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**A Dilemma in Response:  
Examining the Newspaper Industry's Response to the Internet**

**A thesis presented  
by  
Clark G. Gilbert**

**In partial fulfillment of the requirements for the degree of  
Doctor in Business Administration**

**Harvard University  
Graduate School of Business Administration  
George F. Baker Foundation**

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## ABSTRACT

### A Dilemma in Response: Examining the Newspaper Industry's Response to the Internet

by  
Clark G. Gilbert

Response to environmental change is at the heart of firm sustainability. In the case of disruptive technology, previous research shows that firms fail to commit resources because proposals do not fit the selection criteria considered in the existing resource allocation process (Christensen and Bower, 1996; Bower, 1970). However, there are an increasing number of cases where firms anticipate the eventual threat, commit significant resources, but still mismanage the disruptive technology. It appears that threat perception is a necessary source of motivation, but also a debilitating source of rigidity (Dutton and Jackson, 1987; Staw, Sandelands, and Dutton, 1981).

Two research methodologies are used to examine the response phenomenon: a small sample clinical process study and a large sample survey study. The clinical analysis applies extensive longitudinal data collected from firms in the newspaper industry as they responded to the Internet. A longitudinal process model of firm response is constructed with four constituent components: 1) the core organization rejects the disruptive business, 2) threat eventually motivates sustained commitment, 3) threat-induced behavior leads to intense rigidity, and 4) the rigidity is either relaxed or perpetuated as a function of organizational structure and management framing. The clinical data suggest that the role of structure extends beyond releasing the pressures of the established resource allocation process. All of the primary research sites obtained considerable resources; it was how they used those resources that differentiated their response.

The survey study expands the research to a larger sample, examining the 100 largest U.S. metro newspapers. Both management framing and organizational structure are significant independent predictors of the level innovation in the new ventures. The more organizationally independent a venture is structured, the higher its associated level of innovation. Similarly, the more the venture management emphasizes the independent opportunity, the higher the venture's associated level of innovation.

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**SECTION 1: THE RESEARCH SETTING**

**CHAPTERS 1-3**

**CHAPTER 1: INTRODUCTION**

**CHAPTER 2: THEORETICAL BACKGROUND**

**CHAPTER 3: INDUSTRY BACKGROUND**



## CHAPTER 1: INTRODUCTION

### 1.1 DESCRIBING THE PHENOMENON

In 1996, there were many reasons why managers at Eastman Kodak might not commit resources to digital photography. Digital images were not as sharp as developed chemical film, Kodak's traditional customers did not seem interested in the new product, and the margins appeared inferior relative to the traditional film business. Previous research would suggest that the resource allocation mechanisms of the firm would screen out such projects (Christensen and Bower, 1996). And yet, Kodak's management seemed to sense that digital photography might eventually invade their core market, despite its initial inferiority. In 1997, the company proceeded to invest nearly half of Kodak's annual \$1.1 billion research and development budget on digital photography.<sup>1</sup> However, instead of finding markets that valued the unique applications and convenience potentially available with digital technology, Kodak's early efforts seemed focused around making digital film "good enough" to meet the expectations of its traditional customers. This implied that these customers would use digital imaging the way they used chemical film. By the end of 1997, Kodak had installed over 10,000 digital kiosks in Kodak partner stores that were already printing chemical film.<sup>2</sup> The company's response was clearly that of high commitment, but Kodak seemed to be "cramming" the

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<sup>1</sup> Smith, G (1997). "What is Kodak Developing in Digital Photography." *BusinessWeek*, July 7, 1997, 108-109.

<sup>2</sup> *Ibid.*



new technology into the old business--the new product seemed only capable of replacing the old product. Contrast this with the behavior of other entrants in the digital imaging business. Hewlett-Packard, Canon, Sony, and others were building products that let consumers do at home what they were traditionally required to do at retail stores--develop images. The picture quality was not as high, but because the do-it-yourself applications were much more convenient and customizable, they created a whole new growth opportunity for picture development.<sup>3</sup>

The early reaction of Kodak to the threat of digital photography is a troubling phenomenon: threatened response resulting in the aggressive cramming of new technology into an established market. The following research seeks to address three related questions. First, how does threat perception impact commitment in the resource allocation process? Second, how does that decision framing impact how a new business is subsequently managed? Finally, what mechanisms can help managers effectively respond to potential threats when significantly modified behavior is required?

## **1.2 BACKGROUND AND MOTIVATION**

This dissertation helps integrate two previously unconnected literatures in an effort to explain the phenomenon of threatened response. We examine the literatures of resource allocation and disruptive technology to understand what types of motivation are required for established firms to respond to disruptive technology. We then draw on the

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<sup>3</sup> Smith, G (1997). "Kodak's Focus May be Too Narrow." *BusinessWeek*, November 24,

cognitive framing and threat rigidity literatures to look at the implications of threat-induced response. The intersection of these literatures helps provide insight into the response phenomenon and build a basis for some rudimentary prescriptions.

### **Resource Allocation and Disruptive Technology**

Response to strategic change is perhaps the most critical challenge to the sustainability of incumbent organizations in any industry. The case of disruptive threats has proved to be a particularly difficult type of strategic change (Christensen and Bower, 1996). In these instances, resource allocation systems of the established organization reject proposals built around the new technology. As described in the case of Kodak and digital photography, disruptive technologies: 1) grow from smaller markets whose customers are different than the established market; 2) they under-perform on attributes that are valued in the established market, but improve performance on new attributes valued by an emerging market; and 3) disruptive technologies change the business model in a way that looks unattractive to the established firms. Accordingly, both financial and operational analysis reveals their prospects to be inferior to other opportunities that sustain the existing business. This has led to a view that separating the business solves the resource allocation problem (Christensen, 1997).

There is evidence, however, that firms can obtain resources even without separating the disruptive business from its parent organization. By casting the technology as a threat to the survival of the organization, managers can suspend

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1997, 42.

traditional financial and market criteria normally considered in resource allocation. And yet, despite the availability of resources, firms may still repeatedly replicate old procedures and decision rules. It seems that the way a new business is initially evaluated has a large impact on how it is eventually managed (Noda and Bower, 1996).

### **Cognitive Framing and Threat Rigidity Theory**

When described as a management framing problem, a considerable body of research in the social psychology literature can be used to illuminate the behaviors observed. Theory on threat rigidity asserts that when seriously threatened, key decision makers respond aggressively. However, these threat-induced resources are then focused around a firm's best known, *pre-existing* response (Dutton and Jackson, 1987; Staw, Sandelands, and Dutton, 1981). Rather than evolving, the firm pushes harder along paths previously proven successful. The problem is that some threats require fundamental change--aggressive response without change is problematic.

### **Resolving the Phenomenon**

The research presented in this dissertation describes a response phenomenon: absent threat, response to disruptive opportunities is inadequate; but with threat, the fully funded response is maladaptive. The resolution is to be found in being able to de-couple the benefits of threat as a catalyst from the costs of threat as a source of rigidity. The possibility that one can simultaneously manage the influence of threat and opportunity has important implications for the sustainability of the firm.

### **1.3 NEWSPAPER PUBLISHING AS A RESEARCH AREA**

The newspaper industry was selected for two reasons. First, the issues facing the very senior management of the industry fit the research questions described earlier. Second, there were methodological benefits to using a single industry study with the characteristics of the newspaper industry.

#### **Fit with Research Question**

The issues of disruptive technology and of threat-induced action were both present in the newspaper industry. As will be shown, early reactions of newsroom editors and reporters were to ignore the Internet. They often viewed it as an inferior, even unprofessional source of information. Marketing managers had their own reasons to be disinterested in the Internet. As will be described, the biggest and most profitable print advertisers were not early adopters of the Internet. Marketing and sales departments had spent years building processes and cost structures that could support these large, profitable customers. This also meant that there were strong operational incentives to ignore the Internet. Finally, the business model for Internet content was substantially different and changed the underlying profit model of the print newspaper business.

As the product began to improve along a new trajectory, many outside analysts were predicting that print would give way to digital technology and that entrant firms would control the new media. Many newspaper companies began to anticipate a possible displacement of print by digital media and were motivated to action largely by a threat to their current print franchise.

### **Methodological Fit**

The second reason to select the newspaper publishing industry was methodological. Selecting a single industry provided control for industry effects, enabling more direct comparisons across firms. Also, the local nature of most of the newspaper business allowed for larger sample comparisons that might not be available in other industries. There are more than 100 newspapers in the United States with average daily circulation greater than 100,000.

## **1.4 OVERVIEW OF METHODOLOGY**

The research methodology for this study employs a blend of detailed longitudinal process research with a larger sample survey analysis.

### **Longitudinal Process Research**

The process analysis was conducted first over the course of approximately 15 months. Several propositions were taken into the field for testing, but much of the efforts were built around inductive discovery and in understanding the richness and complexity of the phenomenon being studied. Data collection employed a case study format using in-depth interviews, direct observation, and archival document gathering.

### **Large Sample Survey Research**

The research was then complemented with larger statistical analysis from a survey of the top 100 metro newspaper markets in the United States. The survey was Internet-based and yielded a 74 percent response rate from the approximately 100 general managers who were targeted.

Both research approaches have associated costs and benefits. The longitudinal process data provides a detailed picture that captures the multiple levels and time periods associated with the entire process of response. However, it is limited primarily to the eight research sites. The survey study captures a large sample, but only at one level (venture manager) and at one point in time. By blending these two research approaches, the research benefited from the insight and that comes with in-depth direct analysis and the rigor that is associated with larger sample statistical confirmation.

## **1.5 CONTRIBUTIONS OF THE RESEARCH**

The research provides insights to the literature in three specific areas: 1) an analysis of threatened response in its embedded context, 2) implications for firm sustainability in light of the need for threatened response, and 3) insight into strategic commitment that extends beyond resource allocation.

### **The Phenomenon in Its Embedded Context**

Threat rigidity as a construct is shown to be active at the organizational level. This is a contribution to the cognitive framing literature in that many previous studies have made this implication by conducting contrived experiments, but less often by analyzing data collected in its embedded organizational context (Jackson and Dutton, 1988; Mittal and Ross, 1998; Kahneman and Tversky, 1979). Instances when the phenomenon was studied in its embedded context tended to be single case studies (Staw and Ross, 1993). The research presented in this dissertation is able to take a complex organizational phenomenon, measure it with a notable level of reliability, and show its incidence to be

fairly robust across a large population of organizations. Further, the research applies the theory of threat rigidity to an organizational phenomenon--the need for threat-induced action in disruptive settings--that has previously been unrecognized.

### **Firm Sustainability**

Perhaps the most important contribution of this research is how it expands the dimensionality of firm sustainability in the face of threatened response. Cognitive framing and organizational process interact to determine the shape of strategic commitment. The identification of the strategic paradox of disruptive response has implications for the sustainability and life of the firm. If the very cognitive frame required to fund a disruptive technology then becomes a source of dysfunctional response, a frame de-coupling mechanism becomes critical. Understanding what these mechanisms are and how they work presents tremendous insight for firms facing threatened response.

### **Beyond Resource Allocation**

The current research moves the theory of response to disruptive change beyond resource allocation to include the crucial role of management cognition. In fact, all of the firms in the study obtained resources; it was how they used those resources that differentiated their response. Previous research has focussed on the allocation of resources but placed less emphasis on the implications of management cognition.

## 1.6 DELIMITATIONS OF THE RESEARCH

Two delimitations of the research should be addressed. The first relates to generalizability. The second relates to performance.

### Generalizability

#### *The Internet Phenomenon*

Rarely has one technology had such a universal impact on markets and industries, as did the Internet in the late 1990s. Some were calling the transformation a second industrial revolution.<sup>4</sup> Part of this was the sheer pace of growth. In 1994, there were less than 10 million Internet users in the United States. By 1999, that number was more than 110 million.<sup>5</sup> The unprecedented level of attention given to the Internet phenomenon heightened the general perception of threat in established businesses. One magazine featured an entire issue on 20 industries that would be “fossilized” by the Internet.<sup>6</sup> While this explosive growth makes the Internet a fascinating technology to research, the peculiarities also have to be considered. The implication for generalizability is whether this heightened attention and the rapid growth of the Internet make threatened response in this setting different than other settings. Certainly, the accelerated pace and visibility make the ability of a firm to recognize a threat much easier. However, as suggested in

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<sup>4</sup> Hamm, S. (1999). “Masters of the Web Universe.” *Business Week*. New York: September 27, 1999.

