has argued that stakeholder theory is simply about good management (Agle et al. 2008). His rhetoric is that it's common sense that a business venture won't succeed unless the needs of stakeholders are taken into consideration (Freeman 2010).

Freeman (1994) has defined the stakeholders as "employees, financiers, customers [...], and communities" (p. 417), while Argandoña (1998) "identifies stakeholders as being those who have an 'interest' in the company (so that the firm, in turn, may have an 'interest' in satisfying their demands)" (p. 1099). In contrast to agency theory, which views the firm as a nexus of contracts, it has been suggested that stakeholder theory is about social relationships (Hendry 2001).

Stakeholder theory has received its fair share of criticism. Some have pointed out, for example, that stakeholders may have conflicting interests and they may differ in their

opinion on what the purpose of the company is, making management difficult (Jensen 2002). The needs of the stakeholder groups may also differ and these needs may be met in different ways (Boatright 2006). Freeman and his colleagues admit that the interests of the individual stakeholder groups may be in conflict and emphasize that these conflicts must be resolved (Freeman, Wicks and Parmar 2004).

Jensen (2002) has claimed that:

... a firm that adopts stakeholder theory will be handicapped in the competition for survival because, as a basis for action, stakeholder theory politicizes the corporation, and it leaves its managers empowered to exercise their own preferences in spending the firm's resources (p. 237).

Richards (2004) and Stern (2008) have argued for the use of stakeholder theory in media organizations. Because of the nature of the ties between media organizations and the communities in which they operate, and the degree of responsibility that the media carry, Stern compared media organizations to utility companies. Richards (2004) suggested that shareholders, employees, users and the community at large are among the stakeholder groups of media organizations.

2. Research questions

In the 1980s and the 1990s, two important changes took place in the Icelandic media landscape, i.e. the era of the political party press ran its course and the broadcasting monopoly of the Icelandic National Broadcasting Service ended (Friðriksson 2000), leaving the field open for business-oriented media owners.

Although the first few years of the privately owned radio and television stations were rocky, with stations coming and going, the ownership and the operations of the press were relatively stable until 2002 when Jón Ásgeir Jóhannesson, the chairman of the board of directors of Baugur Group hf., and his business partners bought a failing free-of-charge newspaper, *Fréttablaðið*, because he was unhappy with the advertising monopoly of *Morgunblaðið* (Valdórssón 2009). Through mergers and acquisitions, this investment grew into a conglomerate, Dagsbrún hf., whose stocks were traded on the Icelandic Stock Exchange. Dagsbrún hf. had holdings in media and IT companies, both in Iceland and abroad, including *Nyhedsavisen* in Denmark (Dagsbrún and Landsbankinn 2006). However, due to severe financial losses in 2006 (*Viðskiptablaðið* 2007) and the economic crisis (Mbl.is 2008), the company was downsized and streamlined. It also went through several name changes. By 2012, Jóhannesson's wife, Ingibjörg Pálmadóttir, owned 90% of the stocks in 365 miðlar ehf. (*Morgunblaðið* 2012), which still included *Fréttablaðið*, as well as six radio stations, nine television channels, and an online news and entertainment website, *Vísir.is*.

At Árvakur hf., the publishing firm of *Morgunblaðið*, changes in the ownership group occurred in 2005 and 2006 when Björgólfur Guðmundsson, once one of the richest

men in the world, according to *Forbes*, bought stakes in the company (Kroll and Fass 2007; Morgunblaðið 2006). Guðmundsson declared bankruptcy when Landsbankinn fell (Mbl.is 2009a) and Árvakur hf. was sold to a group of investors with strong ties to the fishing industry (Ólafsson and Þórðarson 2009). The new owners hired two new editors-in-chief, among them Davíð Oddsson, the former mayor of Reykjavík and a prime minister for the Independence Party from 1991 to 2004 (Mbl.is 2009b). Active members of the Independence Party have also been hired as journalists (DV 2013). In addition to publishing *Morgunblaðið*, Árvakur hf. owned the printing press, Landsprent, and the online website, Mbl.is.

By 2007, media ownership appeared to be a power play among the business elite in Iceland. Lýður Guðmundsson, the executive chairman of Exista hf., a financial services' group, stated in a speech at the group's annual meeting that Exista had media holdings, i.e. the business paper *Vísiskiptablaðið* and the television station Skjár 1, simply to keep these media out of the hands of two families; thereby referring implicitly to Jóhannesson, the owner of *Fréttablaðið*, and Guðmundsson's ownership of *Morgunblaðið* (Guðmundsson 2007).

In the spring of 2004, Alþingi tried to curb media ownership by making it illegal for companies, whose main business was unrelated to media operations, to own broadcast media (Lög nr. 48/2004). After receiving a petition from around 30,000 people, the president of Iceland, Ólafur Ragnar Grímsson, refused to confirm the legislation with his signature and he activated his right to have it voted upon in a referendum (Mbl.is 2004). It never came to that as Alþingi recalled the law, which had caused so much controversy, by passing another bill (Lög nr. 107/2004).

The idea of editorial autonomy was brought up in Alþingi during the discussion on media ownership (Skarphéðinsson 2004) but it wasn't until 2011 that a comprehensive legislation on media was passed, which included article 24 on editorial autonomy (Lög nr. 38/2011). Amendments were made in 2013, when a chapter on media ownership was included. However, article 62a on media ownership is vague and only allows the Icelandic Competition Authority to step in if conditions arise where the public is being harmed due to lack of pluralism and diversity (Lög nr. 54/2013).

The Icelandic National Broadcasting Service (RÚV), which had been established in 1930, went through changes too in the beginning of the 21st century as its governing structure was altered and it became a shareholder company in 2007 with the minister of education holding the share on behalf of the public (Lög nr. 6/2007). RÚV ohf. ran three radio stations, a website and two television channels, of which one was used mainly on special occasions, for example to broadcast major sporting events.

Congruent with media ownership in other countries, the wealth of media owners in Iceland originated in other industries (e.g. Picard and Weezel 2008) and the ownership was also highly concentrated as it may have non-profit related utility to the owners (e.g. Demsetz and Villalonga 2001). Thus, one may draw the conclusion that the commercial media are first and foremost owned and managed by business people who strive to align the interests of their staff to their firm's interests, and thereby their own.

Napoli (1997) has stated that agency theory is applicable to media organizations, for instance because profit maximization is the main goal of media owners and that hiring practices are used to align the interests of the owners and the employees. Apparently, only a handful of studies have, so far, examined media firms from the perspective of agency theory (cf. Ohlsson 2012; Richards 2004; Shao, 2010; Stern 2008; Tjernström 2002) and as far as one knows, no study has ever been conducted on the management practices of the Icelandic media firms, until now.

In line with agency theory, the present study proposes the following research questions:

R₁: Is agency theory applicable to the management practices of media organizations in Iceland?

R₂: If agency theory is applicable to the management practices of media organizations in Iceland, how does it manifest itself?

More specifically:

R_{2,1}: How does agency theory manifest itself in the emphasis on wealth maximization in Icelandic media organizations?

R_{2,2}: How does agency theory manifest itself in terms of alignment between the interests of the owners and the interests of the employees in Icelandic media companies?

R_{2,3}: What is the nature of monitoring in Icelandic media companies?

Finally, agency theory assumes, like Friedman argued in 1970, that the owners are the sole stakeholders and that a company's only responsibility is to maximize the stakeholders' profit. Hence, one may ask the following questions:

R₃: What is the importance of shareholders vs. other stakeholders in the minds of managers of Icelandic media organization?

R₄: How do managers of Icelandic media companies define their organizations' social responsibility?