<sup>5</sup> Yearbook of Statistics, Telecommunications Services, Chronological Time Series 1989-1998, International Telecommunication Union, 2000, Geneva, Switzerland. World Telecommunications Indicators 1999, International Telecommunication Union, 1999, Geneva, Switzerland.



the Kodak example, threat-induced behavior can be just as powerful elsewhere. That the perception of threat was so systemic in the case of the Internet helped the research make systemic comparisons across firms. The amplification of the motivation does not appear to change the underlying issues of threat-induced response.

### *The Newspaper Industry*

How the Internet impacts the newspaper industry is another issue that should be considered. How the Internet impacted different industries varies considerably. It has been argued that the Internet was disruptive to the newspaper industry--customers and therefore product criteria had to change considerably. In other industries, the Internet may actually help firms better serve the existing needs of their customers.<sup>7</sup> In other words, the *same* technology can be disruptive or sustaining to an organization depending on how it interacts with the firm's resource allocation processes and external market pressures. Threat-induced behavior may be very functional in a setting where the new technology sustains the existing business--it generates response, and the existing firm competencies work quite well. The current research has implications that are limited to situations where the nature of the threat is disruptive or requires capabilities that otherwise conflict with the existing capabilities of the firm.

Also, it can be argued that the newspaper industry has some peculiarities that should be considered before generalizing to other settings. Many U.S. metro newspapers

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<sup>6</sup> -----(1999). "Are you next? 20 Industries about to be Fossilized by the Net." *Business 2.0*, March 1999.

are near monopolists or at least face only one or two strong newspaper competitors in their local markets. Further, the newspaper business is a highly operations intensive, stable, low growth environment. Both of these factors may have created an environment where risk-taking and entrepreneurship were difficult. One counter argument is that many of these companies have significant diversified holdings in broadcast television, cable, and radio. For now, we simply note the unique features of the industry, though we see no overwhelming reasons to discount potential implications in other industries.

### **Performance Implications**

Finally, the research describes a *behavioral* outcome: innovation. There is also the implication that this equates to a *performance* outcome as well. In fact, both the clinical analysis and the survey analysis examine market penetration as an additional outcome measurement. At the time of this publication the Internet content industry, particularly Internet advertising, was under considerable pressure.<sup>8</sup> There was a growing perception by some that the best Internet strategy was to proceed slowly and then move in after some of the hype had died down.<sup>9</sup> However, because the survey study controls for variables such as site launch date and number of online employees, the comparisons on innovation and market penetration are still worth noting. Given that these other variables are controlled, higher innovation should be assumed to be desirable, all else

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<sup>7</sup> This type of innovation is considered “sustaining” rather than “disruptive” (Christensen, 1997).

<sup>8</sup> Nail, J. (2001). “Online Advertising Eclipsed.” Forrester Research Report, January 2001.

equal. Also, higher traffic should be assumed to be desirable, all else equal. Nevertheless, we do note the existence of some ambiguity in the ultimate measure of performance.

## 1.7 KEY DEFINITIONS

There are a number of key terms that will be used with some repetition in this dissertation. Many of these will be introduced in their theoretical context with greater discussion in the body of the paper, but because of their frequent reference throughout, we state them formally up-front. Descriptions of how some of the key constructs will be operationalized for the statistical analysis are captured in chapters 8 and 9.

**Resource Allocation Process.** The resource allocation process is the complex, multi-level process by which new proposals gain backing, funding, and sustained organizational commitment (Bower, 1970). This process has three distinct phases: *definition*, *impetus*, and *commitment* (defined below). The process can be used to explain formal funding commitments, but can also be used to describe the operational commitments of time and attention for line managers (Noda and Bower, 1996; Bower and Christensen, 1996).

**Definition.** “The process by which the basic technical and economic characteristics of a proposed investment project are determined” (Bower, 1970, p.67). This can occur at multiple levels, but often originates with operating line managers.

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<sup>9</sup> Salon Staff (2000). “The Year the Hype Died.” Salon Magazine, December 2, 2000.

**Impetus.** Bower calls impetus the “force that moves a project forward” (1970, p.68). Impetus is what gives a proposal the momentum and dialogue required at more senior levels in an organization to achieve commitment.

**Commitment.** The decision to commit resources around an investment decision. This can be both in the formal allocation of financial resources, but can also include the individual allocation of time and attention at the operating levels of the organization.

**Structure.** Chandler defines structure as the “design of organization through which the enterprise is administered” (1962, p. 14). In this study structure will specifically consider the reporting relationships, physical location, staffing decisions, and financial accounting responsibility associated with the structure of new Internet ventures.

**Structural Context.** Bower defines the structural context as the “set of organizational forces that influence the process of definition and impetus” (1970, p. 71). The *corporate structure* is a key component of this and can be described as “the system of information and control used to measure performance of the business, and the systems used to measure and reward performance of managers” (p. 71).

**Strategic Context.** Burgelman adds another force that shapes the process of definition and impetus. The strategic context reflects the efforts of managers “to link autonomous strategic behaviors at the product/market level into the corporations’ concept of strategy” (Burgelman, 1983, p. 66).

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[http://www.salon.com/tech/feature/2000/12/22/five\\_best/index.html](http://www.salon.com/tech/feature/2000/12/22/five_best/index.html).

**Sustaining Technology.** Innovation that “improve[s] the performance of established products, along the dimensions of performance that mainstream customers in major markets have historically valued” (Christensen, 1997, p. xv). These can be radical or incremental, but tend to “sustain” the existing product/market demands of the firm.

**Disruptive Technology.** These innovations result in *worse* product performance on the dimensions valued by mainstream customers, but introduce very different value propositions and new market applications for an emerging set of customers (Christensen, 1997). These innovations find root in a new market and eventually improve to the point that they are “good enough” to invade the mainstream market, often with a much lower cost structure. Because these technologies do not serve the existing customers and markets, they are viewed as unattractive by established firms. Thus, it is difficult to build impetus and commitment through the resource allocation process.

**Framing.** Framing deals with the lenses used to guide the interpretation of information. The formal definition used for this research is the “underlying structures of belief, perception, and appreciation” through which subsequent interpretation is filtered (Schön and Rein, 1994, p.23).

**Opportunity Framing.** Morris defines opportunity as “a favorable set of circumstances creating a need or an opening for a new business concept” (1998, p. 26). Opportunity framing uses perceptions of being positive, for gain, and in control to filter subsequent interpretation (Dutton and Jackson, 1987; Jackson and Dutton, 1988).

**Threat Framing.** Threat framing uses perceptions of being negative, for loss, and not in control to filter subsequent interpretation (Dutton and Jackson, 1987; Jackson and

Dutton, 1988). Both threat and opportunity framing bias subsequent interpretation of issues toward conformance with the framing.

**Entrepreneurship.** Stevenson and Jarillo have defined entrepreneurship as pursuing “opportunity, regardless of resources currently controlled” (1990, p. 23).

## **1.8 STRUCTURAL OVERVIEW OF DISSERTATION**

The dissertation is divided into four main sections. Section 1 describes the research setting and includes the introduction, theoretical background, and industry background used to develop the study. Section 2 presents the clinical data, including methodology and analysis. Section 3 overviews the survey analysis, its formal hypotheses, and a series of findings that both confirm and extend insights from the clinical data. Section 4 concludes the study with a summary discussion and a stated series of implications for future research and the practice of management.



## CHAPTER 2: THEORETICAL BACKGROUND

*Santayana's definition of a fanaticism: "redoubling your effort, when you have forgotten your aim."*<sup>10</sup>

There are many pressures that make commitment to disruptive technology difficult. Yet when firms do commit resources, they seem compelled to force the new technology into the old business, rather than finding new vehicles of growth. This process of "cramming" was described in the Kodak example. To understand and explain this phenomenon, we will draw on a group of previously unconnected theoretical literatures. We will introduce these literatures in an effort to frame the problem and then suggest a series of propositions that can be tested.

### 2.1: THE BOWER-BURGELMAN MODEL OF RESOURCE ALLOCATION

We start with the Bower-Burgelman model of resource allocation. The way investments go through the process of building organizational commitment is critical to understanding the phenomenon observed in this research. The framework comes from the work of Bower, Burgelman, and their colleagues (Bower, 1970; Burgelman, 1983, 1991; Christensen and Bower, 1996, Noda and Bower, 1996; Sull, 1997, Eisenmann, 1998).

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<sup>10</sup> George Santayana, found in *Famous Quotations Network*, <http://www.famous-quotations.com>.



## **The Process Components**

The Bower-Burgelman Model makes the assumption that investment decisions are part of a complex, multi-level process with three discrete stages. The first stage is *definition*. This is the process of defining the economic and technical characteristics of a new investment. In the model, definition typically occurs at the operational levels of the organization. Once defined, proposals go through a process of evaluation by middle management. These managers decide whether to sponsor and lend support to these proposals in a process of building *impetus*. Bower describes impetus as the “force that moves a project forward” (1970, p. 67). This process can be inherently political as middle managers assess the risks associated with sponsoring a new venture and whether they are confident in its prospects going forward. *Commitment* occurs when resources are deployed around the investment.

### **A Note on Dimensionality**

One of the reasons the Bower-Burgelman model of resource allocation has been such a productive platform for research is the insight it provides into the dimensionality and complexity associated with strategic process. The first insight is that resource allocation is a *process*, not an event. This is shown in the research of Noda and Bower where they refer to the *iterative* process of resource allocation (1996). The second insight is that the process is inherently multi-level. The model is typically described such that proposals are defined by specialists at the functional level, advance to middle managers at the integrating level, and corporate managers at the commitment level. This process has been described as “bottoms-up” (Bower, 1970--See dashed line in Figure

2.1). However, the process does not have to follow such a clear level hierarchy. At the *definition* stage, senior management of large diversified firms often lack enough detailed understanding to articulate the proposal. However, there are instances acknowledged by the authors, where the process is clearly “top-down” (Bower, 1970; Burgelman, 1983). Bower’s case study on Teradyne is an excellent example of this (1997). Similarly, the integrating role played by middle management in building *impetus* can also be played by senior management. Finally, the process of commitment often occurs when senior corporate managers sign financial commitments required to make investments. But the *commitment* process can also occur at other levels as well. For example, some commitments do not need senior management’s approval and can occur without leaving the lower levels of the organization. More importantly for this study, even when senior management makes formal financial commitments, the allocation of people’s time and attention at the operating levels of the organization must still go through a process of commitment (see Table Figure 2.1)

**Figure 2.1: Stages in the Resource Allocation Process**

<b>Level</b>	<b>Definition</b>	<b>Impetus</b>	<b>Commitment</b>
Top			
Middle			
Bottom			

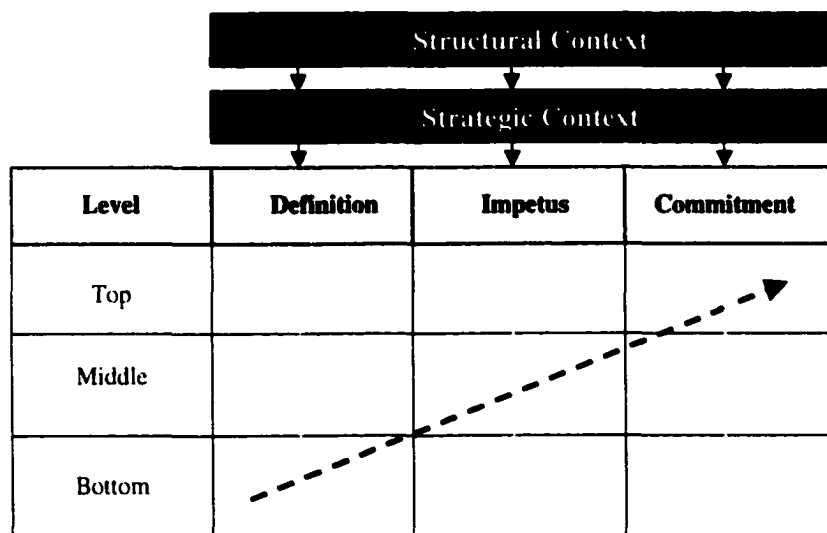
### **Contextual Factors Influencing the Resource Allocation Process**

There are contextual factors that influence each stage in the resource allocation process. These factors influence what types of projects get defined, gain impetus, and are given commitment. These factors include the structural context and the strategic context. *Structural context* refers to the set of organizational forces that influence the resource allocation process. These include the processes of control, financial incentives, reporting relationships, measurement and reward systems, and other structural mechanisms that impact behavior. Structural context affects the manager's behavior by "directing, delimiting, and coloring his focus and perception; it determines the priorities which the various demands on him are given" (Bower, 1970, p. 73). *Strategic context* is the second major factor influencing behavior. This factor reflects the attempts of managers "to link autonomous strategic behaviors at the product/market level into the corporations' concept of strategy" (Burgelman, 1983, p. 66). Burgelman describes:

[T]he concept of corporate strategy represents more or less explicit articulation of the firm's theory about its past concrete achievements. This theory defines the identity of the firm at any moment in time. It provides a basis for maintenance of this identity and for the continuity in strategic activity. It induces further strategic initiative in line with it (p. 66).