3. Methodology

For the purpose of the present study, the researcher used semi-structured interviews with open-ended questions to interview seven top-level managers at three media companies, i.e. 365 miðlar ehf., Árvakur hf. and RÚV ohf. These companies were selected for their status and prominence in the Icelandic media market, considering they are the three largest ones.

Each interview lasted half an hour to an hour and took place at the interviewees' place of employment in May of 2012. Six of the interviews were taped but one partic-

ipant refused to be recorded. Because of the small sample size, it became clear that the interviewees could not be anonymous as their answers could be traced back to them. The interviewees were made aware of this fact, but it should be kept in mind that they replied to the researcher's questions in their capacity as managers.

Three managers of 365 miðlar ehf. were interviewed, i.e. Ari Edwald,¹ CEO of 365 miðlar ehf., publisher of *Fréttablaðið* and a part-owner of the firm; Ólafur Stephensen,² editor-in-chief of the newspaper *Fréttablaðið*, and Freyr Einarsson,³ editor-in-chief of the television station Stöð 2 and the website Vísir. At Árvakur hf. two managers participated in the study, i.e. Óskar Magnússon,⁴ part-owner of the company and publisher of *Morgunblaðið*, and Haraldur Johannessen,⁵ editor-in-chief of the newspaper *Morgunblaðið*. And finally, two managers of RÚV ohf. were interviewed, i.e. Páll Magnússon,⁶ director general, and Óðinn Jónsson,⁷ news director.

All of the interviews were transcribed verbatim and analyzed for themes. For the most part, the themes were in accordance with the research questions, which focused on the main concepts of agency theory, i.e. wealth maximization, alignment, monitoring, and stakeholders and social responsibility. Other themes emerged too, for example the concepts of harm and culture.

In qualitative research, “there are no absolute rules except to do the very best with your full intellect to fairly represent the data and communicate what the data reveal given the purpose of the study” (Patton 1990, 372). Taking this into account, it may be added that organizations are dynamic phenomena and the interviews only provide a historical snapshot of the management practices of the three media firms – a static still life that was created in an interaction between the researcher and the researcher's subjects (e.g. Denzin and Lincoln 2000).

4. Results

4.1 Wealth maximization

The profit orientation of 365 miðlar ehf. was overt as profitability was one of the company's four core values (creativity, cooperation, reliability and profitability⁸). The in-house code of ethics explicitly stated that the profit value should guide how work was conducted in the newsrooms (365 miðlar ehf. 2009). Ari Edwald, part-owner and CEO of 365 miðlar ehf. said:

As a company, of course it is our purpose to turn profit but we do it through our operations by providing news and entertainment ...⁹

At Árvakur hf., however, wealth maximization was not as explicit. Óskar Magnússon, publisher and part-owner, said it was the objective of Árvakur hf. to employ the most qualified people and work according to the highest professional standards while turning an acceptable profit for its owners.

Both 365 miðlar ehf. and Árvakur hf. had gone through financial restructuring, including lay-offs, after 2008 and financial control was still tight four years later. Magnússon

required all employees, who had any financial responsibilities, to submit monthly financial plans. He said that he asked people whether they could do better. If they couldn't, that particular person had to leave because he was dissatisfied or the person thought he/she could do better and managed to convince him that his/her plan was feasible.

According to Edwald, 365 miðlar ehf. was operated with 200 fewer employees than in 2006 which meant more than ISK 1 billion in savings for the company. Even the human resources manager had been laid off. He said:

I state that people don't walk around in the hallways anymore not doing anything. We know that when we lay someone off now, what has to be done now won't be done, and that can cause harm.

His colleague at 365 miðlar ehf., Freyr Einarsson, editor-in-chief of Stöð 2/Vísir, agreed:

... we go regularly through downsizing. Constantly. It is always being tried to cut down and to put pressure on us to cut down.

In contrast to the privately owned media firms, any profit that the Icelandic National Broadcasting Service, RÚV ohf., turned had be used towards its role as a public broadcaster (Lög nr. 23/2013). However, from 2009, the State had withheld a part of the annual license fee, which it collects from the public, and used it for other purposes. Páll Magnússon, director general of RÚV, claimed it was crucial for RÚV to receive the full license fee because there was an unbreakable cord between editorial independence and financial independence.