Both the structural and strategic context act to influence the way projects are defined and whether they receive impetus and commitment. They act as overarching forces guiding decision-making and strategy conceptualization. This process is summarized in Figure 2.2.

**Figure 2.2: Context Influences the Resource Allocation Process**



Management can manipulate both the strategic and structural context to create desired behavior. However, one of the overwhelming conclusions of the research on resource allocation is how persistent these contextual factors can become. One of the reasons is that as context develops, its manifestations become embedded in the way people work. Accordingly they become tacit in nature, making them very hard to identify and change. Nevertheless, failure to change strategic and structural context can limit the overall ability of a manager to change behavior, even when such a change is desired. Particularly, unchanged structural context can prevent changes in the strategic context. The Noda and Bower research on the telecommunications industry is a useful example (1996). The greater exposure of U.S. WEST to capital market pressures vs. BellSouth meant that its investment time horizon for the cellular market was significantly shorter than BellSouth's. Similar market penetration data were interpreted quite differently

across both firms, leading to substantial reinvestment at BellSouth and strategic exit at U.S. West. Thus, two otherwise very similar firms, with similar technology and market starting points, wound up with very different strategic views of the prospects for cellular telephony.

## **2.2 RESOURCE DEPENDENCE AND DISRUPTIVE TECHNOLOGY**

A particularly powerful case for the persistence of context in resource allocation systems is the challenge of disruptive technology. To help sort through the question of why leading firms failed in the face of a particular type of strategic change, Clayton Christensen built a model that linked theories of resource dependency and resource allocation (Christensen and Bower, 1996). Previous work by Pfeffer and Salancik (1978) had shown that powerful external forces can have a dramatic impact on the strategy of an organization. These external constituencies can constrain, even control, a firm's ability to make and change strategies. Christensen and Bower were able to show how resource dependency was linked to the resource allocation process of the firm. Using data on the disk drive industry, they demonstrated how a firm's leading customers and value network can pull the organization along a certain performance and product/market trajectory (Bower and Christensen, 1996; Christensen and Rosenbloom, 1995). When firms failed to adopt new technologies, it was often because their most profitable customers did not initially value the new product or technology, causing even the most innovative firms to under-fund or de-emphasize the new market opportunity.

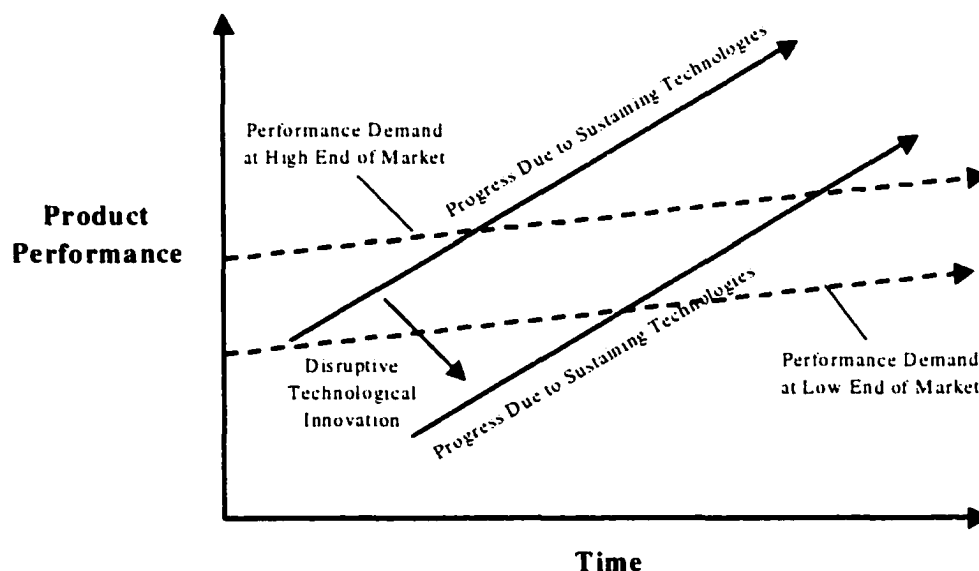
What is unique about the Christensen and Bower research is how it integrated theories of resource dependency with theories of resource allocation. The power of external pressures is that they enter and influence organizational decision processes, especially resource allocation processes. Because the resource allocation process is a distributed multi-stage, political and social process (Bower, 1970), these external pressures can literally permeate the context of an organization. This includes the operating levels of the firm, as well as the senior decision makers. Others scholars have demonstrated how various external pressures can extend throughout the organization's decision-making processes and ways of working (Burgelman, 1991; Leonard-Barton, 1992b).

### **2.3: THE PROBLEM OF COMMITMENT AND IMPETUS**

Christensen and Bower (1996) use the resource dependency linkage to show how the systems that make a firm strong in one setting can render it incapable of sustaining impetus and commitment toward a particular type of innovation. In well run firms, strong organizational processes and imbedded decision rules are built around the demands of external constituencies--e.g. capital markets and powerful customers. However, if an innovation creates a set of applications that cause it to "under-perform" on metrics that are valued by the mainstream market, it is improbable that an incumbent organization focused on its existing customers can rationally sustain commitment to the new business. The pressures from current customers are just too strong. However, when

the products and services “over-provide” the needs of the low end of the mainstream market, a disruptive risk is created. If the new technology enables a new market to emerge that exploits the innovation’s unique attributes, but is “good enough” for many customers in the established market, the technology can threaten to displace market share from underneath the established players. The problem is that the established players never recognize the threat until it is too late. This process of entrant advantage through disruption is summarized in Christensen’s graph of performance trajectories (see Figure 2.3).

**Figure 2.3: Christensen’s Model of Disruption**



Three key attributes distinguish disruptive technology include:

- a) **Performance:** An initial decrease in the performance trajectory along traditional market metrics, but the exploitation of a previously untapped need with a new set of performance implications. The product then moves up-market to become “good enough” for many customers in the established market,

- b) Market: Early customers are those who value the new and unique attributes of the new technology. These are not typically the large customers in the mainstream market.
- c) Business Model: A new business model (vs. the established model) implies a change in the “way you make money” (Christensen, 1997).

The problem for incumbent firms is that when managers at every level of the organization consider disruptive proposals, analysis reveals their prospects to be inferior when compared with other potential opportunities that sustain the existing business. In well-run companies, the resource allocation process is designed to prioritize projects and proposals that improve traditional metrics, serve leading customers, and sustain the business model. These sustaining proposals gain *impetus* and achieve *commitment* when there is some degree of confidence around the outcomes (Bower, 1970; Christensen and Bower, 1996).

One possible way to generate organizational commitment to a disruptive technology is to *define* it as an eventual *threat* to the firm. Many management scholars suggest that creating a sense of threat is an effective catalyst toward action (Kotter, 1996; Hurst, 1995). Threat can create the needed *impetus*. Perception of a threat can also help a firm achieve *commitment* toward a project that might not otherwise meet the traditional financial and market hurdles considered in resource allocation (Bower, 1970). The problem is that the plans for using those resources are then developed within the rigid confines of the incumbents' mainline business. Threat to existing resources implies an emphasis on those resources and not on the unique attributes of the new innovation.



## **2.4: INSIGHTS FROM THE COGNITIVE FRAMING LITERATURE**

If we think about the behavior associated with threat response, a considerable body of research from the social psychology literature can be drawn on. The key concept employed is the behavior known as threat rigidity. Before discussing threat rigidity, it will be useful to understand the general theory from which it emerges: cognitive framing. This general theory has been developed at the individual, group, and organizational level of analysis. At each level, different research traditions have used different labels to describe how early interpretation shapes subsequent interpretation. We will highlight three streams of research: 1) schematic theory, 2) the interpretive perspective, and 3) decision-making theory.

### **Schematic Theory**

On the individual level the concept draws on schema or categorization theory in the psychology literature (Rosch, 1975; Rosch and Mervis, 1975). A *schema* or *categorization* is a label or category placed on new information to guide the process of interpretation (Alba and Hasher, 1983). Schemas have both constructive and limiting implications. Traditional schema theory posits that schemas are important tools in enabling memory. Because the world is complex and ambiguous, individuals use the key attributes of underlying artifacts to guide the process of memory. These categorizations help people act under uncertainty and help strengthen recall (Cantor and Mischel, 1977; Alba and Hasher, 1983). However, schematic categorizations can also lead to limiting behavior such as selective memory, distortion, and gap filling of new data in conformance with a related schema.

Schema employs four basic coding processes to respond to stimuli: *selection*, *abstraction*, *interpretation*, and *integration*. What is encoded is “heavily determined by a guiding schema or knowledge framework that selects and actively modifies experience in order to arrive at a coherent, unified, expectation-confirming and knowledge-consistent representation of an experience . . . Only the information that is relevant and important to the currently activated schema will be encoded” (Alba and Hasher, 1983, p. 203-204). The schema can lead to bias at all stages of data encoding.

Traditional schematic theory focuses on categorizations in the natural world, such as animals, colors, and other categorizations that can be directly observed. For example, individuals can be biased toward interpreting a certain color once labeled, even if the hue actually changes considerably, e.g., from red to orange (Rosch and Mervis, 1975). However, there are a number of studies that focus on social situations and events. For example, McCrae found that faith or fatalism were common schema used to cope with and interpret events related to death or loss (1984). In these cases, the data of the events was interpreted to conform to the schema employed. Cantor and Mischel found that there were considerable differences in what was remembered based on different personality types (1977). Once labeled, schema can become very resilient because of their ability to bias subsequent information toward the perpetuation of the category. Additionally, Rommetveit found that label persistence was especially robust in the presence of ambiguous stimuli (1968).

### **Interpretive Perspective**

Schema theory has an analogue in the social psychology literature that extends the theory from individuals to include also behavior in groups and organizations. Weick has described a process of organizational “sense making” that is similar to the encoding process described in schema theory (1995). This school of thought makes several assumptions about organizations: 1) organizations are open social systems that process information from the environment, 2) organizations (and not just individuals) have cognitive systems and memory, 3) strategy-level managers have primary responsibility for interpretation, but 4) both they and their organizations filter what types of information get interpreted through environmental scanning processes (Daft and Weick, 1984). Sense making is largely retrospective. Retained interpretations determine where subsequent attention is given. This shapes what meanings are ascribed to the new information. Thus, there is a reciprocal influence that exists between organizations and the information and events they observe (Weick, 1979).

Similar to schematic theory, there are both benefits and challenges associated with this type of “sense making.” One benefit is that meaningful interpretation can allow clarification of purpose. This is especially important in an ambiguous world where failure to make sense of external stimuli can lead to inaction. However, this process of “sense making” can also cause managers and organizations to ignore or misinterpret important data in the environment, particularly when the environment is changing or different than previously interpreted. Weick argues that because organizations and managers tend to bias interpretation toward retrospective sense making, organizations

should learn to treat present knowledge as valid when action is taken and invalid when consequences are interpreted (1979). The challenge is that even interpretation can be biased toward retrospective sense making.

### **Decision-Making Literature**

The schematic and the interpretive perspective literatures demonstrate three key insights: 1) labels or categories are important to take action, but 2) can bias information assimilation and interpretation, and 3) labels are active at the individual, group, and organizational setting. There is a third stream of literature where the concept of labeling and its behavioral implications has received considerable attention (Fredrickson, 1985; Staw Sandelands, and Dutton, 1981; Dutton and Jackson, 1987). What schematic theory calls schema or categories, the decision-making literature calls frames. Frames are defined in this paper as the “underlying structures of belief, perception, and appreciation” through which subsequent interpretation is filtered (Schön and Rein, 1994, p.23). And like schema or organizational sense making processes, there is a growing body of empirical research that shows that different decision frames can produce very different behavior around otherwise identical alternatives (Kahneman and Tversky, 1984; Mittal and Ross, 1998).

### **2.5 THREAT AND OPPORTUNITY FRAMING**

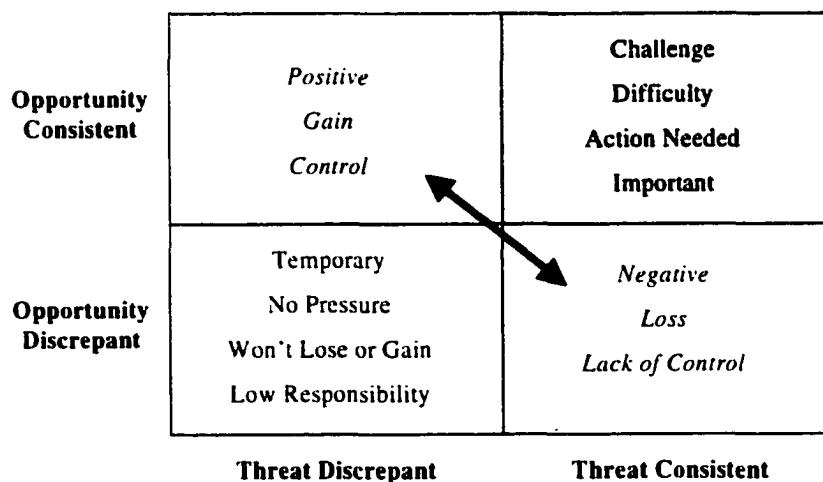
Two common decision frames used to infuse meaning on strategic issues are *threat* and *opportunity* (Dutton and Jackson, 1987; Jackson and Dutton, 1988; Dutton, 1992; Mittal and Ross, 1998; Mintzberg, Raisinghani, and Theoret, 1976; Nutt, 1984).

The following two sections will 1) list the unique *attributes* used to identify threat and opportunity and 2) list the *behaviors* that are associated with each

### Attributes that Distinguish Threat and Opportunity Framing

The following section draws heavily on the research of Jane Dutton and Susan Jackson who defined threat and opportunity framing along a distinguishable set of attributes. Using empirical measurement from questionnaire data, they were able to show that threat and opportunity shared several common attributes, including: *challenge*, *difficulty*, *action needed*, *important*, etc. However, they also showed that threat and opportunity framing had unique and discrepant characteristics that made them distinguishable from each other. Threat framing has the attributes of *negative*, *loss*, and *lack of control*. Opportunity framing has the attributes of *positive*, *gain*, and *control* (Dutton and Jackson, 1987; Jackson and Dutton, 1988). In Figure 2.4, a stylized summary of their findings is displayed. The shaded quadrant represents the attributes shared by the constructs. The off-diagonal quadrants show the discrepant attributes.

**Figure 2.4: Map of Characteristics of Threat and Opportunity (Jackson and Dutton, 1988)**



These distinguishing characteristics also appear elsewhere in the literature. For example, Staw, Sandelands, and Dutton (1981) defined threat as “an environmental event that has impending *negative* or harmful consequences for the entity” [italics added] (p. 502). In research on stress, Averill showed that a feeling of *uncontrollability* is also a perception that is associated with threat (Averill, 1973). Fredrickson’s research on frame manipulation operationalized the “problem” label as something associated with *loss*, whereas the “opportunity” label was associated with *gain*. Morris defines opportunity as a “*favorable* set of circumstances creating a need or an opening for a new business concept” [italics added] (1990, p.26). Like threats, opportunities can present challenges, but opportunities are distinguished by their positive tone and sense of control that is perceived by those who act on them (McCrae, 1984).

### **Behavioral Implications of Threat and Opportunity Framing**

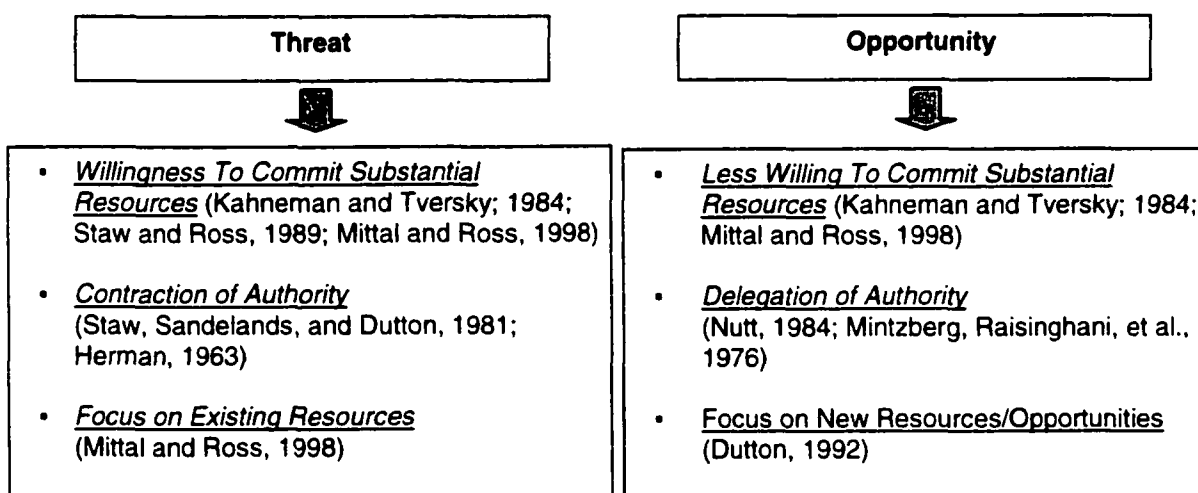
Like other types of frames, threat and opportunity have interpretive effects that tend to bias information toward a perpetuation of the frame (Mittal and Ross, 1998). These interpretive effects have a series of related behavioral patterns that are manifest as threat or opportunity framed response. Issues framed as threats tend to produce 1) *a willingness to commit substantial resources*, 2) *contraction of authority*, and 3) *focus on existing resources*. Opportunity produces an inverse set of managerial activities: 1) *unwillingness to commit substantial resources*, 2) *delegation of authority*, and 3) *focus on new resources and opportunities*. In multiple studies from experimental psychology, risk tolerance was measured not as “willingness to try something different or new” but rather as “willingness to spend aggressively.” For example, Mittal and Ross created scenarios

where they induced threat and opportunity framing. Framing was manipulated by creating a controlled questionnaire setting with contrived introductory descriptive stories that were either threat or opportunity focused. The study participants were then presented otherwise identical scenarios and asked to select financial commitments, given a set of identical probability scenarios. Participants who had been given the threat introductions had significantly higher “willingness to spend” than participants who had been given the opportunity introduction. Hartman and Nelson found similar results in their research (1996). Kahneman and Tversky’s seminal study on risk showed that if issues were framed as being in the domain of loss vs. the domain of gain, individuals were much more likely to commit financial resources, given otherwise identical outcome probabilities (1983).

While threat framing can illicit greater financial commitment, it also creates behavior that leads to what has been called threat rigidity (Staw, Sandelands, and Dutton, 1981; Dutton and Jackson, 1987). Thus, the resultant behavior is that of active response—threat-induced actors do commit, in fact, aggressively--but that response is centered on what has worked in the past. For example, Staw, et. al. found that threat situations were associated with “increased centralization of authority, more extensive formalization, and standardization of procedures” (1981, p. 513). Hermann also noted a contraction of authority associated with crisis situations (1963). As decision-making becomes centralized, organizations and managers tend to focus on what they know best, making it more difficult to include dissenting opinions (Janis, 1972). However, in non-threat situations, managers are much more likely to allow authority to be delegated to the

operating levels of an organization (Nutt, 1984; Mintzerg, et. al. 1976). Also, because threat-induced behavior is focused around concern for loss, attention and energy is focused around those resources that might be lost and not the resources that might be new or different (Hartman and Nelson, 1996; Mittal and Ross, 1998; Dutton, 1992). Figure 2.5 summarizes the behavior differences between threat and opportunity framed response.

**Figure 2.5: Behavioral Consequences: Threat vs. Opportunity**



### Is Rigidity Good or Bad?

Note that in the literature presented, the rigid behavior associated with threat framing was found at the individual, group, and to some extent, organizational setting. The pattern appears robust across different levels of analysis. Why would something like rigidity be such a robust reaction to threat? The answer is that in many situations, rigid response may be the best survival behavior. It generates aggressive action around behavior that has worked well in the past. In many crisis and renewal situations this is



entirely appropriate. Refocusing on what you do best, returning to your dominant and best-known processes may help resolve the crisis. In fact many scholars have argued for the importance of creating a sense of threat or crisis in order to accelerate response (Hurst, 1995; Kotter 1996). However, if the best-known response conflicts with the underlying logic of a new environment (Prahalad and Bettis, 1986; Leonard-Barton, 1992a), responding in a threat frame leads to dysfunctional behavior. Learning becomes even more difficult, as previously valid assumptions prove harder to discover and change (Schein, 1985; Argyris, 1990; Teece and Pisano, 1994; Garvin, 2000). Thus, trying harder under the same rules of operation is the worst thing the firm can do. It is like Santayana's definition of fanaticism, "redoubling your effort, when you have forgotten your aim."

## **2.6: DISCONNECT WITH CORPORATE VENTURING PRESCRIPTIONS**

An interesting corollary to the threat rigidity research is that threat framing creates the opposite behavior than that prescribed in the corporate venturing literature. This is true for: 1) aggressive commitment, 2) control of authority, and 3) focus on existing resources.

### **Aggressive Commitment**

Threat framing implies an aggressive and often immediate commitment of resources. However, the overwhelming prescriptive advice from the corporate venturing

literature is to stage the commitment of capital. One argument for staging capital commitments is that it creates exit options and options have *financial value* (Sykes and Dunham, 1995; Block and MacMillan, 1985). The more relevant reason in our current setting is that staged commitment of capital creates *learning value*. McGrath and MacMillan introduced the concept of “discovery-driven planning” where assumptions are surfaced, incremental action is taken with preferably low investment, and the assumptions are then reconsidered before more substantial resources are deployed (McGrath 1995, McGrath and MacMillan, 1995). Accordingly, the aggressive commitments associated with threat framed behavior further limit an individual or organization’s ability to learn.<sup>11</sup>

### **Contraction of Authority**

Threat-induced action leads to a contraction of authority. On this point, scholars in the corporate venturing literature emphasize that for learning to occur in the face of powerful existing corporate norms, decision-making needs to occur in a distributed network by those with visceral contact with the new business (Abetti, 1997; McGrath, 1995). This requires that those working in the venture be given the autonomy to experiment outside of the existing hierarchy of the organization. Bart found that

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<sup>11</sup> Note that the aggressive commitment of un-staged resources implies that the strategy process becomes deliberate in the sense described by Mintzberg and Waters (1985). These researchers have emphasized that emergent strategy making process, where strategy responds iteratively as events unfold, is more effective than deliberate process

managers need to reduce the amount of control placed over the development of new businesses (1995). Control was defined as the “set of procedures, systems, and actions, that general managers use to evaluate, influence, or define what subordinates are doing” (p. 341). New ventures developed more successfully if these mechanisms were relaxed.