4.2 Alignment

It appears that alignment between the interests of the owners and the staff at the privately owned media companies is achieved at least in three ways, i.e. through the dual roles of managers/owners, by the hiring of editors, and general staff alignment.

First of all, both Ari Edwald of 365 miðlar ehf. and Óskar Magnússon of Árvakur hf. were part-owners of the media organizations which they managed. Edwald owned slightly more than 6% of 365 miðlar ehf. while Magnússon's share in Árvakur hf. was larger, or approximately one fifth. Magnússon said:

I do not distinguish between those [roles as an owner and a publisher]. You can have a publisher that is not an owner. It doesn't have to go together. However, I think it is a good thing that he is.

Edwald, on the other hand, said that he did not have a role at his company as an owner but he believed that the price of his shares would go up, taking into account that the company made a profit.

Secondly, the hiring of the editors-in-chief is an important mechanism for alignment. For example, Magnússon said:

I hire the editors-in-chief, who have the agenda, which I as a publisher and an owner, and the other owners, have or want the paper to have, even though we don't have it ourselves.

Similarly, Edwald said:

... by choosing this editor-in-chief rather than someone else, you are having influence because you know approximately who he is. You don't hire someone whom you don't know.

Thirdly, at 365 miðlar ehf. there was an emphasis on alignment between the company's values and the staff's values, which were measured through staff evaluations and interviews. According to Edwald, it was not possible in the long run to have vastly different values in one's private life and at work. At staff meetings he emphasized that if the employees were not willing to embrace the company's values, the ways of the employees and the company would part in the end.

4.3 Monitoring

The concept of monitoring is a crucial part of agency theory. The principal incurs cost because of the need to monitor the actions of the agent, and this cost must be limited. At 365 miðlar ehf., the monitoring cost had been reduced by introducing bonding cost. If the company suffered financial calamities due to media coverage, the company had the right to demand the equivalent of a month's post-tax salary from the editors-in-chief. Edwald explained that it was impossible to separate power and responsibility. There had been an increase in libel suits against the newspaper *Fréttablaðið* and he didn't want to have to monitor the content of the paper. Consequently, it was decided that the editors themselves would be held liable by having to sacrifice a month's salary if the company lost a libel suit.

At the time of the study, Edwald was also the head of the news division but he claimed it was purely for practical reasons, i.e. he was the acting managing director of the news division and did not interfere with the editorial work. Nevertheless, Ólafur Stephensen, editor-in-chief of *Fréttablaðið*, said that Edwald occasionally commented on the character of the medium, i.e. if he felt that the newspaper lacked trust and credibility.

At *Fréttablaðið*, quality meetings were held, usually every other Tuesday, where the editorial policy, the company's code of ethics and any criticism were discussed. Moreover, Stephensen of *Fréttablaðið* said that he implemented the editorial policy of the paper by regularly reminding the staff of the policy's existence and it was sometimes discussed informally via e-mail. If he felt that a journalist had only one unreliable source, for example, he pointed out that the code of ethics required that on such matters they had two sources.

Freyr Einarsson of Stöð 2/Vísir said that quality meetings were held on regular bases where the code of ethics and the editorial policy were discussed. The purpose of these quality meetings was to critically review the ratings. Since Stöð 2 participated in Gallup's Portable People Meter and got daily reports about the ratings, the channel was closely connected to its audience. Einarsson said that if they noticed a drop in viewership, he watched the newscast with his staff members with the intention of seeing how they could have done better; how they could have presented the news in such a way that people didn't feel like going to the bathroom or doing something else. Also, the managing editors issued quality reports after the news broadcasts where the whole newscast was reviewed, i.e. technical details like camera work and editing, and the choice of interviewees, for example. This had meant, in Einarsson's opinion, that the employees were more careful in what they did.

Monitoring, including reading the paper, was also a part of what the managers at Árvakur hf. did while the general monitoring of the staff was done through the news directors. Both Haraldur Johannessen, editor-in-chief of *Morgunblaðið*, and Óskar Magnússon said that it was their role to make sure that the paper was the way it was supposed to be. Magnússon, who claimed that he carried out active quality control, said:

If I see that *Morgunblaðið* is gradually becoming *DV*,¹⁰ I intervene. That doesn't involve intervening with specific news stories but rather the bigger picture. I have opinions on how the paper is, whether it is good or bad, like any other reader. I make comments, or compliments
...

Interestingly, at RÚV ohf. both Magnússon, director general, and Óðinn Jónsson, news director, admitted that there was a lack of formal work structure and written rules at the organization. Magnússon said that things had been done more according to people's feelings rather than form, and he used the word culture¹¹ to describe it. This was consistent with what Jónsson said; although he emphasized that they were trying to formalize the rules.

There are numerous rules that are unwritten, and only have basis in what we say: "This is not how we do things at RÚV or this is how we do things at RÚV". Of course this is very important, and this is what every employee gets a feeling for and learns as time goes by.

Thus, it seems that there is much less direct monitoring of the staff at RÚV ohf. than at the privately owned media companies. This may in part be due to much more business oriented management practices at 365 ehf. and Árvakur hf. and their emphasis on turning profit. Nevertheless, Magnússon said that RÚV's success was measured in terms of its listeners and viewership, and whether people trusted the organization.

It is worth mentioning that Einarsson of Stöð 2/Vísir and Magnússon of Árvakur

hf. brought up the independence of their employees. Einarsson said that he had never known a journalist who was solely company-minded. While the people over at the sales department identified themselves with the company and referred to themselves and the firm as “we”, the journalists did not. He said that journalists were like autonomous units within the firm and that after managing a large group of journalists, he could manage any other organization. Journalists were not the easiest individuals to control, especially the well-known ones.

Óskar Magnússon, on the other hand, discussed the fuss that people made about the hiring of Davíð Oddsson as an editor-in-chief of *Morgunblaðið*. He pointed out that people seemed to have forgotten that Oddsson was one of the most independent spirits in Iceland and asked if they really thought that Oddsson would allow the owners to take away his independence.

4.4 Avoiding harm

Harm, and the importance of not harming the companies, logically emerged as a theme in most of the interviews – without the author specifically asking about it. This might have been expected as agency problems are seen as harming companies, and the management practices, which agency theory advocates, try to minimize harm. However, the nature and the source of harm varied at the Icelandic media organizations. The managers at RÚV ohf. identified the source of harm as outside pressure while the managers at 365 miðlar ehf. and Árvakur hf. emphasized the importance of not harming the company from the inside.

Páll Magnússon, director general, recounted that when Alþingi came into session in the fall of 2010, there was a mass demonstration in Austurvöllur, the square in front of the parliament building (e.g. RÚV.is 2010). While RÚV was broadcasting live from the protest, a member of parliament for one of the two coalition parties that formed the government, called him to complain that RÚV was igniting riots against the country’s legally elected government. The unnamed member of parliament reminded the director general of RÚV that the budget committee would in the upcoming week decide on RÚV’s budget. In short, that particular member of parliament was trying to use his financial control to directly influence RÚV’s content. Jónsson, news director, on the other hand, mentioned the tremendous pressure that individuals and groups put on the news department and the necessity for the staff not be abused by these outside forces.

In contrast, Óskar Magnússon at Árvakur hf. said:

We have to be careful that our objectivity or our news delivery doesn’t get harmed by views that we or the editors-in-chief may have [...] If we cause harm to the high quality news delivery of the paper or Mbl.is, then we have harmed everything we have done so far [...] and we are not going to do that. We have put a lot of money into this.