### **Focus on Existing Resources**

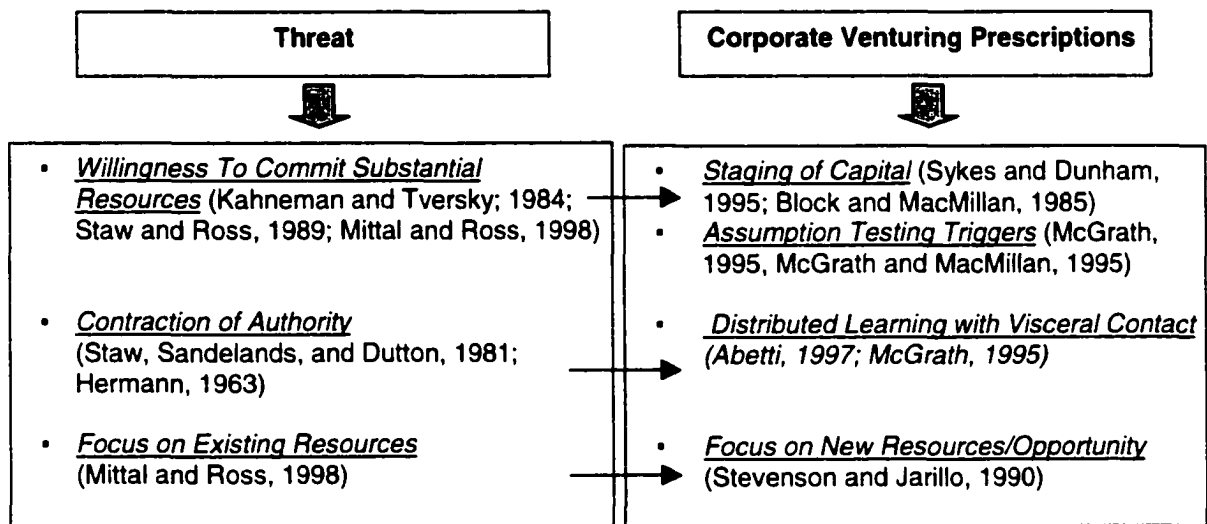
Finally, threat-induced action makes an organization more likely to focus on its existing resources and their defense. This conflicts with the very definition of entrepreneurship, which requires vision beyond one’s existing resources. Stevenson and Jarillo have defined entrepreneurship as pursuing “opportunity, regardless of resources currently controlled” (1990, p. 23). This definition would suggest that threat-induced action limits the ability of an organization to identify opportunities outside of its own endowment.

Thus, threat-induced behavior makes it extremely difficult to follow the collective prescriptions set forth in the corporate venturing literature. These linkages are summarized in Figure 2.6 below.

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when learning is important. We point out here that both aggressive commitment and contraction of authority lead to the deliberate process.

**Figure 2.6: Threat Rigidity Behavior vs. Corporate Venturing Prescriptions**



## 2.7: CLINICAL PROPOSITIONS

What emerges is a strong paradox of response to disruptive technology: absent threat, response to disruptive opportunities is inadequate; but with threat, the fully funded response is maladaptive. By combining the theories of resource allocation and threat rigidity, we have developed a very precise language that helps us understand the tension in the paradox. In resource allocation, the *definition process* is unlikely to show a *disruptive proposal* to be an attractive *opportunity* and it will fail to build *impetus* and organizational *commitment*. Framed as a *threat*, impetus and commitment are forthcoming, but this same framing process will create *rigidities* that reinforce past behavior, rather than evoke changed behavior. This can be captured in two propositions:

Proposition 1: Threat framing provides impetus and commitment to projects that would otherwise stall in the resource allocation process.

Proposition 2: Threat framing evokes a set of rigid managerial activities around a firm's best-known response mechanisms

How can managers resolve this paradox? In principle, it should be possible to frame the business as a threat during resource allocation and then change the framing during the management of the venture. Thus, generate impetus and commitment with threat, and then refocus the thinking solely around opportunity once the venture is launched. Figure 2.3, while oversimplified, helps capture the frame de-coupling possibilities.

**Figure 2.7: Response to Disruptive Technology**

		Framing in Venture Management Process	
		Threat	Opportunity
Framing in Resource Allocation Process	Threat	Right Resources, Wrong Plan	<b>Right Resources, Right Plan</b>
	Opportunity	Wrong Resource, Wrong Plan	Wrong Resources, Right Plan

The argument implied by this framework is straightforward. Threat framing motivates managers in the resource allocation process to release funds to projects with otherwise non-competitive characteristics. Opportunity framing allows venture managers

to focus the newly acquired resources around the opportunity posed by the disruptive technology, rather than reactively trying to use it to shore up the existing organization's position. The goal is to migrate to the upper right quadrant.

Why don't managers simply change frames--start by framing disruption as a threat, and then frame it as an opportunity? The literature is full of suggestions for managers to manipulate the framing of strategic issues (Russo and Schoemaker, 1990; Mintzberg, Raisinghani, and Theoret, 1976; Nutt, 1984; Dutton, 1992; Kahneman and Tversky, 1983; Papadakis, et al, 1999; Fredrickson, 1985). The problem is that many of these studies use contrived settings that are removed from organizational context. Despite the inherent appeal of simple frame manipulation, there are several factors that make simultaneous manipulation difficult in organizational settings. First, described in the schema and interpretive literatures, frames tend to bias subsequent information and interpretation toward conformance with the frame (Cantor and Mischel, 1970; Rommetveit, 1968; Jackson and Dutton, 1988; Alba, 1983, Rosch 1975; Weick, 1979).

The second challenge to simple frame manipulation is that resource allocation is not a one-time event, but an *iterative process*. Noda and Bower (1996) demonstrated that initial context and considerations take the form of metrics, context, and choice of management throughout the life of a venture. These effects extended far beyond the formal budgeting process into the operating processes of the venture. The implication is that resource allocation and venture management are not discrete events. Resource allocation occurs throughout the many phases of a venture's development.

Research on disruptive technology would suggest that creating a separate organization can help managers avoid the traps of resource allocation (Christensen, 1997; Christensen and Bower, 1996). However, we will argue that an additional, perhaps more powerful argument for separation moves beyond resource allocation. Tushman, Anderson, and O'Reilly argue that innovative organizations have to build an ambidextrous capability that has "built-in contradictions" (1997, p.15). Yet because these contradictions create conflict, independent structure separates the tension, preventing the old organization from crushing the new. So too with managerial frames, structure plays a role of separating organizationally those who frame the funding argument as a threat and those who manage the strategic process as an opportunity. This implies a final proposition:

*Proposition 3: Separate structure allows simultaneity of framing, de-coupling threat to motivate resources and opportunity to direct strategy and venture development.*

Independent structure can help minimize the overlap between the resource allocation process and the new venture management process. This independence allows those who are backing and funding the venture to be motivated by the *threat* to their core organization, while increasing the ability of the venture management to be shielded from that perspective and view the new business as an *opportunity*. What is being argued for is a unique environment where both deliberate and emergent strategic processes can co-exist simultaneously (Mintzberg and Waters, 1985). Deliberate commitment facilitates the decision to enter a disruptive business where autonomous processes would otherwise

fail to generate impetus and support needed to sustain commitment (Burgelman, 1983; 1991). Structural isolation can help relax threat framing by protecting the new venture managers from being overwhelmed by the considerations and concerns for the existing business. Relaxing the drive to commit investments up-front and around contracted authority can help emergent strategic processes develop as the venture management learns.

## **2.8 THEORETICAL BACKGROUND CONCLUSIONS**

In conclusion, there exists what can be called a *response paradox*: absent threat, response to disruptive opportunities is inadequate; but with threat, the fully funded response is maladaptive. We have looked to theories of resource allocation and threat rigidity to understand the paradox. In resource allocation, if managers in the definition process frame the disruptive venture as an opportunity, the new business appears inferior to other opportunities under consideration. Consequently, the business fails to receive impetus and organizational commitment (Bower, 1970; Christensen and Bower, 1996). Defined as a threat, impetus and commitment are forthcoming, but this same framing process will create rigidities that preclude change (Dutton and Jackson, 1987; Staw, Sandelands, and Dutton, 1981). Structural isolation is seen as a way not only to solve the resource allocation problem, but also as a way to de-couple threat and opportunity framing.





## CHAPTER 3: INDUSTRY BACKGROUND

*“Newspaper franchise ownership remains attractive both for its high degree of operating leverage and for its capacity to generate free cash. A single metropolitan newspaper can generate cash flow north of \$250 million . . . Variable costs of materials and sales commissions are limited, enabling 50-60% incremental margins after covering the fixed costs of plant and labor. In the final analysis, the newspaper model yields 25-30% EBITDA margins.”*

PaineWebber Equity Research Report<sup>12</sup>

### 3.1 OVERVIEW OF THE NEWSPAPER BUSINESS

The U.S. newspaper industry was chosen as a place to test and research the behavior of threatened response. The selection was made for a number of reasons, but primarily because the issues of disruptive technology and threat motivation seemed to be active on the minds of managers throughout the industry. Below is some background information on the industry that will be helpful in understanding how the issues of disruptive technology and threat rigidity apply to the situation facing these media companies and their response to the Internet.

#### **Economics**

In 1998, the U.S. daily newspaper industry was a \$55 billion business.<sup>13</sup> Sources of revenue included circulation fees, national and retail advertising, and classifieds (see Table 3.1).

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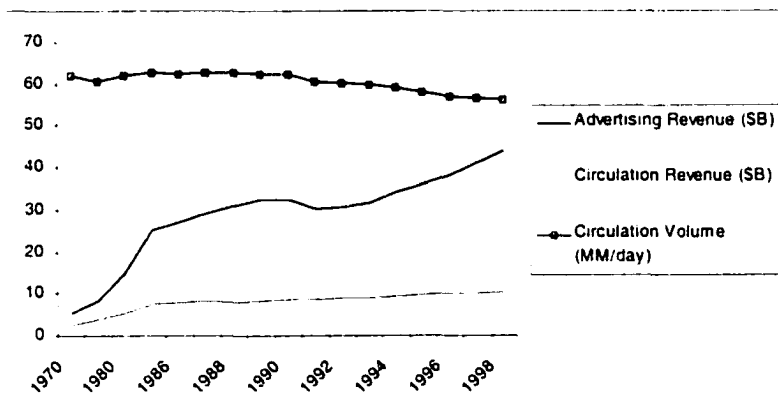
<sup>12</sup> Westerfield, L. and C. Sargent (1999). "Long History, Bright Future: Publishers' Resilient Media Franchises." PaineWebber, December 1, 1999.

<sup>13</sup> Newspaper Association of America (NAA)

**Table 3.1: U.S. Daily Newspapers Sources of Revenues<sup>14</sup>**

<b>Revenue Category</b>	<b>1998 Revenue (millions)</b>	<b>Percent of Total</b>
National Ads	\$ 5,721	10.6%
Retail Ads	\$20,331	37.5%
Classifieds	\$17,871	33.0%
Circulation	\$10,267	18.9%
<i>Total</i>	\$54,190	100.0%

Over the last 25 years, several noticeable trends have emerged. First, circulation rates have slowly declined. From 1970 to 1988, average daily circulation in the U.S. fell from 62.1 to 56.2 million copies.<sup>15</sup> However, total circulation revenues grew slightly, despite the decline in circulation volume. More notably, advertising revenues soared. From 1970 to 1998, annual advertising revenues increased from \$5.5 billion per year to over \$43.9 billion, significantly increasing as a percentage of total revenues (see Chart 3.1).