Edwald at 365 miðlar ehf. argued along the same lines:

I think that if one abuses the influence of a medium, it becomes obvious to the listeners and viewers – if not the same day then at least in the long run. Then that medium will come to an end.

4.5 Stakeholders

As discussed earlier in this paper, some have claimed that managers should take all stakeholders into consideration in their decision making – not only the shareholders. Not surprisingly, the managers of RÚV ehf. were unanimous in their opinion that the public was the sole stakeholder of the organization. Considering that everyone who pays the license fee is in reality a shareholder of the organization, it may be argued that the view of these managers is actually consistent with agency theory.

The managers of the privately owned media companies mentioned that their stakeholders were their employees, clients, suppliers, and owners – and not least the public. As a matter of fact, in many cases the public was the first thing that came to their mind. Thus, these managers seem to recognize that shareholders are not the only ones who have stakes in their companies. Magnússon of Árvakur hf., for example, mentioned the significance of being able to pay the employees' wages.

4.6 Social responsibility

In accordance with the profit orientation of a private company, Edwald of 365 miðlar ehf. said that it was consistent with social responsibility to make a profit since companies that were not profitable ended up closing their doors, thereby causing damage to stakeholders. Moreover, he stressed that it was important that the product wasn't hazardous to the public because if the product wasn't safe, the company wouldn't do well and thus lose money.

Óskar Magnússon at Árvakur hf. said that *Morgunblaðið* had great social responsibility. To elaborate, he said that once people were aware that he and his business partners were thinking of buying the company, he could sense how much people demanded of the newspaper. He said that trust was the key issue; people trusted them. When there was breaking news, when volcanoes erupted, people came to them for information. Since the online news site, Mbl.is, was introduced in 1998, people knew that it would provide them with accurate news of events.

Therefore, it appears that the top managers of the privately owned media companies defined social responsibility at least partly in terms of delivering a trustworthy product to their users. In contrast, the managers of RÚV defined their social responsibility in terms of the organization being the only safety valve in the democratic discourse, as the director general phrased it, since other large media companies in the country were owned by business people. His expressed views were thereby in harmony with McChesney (1999/2000) and others who have maintained that commercial media are anti-democratic.

5. Discussion

It was the overarching purpose of the present study to investigate whether agency theory was applicable to the practices of Icelandic media managers (R_1). The results indicate that the media house 365 miðlar ehf., in particular, fits the criteria of agency theory. Profitability was, for instance, one of the company's four core values ($R_{2,1}$). This heavy emphasis on profit was congruent with the management of *Jönköping-Posten* in Sweden (Djerf-Pierre and Weibull 2011).

Avoiding harm to the company at all cost was also underscored. To minimize harm and maximize profit, the editors signed a bonding contract (e.g. Jensen and Meckling 1976). Furthermore, the code of ethics was used to keep the staff in line. The three managers of 365 miðlar ehf. repeatedly referred to the company's code of ethics. It appeared that the code was used for social control; it was the "moral code of conduct [...] to restrict our conduct toward what we would choose if we bore our full cost" (Alchian and Demsetz 1972, p. 791). The code of ethics of 365 miðlar ehf. explicitly stated that the newsrooms operated as agents of the board (365 miðlar ehf. 2009). Nevertheless, a former business editor of *Stöð 2* and *Vísir* wrote in a public letter that the journalists at the company were really agents of the public and the board of directors should have nothing to do with editorial work and should not have any influence on it, whatsoever (Halldórsson 2013). This view is consistent with Wiseman, Cuevas-Rodríguez and Gomez-Mejia (2012) who said that the agent may act in the interest of a principal different from the principal whose interest he should be guarding. In this case, Halldórsson defined his principal as being the public but not the owners. Ari Edwald refuted Halldórsson's arguments and pointed out that the board of directors decided what kind of a medium was published (Jónsson 2013).