**Chart 3.1: Revenue and Circulation Trends<sup>16</sup>**

<sup>14</sup> NAA--<http://naa.org/info/facts99/>

<sup>15</sup> NAA, Audited Bureau of Circulations

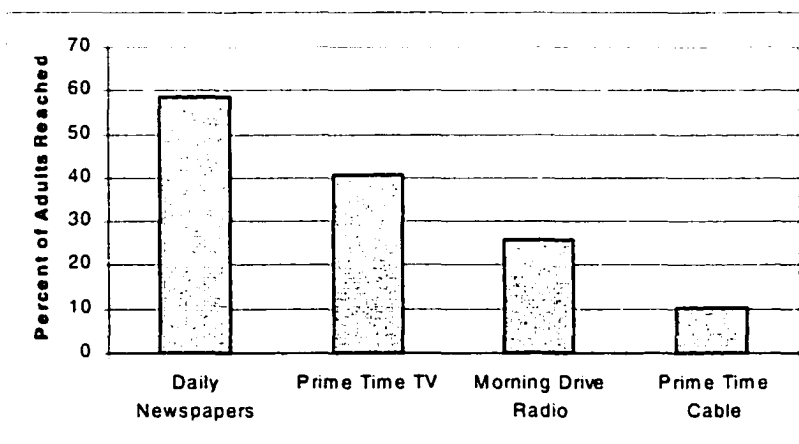
<sup>16</sup> NAA--<http://naa.org/info/facts99/>

Newspapers generated more revenue than any other advertising media in the \$200 billion U.S. advertising market. In 1998, newspapers had the highest percent of adult penetration in the U.S. at 58.6 percent vs. 40.8 percent<sup>17</sup> for prime time television (see Tables 3.2 and 3.3).

**Table 3.2: U.S. Advertising Expenditures--All Media<sup>18</sup>**

<b>Media</b>	<b>1998 Revenues (billions)</b>	<b>Percentage of Total</b>
Daily Newspapers	\$ 43.9	21.8%
Magazines	\$ 10.5	5.2%
Broadcast Television	\$ 39.2	19.4%
Cable Television	\$ 8.3	4.1%
Radio	\$ 15.1	7.5%
Direct Mail	\$ 39.6	19.7%
Yellow Pages	\$ 12.0	5.9%
Miscellaneous	\$ 25.8	12.8%
Business Papers	\$ 4.2	2.1%
Outdoor	\$ 1.6	0.8%
Internet	\$ 1.1	0.5%
<b>Total--All Media</b>	<b>\$201.2</b>	<b>100.0%</b>

**Table 3.3: Percent of U.S. Adults Reached by Medium<sup>19</sup>**



<sup>17</sup> NAA, McCann-Erickson Inc., Scarborough Research

<sup>18</sup> Ibid.

The newspaper business was historically very profitable. Net income for the industry averaged between 8 and 12 percent from 1975-1999.<sup>20</sup> Different sources estimated circulation revenues between 19 and 21 percent of total revenues, while advertising revenues were usually estimated between 79 and 81 percent. Of the advertising revenue, the largest sub-category was local retail advertising, making up nearly 40 percent of total revenues. National advertisers historically accounted for less than 7 percent of total revenues for newspapers. The leading retail advertisers included department stores, such as Macy's and Dillard's, as well as grocery stores. The second major category of advertising was classifieds, making up around 33 percent of total revenues. Classifieds were uniquely important to newspapers in that they were the most profitable product. For example, the paper and ink expenses of a typical want ad cost around \$2000. That same ad would sell for \$40,000. In total, classifieds made up nearly 70% of the profit in a typical metro newspaper.<sup>21</sup> At nearly \$18 billion dollars, classifieds represented a huge business unto themselves.

On the cost side, newspapers had a significant fixed editorial cost of around 10% of revenues and fixed plant and production costs of 14 percent. However, variable costs to produce a newspaper were not insignificant, averaging 17 percent just for newsprint

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<sup>19</sup> *Scarborough Research--Top 50 DMA Market Report 1996-1998*

<sup>20</sup> One Source, Hoovers Industry Profiles, Annual Reports

<sup>21</sup> Barlow, S.N. and S.P. Murphy (1999). "Classified Aggregators On-line." Credit Suisse First Boston, December 3, 1999.

and ink.<sup>22</sup> A typical income statement for a large metro newspaper is summarized below (see Table 3.4)

**Table 3.4: Typical Newspaper Economics in 1998<sup>23</sup>**

<b>Revenue</b>	
<i>Advertising</i>	
Classifieds	33.0% <sup>a</sup>
Retail	39.3%
General	6.3%
On-line	1.0%
<b>Advertising Sub-total</b>	<b>79.5%</b>
<i>Circulation</i>	
Subscription	16.4%
Newstand	4.1%
<b>Circulation Sub-total</b>	<b>20.5%</b> <sup>b</sup>
<b>Total</b>	<b>100.0%</b>
<b>Expenses (% of Revenue)</b>	
<i>Operating Expenses</i>	
Compensation and Labor Costs	31.4%
Print/Ink Charges	17.1%
SG&A	24.3%
Depreciation/Amortization	6.7%
<b>Operating Expenses Sub-total</b>	<b>79.5%</b>
<b>Operating Income</b>	<b>20.5%</b>
<i>Non-operating Expenses</i>	
Interest	1.1%
Taxes	8.2%
<b>Non-operating Sub-total</b>	<b>9.3%</b>
<b>Total</b>	<b>88.7%</b>
<b>EBITDA Margin</b>	<b>27.2%</b>
<b>Net Income Margin</b>	<b>11.3%</b> <sup>c</sup>

<sup>22</sup> Westerfield, L. and C. Sargent (1999). "Long History, Bright Future: Publishers' Resilient Media Franchises." PaineWebber, December 1, 1999.

<sup>23</sup> Merrill Lynch Equity Research, Hoovers Industry Profiles, Comparative Analysis of Newspaper Division of 15 Major Publishing Companies, CS First Boston, DLJ, and Other Analyst Data

- Classifieds tend to comprise around 42% of advertising revenue in larger metro papers
- Companies like the Wall Street Journal, New York Times, and USA Today tend to have circulation revenues closer to 25 percent
- Numbers reflect typical 1998 returns, historical averages range from 7-12%

### **Ownership and Pressures for Profits**

Many newspapers started as private, family owned enterprises. Some of the early founders of these papers were very recognizable personalities, including Edward William Scripps (Scripps Marine Institute), William Randolph Hearst (Hearst Castle), and Joseph Pulitzer (Pulitzer Prize). However, since the 1960s, newspaper management has transformed itself through increased public ownership and capital market exposure. The first company to raise public funding was Times Mirror Company in 1963, then owner of the *Los Angeles Times*. Dow Jones, the publisher of the *Wall Street Journal* followed.<sup>24</sup> Other companies like Gannett emerged, whose acquisition growth were fueled almost solely from public capital. Of the top twenty newspaper publishing companies in 1998, only five were still privately held. With this came increasing pressure for consistent earnings. Lists of the top 20 newspaper publishing companies and newspapers are provided in Tables 3.5 and 3.6.

### **The Culture and Tensions with Journalistic Values**

With increased pressure for profits and growth, tensions between the business and journalistic constituencies of newspapers have also increased. To understand these conflicts, it is helpful to understand the journalistic values that pervade much of the industry. Joseph Pulitzer declared, "A free press should always fight for progress and reform, never tolerate injustice or corruption, always fight demagogues of all parties, never belong to any party, always oppose privileged classes and public plunderers, never

lack sympathy with the poor, always remain devoted to the public welfare.”<sup>25</sup> Walter Lippmann described the role of journalism to be “the beam of a searchlight that moved restlessly about bringing one episode and then another out of the darkness into vision.”<sup>26</sup>

Despite these high-minded values, the price of producing a “searchlight” can be expensive. This is due, in part, because it costs money to pay journalists to cover all the issues that that might be covered. Also, it is the advertisers who pay those costs and these advertisers may not always agree with what the journalists write--particularly if it is about their companies. E.W. Scripps is recorded as having stated the following about this important source of newspaper revenues: “As you know, I recognize the advertiser as the enemy of the newspaper.”<sup>27</sup> There are a plethora of examples of the conflict of interest between advertiser and journalist. Some issues are fundamental. For example, do you write an article criticizing one of your major advertising customers? Others include small structural considerations: a book, movie, or restaurant review with advertising that might promote that same product or service.

An example of how these structural conflicts of interests can surface strong tensions is the 2000 incident at the Los Angeles Times with the downtown Los Angeles Staples Center promotion. The paper violated a deep-felt rule not to blur the line between editorial and advertising content. The Times had agreed to share the revenues from a

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<sup>24</sup> Squires, J.D. (1993). *Read All About It! The Corporate Takeover of America's Newspapers*. New York: Times Books.

<sup>25</sup> Ibid.

<sup>26</sup> Ibid.



Times-produced magazine insert on the Staples Center with the very organization the articles were supposed to be about.<sup>28</sup> The revenue sharing was actually going to the advertiser and not to the newspaper, but many journalists within the company were infuriated. The incident created such an uproar that many reporters threatened to leave the *Los Angeles Times* in search of more journalistically minded newspapers.

**Table 3.5: Top 20 U.S. Newspaper Companies by Average Daily Circulation (1999)<sup>29</sup>**

<b>Publishing Company</b>	<b>Ownership</b>	<b>Daily Circulation</b>	<b>Number of Dailies</b>
1. Gannet Company	Public	5,994,347	74
2. Knight Ridder	Public	3,871,563	33
3. Newhouse Newspapers	Private	2,780,848	23
4. Times Mirror*	Public	2,370,788	9
5. Dow Jones	Public	2,311,966	20
6. The New York Times	Public	2,252,610	20
7. MediaNews Group	Private	1,827,791	51
8. W.W. Scripps	Public	1,330,135	20
9. Hearst Newspapers	Private	1,318,594	12
10. The McClatchy Company	Public	1,311,208	11
11. Tribune Company	Public	1,264,417	4
12. Cox Enterprises	Public	1,120,945	16
13. Thomson Newspapers	Public	1,031,495	50
14. Freedom Communications	Private	959,516	28
15. A.H. Belo Corporation	Public	895,538	7
16. Media General	Public	820,937	22
17. The Washington Post	Public	813,036	2
18. Community Newspapers	Public	803,141	96
19. Hollinger International	Public	802,554	27
20. Central Newspapers**	Public	798,237	7

\*Acquired by Tribune Company in 2000

\*\*Acquired by Gannett Company in 2000

<sup>27</sup> Baldasty, G.J. (1999). *E.W. Scripps and the Business of Newspapers*. Chicago, University of Illinois Press.

<sup>28</sup> Postrel, V. (2000). "The Ethics of Boosterism." *Forbes*, New York; Feb 7, 2000; Vol. 165, Iss. 3; pg. 80.