Interestingly, Freyr Einarsson, editor-in-chief of *Stöð 2/Vísir*, said that the journalists were independent people and no one could tell them what to do. More specifically, he said that the journalists perceived the media company as a separate entity from themselves, – which supports the findings of Russo (1998) who came to the conclusion that newspaper journalists had stronger attachment to journalism as a profession than to the media organizations for whom they worked. Nevertheless, through staff evaluations and the quality reports, the profit orientation of 365 miðlar ehf. was aligned with the staff members' values ($R_{2,2}$ and $R_{2,3}$).

Ari Edwald, CEO of 365 miðlar ehf., maintained that by making profit for the owners and keeping the company afloat, other stakeholders, for instance the employees and users of their media, reap the benefit as well. Without satisfied customers and without the public's trust and confidence, the organization wouldn't survive (R_3). This is in line with Boatright's arguments (2006) who said that advocates of stakeholder theory failed to recognize "that a business organization in which managers act in the interest of the shareholders can also be one that, at the same time, benefits all stakeholder groups" (p. 107).

Wealth maximization did not seem to be the prime objective of the owners of Árvakur hf. Rather, it appeared that their investment in *Morgunblaðið* was based on political

motives, i.e. their wanting the paper to present a particular political agenda to the readers of the newspaper. Thus, the newspaper's value was not measured in terms of a monetary amount but political influence. This was, for example, reflected in the hiring of Davíð Oddsson as an editor-in-chief – which secured ideological alignment between the editorials and the owners. According to Bagdikian (2004), hiring and firing of editors is “the most definitive mechanism of control possible” (p. 199). Again, this is consistent with the interviews with the CEO of 365 miðlar ehf. and the publisher of Árvakur hf. It became clear that the hiring of the editors is one way for the owners to exert influence on the policy and the content of the media, and thereby increasing the alignment between their own interests and the staffs' interests.

Both at Árvakur hf. and 365 miðlar ehf., the top managers were part-owners as well. This solidifies the alignment between ownership and management and reduces agency cost. However, this governing structure may be the cause of asymmetry in information as the owner-managers have access to greater information about the organizations than other shareholders. Picard and Weezel (2008) have maintained that private ownership of newspapers is the most effective ownership form when one takes into account agency costs and asymmetry of information, among other things.

Furthermore, the interviewees agreed that their companies had social responsibilities (R_4), which is congruent with a study among CEOs of media companies in Finland (Wilenius and Malmelin 2009). Mintzberg (1989) maintained once that because decisions have social consequences “there is no such thing as a purely economic decision in big businesses” (p. 318). However, the nature of the social responsibility varied.

Overall, the results from the present study reveal that owners' influence and profit orientation at privately owned media companies may be covert and indirectly exercised on the staff through the management. Interestingly, these findings confirm a classic study from the 1950s that examined how the policy of media owners was implemented among journalists in the newsroom (Breed 1955).

As a public broadcasting service, RÚV's mission was not to maximize profits for its owners. According to Buchanan (1996), the public is the main principal in the case of government bureaucracies, and it was quite clear in the managers' minds that only the public had any stakes in the company.

If one takes for granted that ownership of RÚV ohf. is dispersed among the general public, separation of ownership and control is much greater for the public broadcaster than the privately owned media firms and this may cause agency problems. Since the board of directors of RÚV derives its power from the public through the political parties, there is always the risk of mismanagement by the board for political purposes. This political influence can be indirect, for example, through the hiring of the director general; and through him, the hiring of other staff members.

The owners, i.e. the public, have no direct mechanism to monitor the behavior of the board of directors of RÚV ohf., the company's management or the employees – except by reading the company's annual report. The public can, however, exercise general quality control by monitoring RÚV's programming and its news operations.

It has been suggested that agency theory should be embedded in stakeholder theory (Shankman 1999). The author of the present paper argues that agency theory and stakeholder theory are compatible even though the literature tends to treat them as being dichotomous. One might want to re-conceptualize the principle of profit maximization and non-owner stakeholder considerations as two forces on a continuum that pull at organizations with a different degree of magnitude.