<sup>29</sup> NAA--[http://naa.org/info/facts99/\(newspapers\)](http://naa.org/info/facts99/(newspapers))

**Table 3.6: Top 20 U.S. Newspapers by Average Daily Circulation (1999)<sup>30</sup>**

<b>Rank</b>	<b>Newspaper</b>	<b>Owner</b>	<b>Average Daily Circulation</b>
1	The Wall Street Journal	Dow Jones Co.	1,740,450
2	USA Today	Gannett Corporation	1,653,428
3	The Los Angeles Times*	Times Mirror Co.*	1,067,540
4	The New York Times	The New York Times Co.	1,066,658
5	The Washington Post	The Washington Post Co.	759,122
6	The Daily News	Independent	723,143
7	The Chicago Tribune	Tribune Publishing Co.	673,508
8	Newsday*	Times Mirror Co.*	572,444
9	The Houston Chronicle	The Hearst Corporation	550,763
10	The Chicago Sun-Times	The Chicago Sun-Times Co.	485,666
11	The Dallas Morning News	A.H. Belo Corporation	479,863
12	San Francisco Chronicle	The Hearst Corporation	475,324
13	The Boston Globe	The New York Times Co.	470,825
14	The New York Post	News America Publishing	437,467
15	The Arizona Republic**	Central Newspapers**	435,330
16	The Philadelphia Inquirer	Knight Ridder	428,895
17	The Star-Ledger	Thompson Newspapers	407,026
18	The Plain Dealer	Thompson Newspapers	382,933
19	The San Diego Union-Tribune	Copley Newspapers	378,112
20	The Orange County Register	Freedom Communications	356,953

\*Acquired by Tribune Company in 2000

\*\*Acquired by Gannett Company in 2000

### **3.2 THE VIDEOTEX LEGACY**

Before examining the Internet, it is useful to examine other early considerations given to electronic media by newspaper companies. Many newspaper publishers had long considered electronic media a potential threat to their print franchises. This dates

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<sup>30</sup> NAA--<http://naa.org/info/facts99/> (newspapers)

back to the early 1980s with ventures into dial-up bulletin board systems (BBS) and audiotex, a dial-up phone service linked to newspaper content.<sup>31</sup>

The business that received the most attention (and losses) was videotex. Videotex sent slow-loading news text to a video screen through a dedicated telephone connection. Many companies had become concerned that videotex could replace the printed newspaper. Managers who committed resources to the business saw it as a way to guard against potential competitive threats from telephone and yellow page companies.<sup>32</sup> Newspaper companies that launched videotex projects included: Cox, Gannett, Times Mirror, Tribune, Knight Ridder, and the Washington Post.<sup>33</sup> Most of these products were similar to a printed newspaper in the videotex format. As one publisher described: "One mistake early videotex projects made was that they tried to replicate, in condensed form the print product."<sup>34</sup> Not only did they replicate the printed newspaper, they did so with very little change over time. This same publisher described, "We recognized the potential threat [of electronic publishing] in 1978, launched, and didn't change strategy once until 1986 when we shut it down."<sup>35</sup> In many ways, response to the videotex technology in the 1980s was a microcosm of the threat rigidity phenomenon observed

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<sup>31</sup> Outing, S. (2000). *Newspapers and New Media: The Digital Awakening of the Newspaper Industry*. Sewickley, PA: GATF Press.

<sup>32</sup> Interview, Publisher and Original Head of New Media, The Beacon Company (3/14/00).

<sup>33</sup> ANPA (1990). "Videotex: Growing Public Awareness." American Newspaper Publishers Association, June, 1990.

<sup>34</sup> Interview, Publisher and Original Head of New Media, The Beacon Company (3/14/00).

<sup>35</sup> Ibid.

with the Internet in the 1990s. Rather than finding new applications that leveraged the unique attributes of the technology, newspaper executives forced the printed format onto the new media in an effort to defend the print business. What is amazing is that these very companies would eventually repeat the same behavior with the Internet, only at a much higher commitment level.

### **3.3 THE INTERNET AS DISRUPTIVE TO NEWSPAPERS**

The Internet could be classified as a disruptive technology to the newspaper industry in a number of ways. The actual data from the clinical research will look at this in more depth using case data, but there were also notable indicators that disruptive forces were active in this industry even when examining third party sources of information. We will look at three such manifestations in this section: 1) different initial customers, 2) different performance trajectory, and 3) different business model. These attributes showed the Internet to be inferior when measured against traditional resource allocation considerations.

#### **Early Customers were Different**

##### *Retail Advertising*

First, the newspaper industry's key advertising customers were different than those who were initially spending money on Internet media. While department stores and local retail companies were among the leading purchasers of newspaper advertising, they were initially slow to use the Internet (see Table 3.7). Thus, the newspaper's biggest and most local customers did not initially value the Internet.

**Table 3.7: Top Daily Newspaper Advertisers, 1998<sup>36</sup>**

Rank	Parent Company	1998 Expenditures	% of Local Ad Spending
1	<i>Federated Department Stores</i>	\$483,781	85.8%
2	<i>May Department Stores</i>	\$394,814	80.9%
3	<i>Circuit City Stores</i>	\$328,507	69.5%
4	News Corp.	\$313,315	51.8%
5	Valassis Communications	\$287,197	100.0%
6	<i>Sears Roebuck</i>	\$237,480	32.9%
7	<i>Dayton Hudson</i>	\$213,582	56.6%
8	<i>Dillard's</i>	\$201,679	95.5%
9	General Motors	\$199,694	9.4%
10	<i>JC Penny</i>	\$179,268	48.2%
11	Time Warner	\$165,267	19.9%
12	AT&T	\$128,848	23.4%
13	National Syndications	\$126,748	99.6%
14	<i>Kmart</i>	\$126,653	40.3%
15	Walt Disney	\$126,548	15.6%
16	Ford Motor Company	\$126,043	11.8%
17	Alltel	\$114,287	88.9%
18	<i>Best Buy</i>	\$108,383	52.4%
19	SBC Communications	\$102,870	48.7%
20	Bell Atlantic	\$100,672	44.7%

Department stores in italics

#### *Classified Advertising: A Possible Exception*

The one group of advertisers that may prove to be the exception is classified advertisers, particularly want ad and auto advertisers. One explanation for this may relate to the very definition of disruptive technology. For some classified advertisers, the Internet actually helped them improve their performance trajectory by better serving their same customers with a similar product. For example, in job classifieds, a certain subset of recruiters found the Internet a vastly superior medium from a measurement and hiring cycle time standpoint. One recruiter explained, "The Web allows us to focus on more active recruiting--mining databases, buying banners, looking at newsgroups." Another

<sup>36</sup> Competitive Media Reporting, Editor & Publisher, PaineWebber

stated, "The Web improves our cycle time. One candidate told us that we made an offer before other firms had even acknowledged receiving a resume."<sup>37</sup>

Newspaper managers were slow to commit resources to online classifieds for factors other than just the arguments of disruptive technology. Tom Eisenmann notes some of these in his forthcoming book on the Internet (2002, forthcoming). I will mention three here: 1) accelerating cannibalization, 2) legacy information systems, and 3) organizational identity.

- Accelerating Cannibalization: As noted earlier, classifieds were the most profitable segment of the newspaper business. However, online classifieds threatened to significantly reduce the typical margins that were available to the newspaper. Price erosion was a real concern. For example, a print want add might be priced at around \$10,000, while a similar online want ad was priced at under \$200 dollars.<sup>38</sup> Strong online competitors had emerged like Monster.com in want ads and Microsoft Carpoint in autos. Industry analysts were predicting a negative impact on print classifieds (see Table 3.10 in "The Internet as a Threat" section below). The newspaper response was generally slow and unfocused. (For a list of the newspaper classified consortia and the relative market share comparisons see Appendix 1). The challenge on

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<sup>37</sup> Charron, C. and B. Bass (1998). "Goodbye to Classifieds." Forrester Research Report, October 1998.

<sup>38</sup> Eisenman, T.R. (2000). "Boston.com," Harvard Business School Case Study 9-800-165.

deciding whether to cannibalize your print classifieds before an online competitor attacked was complicated by the fact that a newspaper's participation online was likely to speed the migration from print to online. Moving slowly might help extend the life of the profitable print business.

- **Legacy Information Systems:** At most newspapers, the databases that were used for print classifieds were not fielded into delimited searchable categories. For example, delimited categories for a want ad might look like the following: *employer: Microsoft; location: Redmond, Washington; position: programmer, salary: \$70,000-\$80,000, etc.* Traditional newspapers did not gather information this way, but rather as a single a block of text that was usually constrained by space. A print auto classified ad might read: "Wt. '93 Honda Accord, 76,000 mi, Good cond, AC/Tape, only one owner . . ." Though this information can be posted to the Internet, searching on a block of text can yield confusing and inaccurate results. Rebuilding the database just for the Internet would be costly, and ignoring the existing classified listings would sacrifice the scale inherent in the print asset.
- **Organizational Identity:** One other reason classified customers may not have pulled the newspapers onto the Internet sooner may have been related to the newspapers sense of organizational identity. As mentioned earlier, newspaper publishers saw themselves as producing a journalistic product. In reality, the newspaper business was really the aggregation of multiple businesses held

together historically because of the economics of distribution. For example, the bundle of want ads, auto classifieds, sports, and local journalism might become separate businesses on the Internet (Evans and Wurster, 1999). The Internet was now splitting apart these businesses, but the organizational identity of the newspaper was still very tightly bound around the concept of a journalistic product (Dutton, 1991). This factor also probably dampened the ability of newspapers to move more quickly and see the classified product as a separate category and business altogether.<sup>39</sup>

### *Readers*

Readers were also different. The early users of the Internet were a much younger, technology-oriented demographic than the mainstream traditional print readers. While print newspapers average nearly 70 percent penetration with potential readers ages 45-54, they earned only 45 percent penetration with younger audience. Content, usage, and applications on the Internet were much more focused on this younger demographic than were traditional print newspapers.

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<sup>39</sup> Note: the arguments presented above might also be applied to the overall newspaper business and not just classifieds. The point of this section is to show that there were multiple reasons a newspaper company might be slow to respond to the Internet. It has been argued that disruptive pressures were the primary factors but others did exist. In the case of classifieds, the product did not have as strong of disruptive characteristics as the rest of the business, but still had pressures slowing response. However, even though the classified response was slow, it led editorial content in some cases by as much as 2 years. A large portion of this response was focused around newspaper classified consortium and is therefore peculiar to this setting, but the difference is worth noting (see Appendix 1).



## **Different Performance Trajectory**

Besides starting with different advertisers and readers, the Internet lowered the performance trajectory traditionally valued in the mainstream market and introduced a new performance trajectory on a different set of metrics. This section will examine different metrics of performance: trust and portability as valued in print; interactivity and searchability for as valued online.

### *Print Trajectory: Journalistic Values and Trust*

As a journalistic medium, both editorial staff and readers initially viewed the Internet as a vastly inferior source of information. Editors initially looked at the content on the Internet with disdain. Traditional editors prided themselves on being separate from the business decisions of a newspaper--free to provide trustworthy, unbiased information to the reader. This generally implied careful and thoughtful writing on topics of reader interest. Whereas editors valued their role of interpretation and its ability to add depth and insight to a news story, early news coverage on the web consisted mostly of general AP news releases. Also, because virtually anyone could post "news" to the web, the process of journalistic review was often viewed as questionable. This had an impact on traditional newspaper readers who had traditionally held a high level of trust with the printed newspapers they read. When the Internet was first developing, that level of trust was not immediate.<sup>40</sup> A final concern was that many content providers had aggressive marketing organizations, anxious to find new ways to reach consumers. This sometimes

blurred the line between content and commerce in ways that were very confusing to users and distasteful to many journalists.

*Print Trajectory: Portability and Ergonomics*

Not as emotionally charged as the idea of trust, but still important, content from the Internet was not nearly as portable as a printed newspaper. As one executive described, “You don’t see anyone take their computer terminal with them to read in the bathroom, do you?”<sup>41</sup> You could take a printed newspaper on the train, in your car, on the airplane, to your living room--basically, anywhere you wanted to go.<sup>42</sup> Not only did the requirement of a terminal and modem hook-up severely limit the portability of the Internet, it made it much less ergonomically appealing. There are limits to how long someone will stare at a computer terminal to get their news and information.

*Internet Trajectory: Interactivity and Community*

While content on the Internet was not initially viewed as reliable and trustworthy for news, it did allow users to compare sources of news in a way that a traditional printed newspaper could not. For example, if a reader viewed a story on Bosnia and had other questions, she could compare *The New York Times* and *The Washington Post*, or go to the Library of Congress. In other words, the interactive nature allowed you to read far beyond a single printed source. But this implies that everyone using the Internet was

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<sup>40</sup> Astor, D. (2000). “Survey Finds More Net Use and Trust.” Editor and Publisher, May 15, 2000.

<sup>41</sup> Interview, Publisher, The Beacon A, (4/14/00).