Moreover, it is argued that agency theory is a theory of social control, i.e. it specifies how to control humans to reach a specific economic goal. It makes social-psychological assumptions about human behavior. For instance, Jensen (1994) claimed that “rational individuals always choose the option that makes them better off as they see it” (p. 2). Freeman, a stakeholder theorist, on the other hand, has posited that agency theory is not a holistic theory about human beings but a partial one like many other theories that are taught in business schools (Agle et al. 2008).

5.1 Power as an alternative approach

Although the main objective of this paper was to discuss agency theory but not power, it became evident during the interview with the director general of RÚV ohf. that it might have been more appropriate to approach RÚV ohf. from the literature on power. Firstly, politicians have control over its funding and this dependence causes uncertainty and unpredictability for the organization. Additionally, its relationship with the government fulfills three important power criteria, i.e. RÚV ohf. has no alternative sources for funding (except for limited advertising), the government regulates RÚV's access to financial resources and it exercises tight control of these resources (e.g. Pfeffer and Salancik 1978).

Secondly, the state has legislative power over RÚV ohf. and through regulations it also controls the privately owned media companies. This perspective of power is related to the idea of coercive power within neo-institutionalism. Interestingly, it has been maintained that the power dimension of DiMaggio and Powell's classic paper (1983), where coercive isomorphism is introduced as a way for governments, for example, to homogenize organizations, was ignored for decades (Greenwood and Meyer 2008). Beckert (2010) claimed that coercive power may not necessarily lead to homogenization but rather support variation. This is consistent with the fact that the government does not apply the same legislation to RÚV ohf. as to the privately owned firms.

Concerning the privately owned media companies, the concept of power can also be applied to describe their relations with the government. By affirming the idea of editorial autonomy, the government employs its own legislative power to transfer power from media owners to journalists; thereby causing internal conflict between the media ownership and the editorial room. Organizational conflict is not uncommon within media firms (Djerf-Pierre and Weibull 2011) but media owners seem to buffer their loss of control by using their power to hire top-level managers that work in their interests – which is in line with the advice of Salancik and Pfeffer (1977) who advocate putting allies in key positions.

Organizational behavior is complex and dynamic and no single theory can capture the intricacies of management practices within firms. The present study, which was reported in this paper, was an attempt to view media organizations from one specific perspective. It is certainly not without its faults, but hopefully it has provided a foundation for further research on this subject.

Notes

- 1 In July of 2014, Sævar Freyr Þráinsson replaced Ari Edwald as the CEO of 365 miðlar ehf.
- 2 Ólafur Stephensen quit his job at 365 miðlar ehf. in August of 2014 when Kristín Þorsteinsdóttir, formerly a member of the firm's board of directors, became the sole editor-in-chief.
- 3 Freyr Einarsson quit his job at 365 miðlar ehf. in July of 2014.
- 4 Óskar Magnússon left Árvakur hf. at the end of 2014.
- 5 Haraldur Johannessen became the CEO of Árvakur hf. in the beginning of 2015 but kept serving as one of the two editors-in-chief.
- 6 Páll Magnússon resigned from his job at RÚV ohf. in December of 2013 and Magnús Geir Þórðarson was hired as the new director general in January of 2014.
- 7 Rákel Þorbergsdóttir was hired as RÚV's news director in April of 2014 and Óðinn Jónsson became the editor of RÚV's radio morning show.
- 8 Sköpunargleði, samstarf, áreiðanleiki og arðsemi.
- 9 All translations are by the author, and the author bears full responsibility for their accuracy.
- 10 The editorial policy and news coverage of *DV* may be said to have been more aggressive than *Morgunblaðið*'s.
- 11 The concept of culture also emerged as a theme in the interviews with the managers of 365 miðlar ehf., not least because most of the firm's media outlets started out as independent units before being merged into one big company. It is, however, beyond the scope of this paper to explore that particular aspect in further details or in-depth.

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