<sup>42</sup> Note: this is changing with the growth of Internet-accessible hand-held devices. This was a later development.

simply trying to improve the way they got their news. In actuality, many of the new applications of interactivity allowed users to create their own content. Perhaps this was not high quality journalism, but content like chat, discussion boards, etc. tapped into a whole new need for people to connect and discuss topics of interest in a way never really available in a printed newspaper. And yet, many established journalists regarded these new applications as “lowbrow” sources of content. A reporter from the Harvard Nieman program for journalists remarked in conversation about Boston.com’s promotion of chat: “I can’t believe a paper with as strong a reputation as *The Globe* would allow something like that to go unedited onto their website.” What the reporter failed to realize is that much of the value that Internet users were getting out of the chat content was a sense of community and connectedness. The connection was not with *The Boston Globe* or even Boston.com, but with other users in the New England area who were interested in a series of topic-related issues.

*Internet Trajectory: Searchability and Utility*

An extension of the interactive nature of the Internet is that it allowed searchability and general utility that was not traditionally available in a printed newspaper. In contrast to highly reliable, in-depth journalistic content, most users of the Internet were looking for quick information, emphasizing “thin and broad” vs. “deep and narrow.”<sup>43</sup> Jupiter Communications estimated that in 1998, over half of news story page

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<sup>43</sup> E&P, Interactive Newspaper Conference Proceedings, February 1999.

views were accessed by search and directory sites.<sup>44</sup> This points to a broader trend emerging in the way the people were accessing the Internet--for general purpose utility. People were coming to the Internet to get things done, find things out, and have questions answered. Users of this new medium valued general utility over in-depth news.

### **Different Business Model**

The final, and perhaps most important disruptive element of the Internet is that it did not initially appear to make financial sense according to the dominant metrics of the industry. Newspapers have traditionally been evaluated by how much cash they produced, measured by EBITDA.<sup>45</sup> The Internet created huge investment implications that would significantly impact quarterly earnings. The economic model for online content providers is straightforward: produce once, distribute as many times as possible. Because most of the costs associated with producing online content are fixed, once you cover fixed costs, the incremental sales are extremely profitable. Table 3.8 compares the economics of a typical online content business between 1998 and 2002. Across the five-year comparison, revenues grow by more than seven-fold, a compounded annual growth rate of 65 percent. Operating margins rise from a loss in 1998, to margins of 30 percent in 2002. This is driven largely from scale economies. For example, content development as a percent of revenue falls in half when the business reaches scale (see Table 3.8).

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<sup>44</sup> Keane, P. (1998). "Delivery Strategies to Meet Changing Consumer Habits." Jupiter Communications Research Report, October, 1998.

<sup>45</sup> DLJ, PaineWebber, Merrill Lynch, CSFirst Boston, etc. use EBITDA as the primary performance metric.

**Table 3.8 Online Content Provider Economics: 1998 vs. 2002 Estimates**

	1998		2002	
	Dollars	Percentage of Revenue	Dollars	Percentage of Revenue
<b>Revenue</b>				
Display Advertising				
Untargeted	14.5	68% <sup>b</sup>	58.5	39%
Targeted	2.6	12%	39.0	26%
Advertising Sub-total	17.0	85% <sup>c</sup>	97.5	65%
<b>Other Revenue</b>				
Paid Services, E-mail				
Marketing, & Other Retail	3.0	15%	52.5	35% <sup>e</sup>
Total Revenue	20.0 <sup>a</sup>	100%	150.0 <sup>d</sup>	100%
<b>Operating Expenses</b>				
Content Development	10.0	50% <sup>f</sup>	40.5	27% <sup>g</sup>
Web Site Development and Maintenance	3.6	18%	12.0	8% <sup>h</sup>
Marketing Costs	5.6	28% <sup>i</sup>	4.5	3%
Sales Costs	6.0	30%	28.5	19% <sup>j</sup>
General and Administrative	3.0	15%	15.0	10% <sup>k</sup>
Depreciation and Amortization	3.0	15%	7.5	5% <sup>l</sup>
Total Operating Expense	31.2	156%	108.0	72%
Total Operating Income	-11.2	-56%	42.0	28%

<sup>a</sup> Comparisons in 1998 include:

	1998	2002E
CNET:	\$57 million	\$445
Marketwatch	\$7 million	\$110
iVillage	\$15 million	\$247

(Eisenmann, 2000a,b,c)

<sup>b</sup> Assumes increasing in targeted as % of advertising

	1998	2002E
Untargeted	85%	55%
Targeted	15%	45%

Charron, C. (1998). "Making Users Pay." Forrester Research Report, July, 1998.

<sup>c</sup> Eisenmann's estimates are at 70%, but place larger emphasis on subscription revenue (2000c)

<sup>d</sup> Assumes revenue CAGR 65%. Compare forecasted industry advertising growth rate at 71 (Eisenmann, 2000c)

<sup>e</sup> Compare to Charron, C. (1999). "The Content-Commerce Collision." Forrester Research, March, 1999.

<sup>f</sup> Compare to content companies in Eisenmann's analysis (2000c).

Boston.com pays a licensing fee to *The Boston Globe* of 5-10% plus its own development costs (Eisenmann, 2000a)

<sup>g</sup> Licensing fees remain a fixed percentage, but internal development costs become smaller percentage

<sup>h</sup> (Eisenmann, 2000c).

<sup>i</sup> Assumes brand building and low early revenues, before percentage falls to brand maintenance levels

<sup>j</sup> Assumes sales costs grow, but not at the percent of revenues

<sup>k</sup> Assumes similar levels to print media G&A, but higher percentage as business is growing in 1998 vs. 2002  
Considers some amortization associated with start-up costs, but lower than print media press and equipment (see Table 3.4)

Two key characteristics of the industry are demonstrated with the above analysis. First, the online business becomes very profitable at scale. Second, the sources of revenue for the online content business will change and evolve considerably as the business matures. The following section discusses the challenges associated with changes in the way print newspapers traditionally make money.

### *The Process of Building Scale*

Like online content companies, most newspaper companies benefit from the scale economics--large up-front investment in editorial and content assets, exploited as widely as possible because the variable costs with incremental distribution are relatively small. If you can cover your fixed asset base, each incremental sale falls almost directly to the bottom line. But while most newspaper managers fundamentally benefit from this cycle, very few have actually gone through the process of building scale. This type of commitment generally involves high up-front investment. In the face of strong quarterly earnings pressure, such a long-term approach with interim losses was a difficult sell to Wall Street.

### *Different Sources of Revenue*

The process of building scale is difficult in an earnings driven environment, but it has been done.<sup>46</sup> Three other important revenue characteristics differed from the traditional print business and made it difficult to evaluate and recognize the potential of

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<sup>46</sup> Note: Gannett's venture to build *USA Today* is a clear example. In an effort to be a national newspaper, in color at scale, *USA Today* lost over \$350 million dollars in its first

the Internet: 1) non-subscription-based growth, 2) consumer direct marketing, 3) new retail opportunities.

- **Non-subscription-based Growth.** Since payments by advertisers are proportional to the size of the audience, many online content providers concluded that the best way to get to scale was *not* to charge subscriptions (Eisenmann, 2000c).<sup>47</sup> There might be an ability to charge for customized services, but most sections where scale was important, a non-subscription model was put in place.<sup>48</sup> In this way the Internet was more similar to broadcast advertising.
- **Consumer Direct Marketing.** Different than both print newspapers and broadcast advertising, the Internet, with its ability to identify specific individual users, had the potential to generate substantial direct marketing revenue. Content providers could collect demographic data and then allow advertisers to target ads at individual users in ways really not available in any other medium. For example, information could be collected on location, age, gender and income and then advertisers could customize an ad campaign using specific demographics of users at specific times of day in specific content sections. The value that advertisers associated with customizable

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decade of operations. Launched in 1982, it did not turn profitable until 1994--Fisher, C. (1992). "A Decade of *USA Today*: Color it Red." *Advertising Age*, August 1, 1992.

<sup>47</sup> For a useful discussion of the online content provider business, see Tom Eisenmann's Teaching note, "Online Content Providers" (2000), N-801-261.

targeting was associated with advertising premiums of 40-70 percent.<sup>49</sup> In addition to targeted advertising, customized e-mail marketing using consumer demographics offered another new source of revenue. In 1997, 3 billion pieces of commercial e-mail were distributed in the U.S. Analysts forecast that figure to grow to over 200 billion by 2001, with an estimated market size over \$1 billion.<sup>50</sup>

- **Other Retail Opportunities.** The Internet provided content companies ways to get closer to the marketplace than previously possible in print media. This included things like online market places, auctions, and other up-selling opportunities. For example, CNET, an online content provider focused on technology and computer information, allows users to research a computer or software program online, including pricing information, then link through directly and purchase that product.<sup>51</sup>

Failure to recognize or value these new sources of revenue significantly narrowed the sense of income potential as compared to the traditional metrics considered by print newspaper companies.

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<sup>48</sup> Charron, C. (1998). "Making Users Pay." Forrester Research Report, July, 1998.

<sup>49</sup> Ibid.

<sup>50</sup> Direct Marketing (1998). "E-mail's Marketing Potential Grows." Direct Marketing, December, 1998.

<sup>51</sup> See Tom Eisenmann and Pauline Fischer's Harvard Business School Teaching Case "CNET 2000," 9-800-264.



### 3.4 EARLY INTERNET RESPONSE--RELUCTANT PARTICIPATION

Earlier failures with electronic media largely cooled the perception of a digital threat in most print organizations. As the Internet emerged, it was initially undervalued by the newspaper industry, in part because of recent failures in videotext. There were early leaders, including the San Jose Mercury News, which in 1993 through a partnership with AOL, became the first newspaper to integrate online services with a daily paper.<sup>52</sup> The initial service replicated a subset of news content on the AOL platform for a subscription fee of \$7.95-per-month and per minute usage charges. Other papers responded similarly, charging for subscription, using a national access provider, and generally posting some form of the newspaper, but usually not all of it online. The majority of the industry did not launch sites until 1996, with a few launching as late as 1999 (see Table 3.12). However, even when launched, most sites were not willing to spend very much money on these ventures until they could prove a way to make money. Early sites had very few dedicated financial and human resources.

Perhaps the biggest early failure for the industry was the New Century Network, an investment that included over 10 of the top newspaper publishing companies. The site was to be *the* provider of “quality” news for the Internet, and as one group member described, to “organize the chaos” on the Internet.<sup>53</sup> The implicit assumption was that other information available on the Internet was low quality as measured on the traditional

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<sup>52</sup> Stein, M.L. (1993). “First step to a multimedia future” Editor & Publisher, New York; Apr 10, 1993; Vol. 126, Iss. 15; pg. 18.

metrics of trust and reliability. The network was announced in April 1995, but the site was not launched until June 1997. Low penetration and partner bickering ensued. Less than one year later, the site was shut down.<sup>54</sup>

While newspapers were examining the merits of the digital content business, a revolution began to rage all around them. Companies like Yahoo, Amazon.com, and AOL were providing content, news, and other services through the Internet and doing so while posting astronomically high growth rates. As early as 1995, America Online had more than 2.5 million users.<sup>55</sup> Further, city guides such as Digital Cities, City Search, and Sidewalk.com were becoming an important source of local information to tourists and local residents. Many of these early Internet services were viewed as limited by the newspaper industry--they lacked in-depth local news, they seldom had the reporting staff like a newspaper, and what they did provide was often re-purposed from other sources. Newspaper managers viewed these city guides as vastly inferior to the rich journalistic analysis available in a traditional newspaper (see clinical data in Chapter 5). They also frequently viewed city guides as difficult to use. What the newspapers were failing to realize was that the web was much *easier* to use than the newspaper, but for new and different types of emerging applications. Search capability is a perfect example. As late as 1998, very few online newspapers even had an option for searching their daily news,

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<sup>53</sup> Gipson, M. (1995). "Opportunities in Anarchy: A Guide to Building Businesses Online." NAA Research Report, p. 59.

<sup>54</sup> Loizos, C. (1998). "Newspaper Experts Flop Online with New Century Network." The Red Herring, July 1998.

let alone their archives.<sup>56</sup> This was even more of a problem for classifieds. On the Internet, classifieds became rich databases, not stagnant 1-inch by 2-inch abbreviated summaries of products, but rich, cross-referenced databases with pictures, web links, and more comprehensive, flowing text. Job posting companies took the early lead, with entrants like Monsterboard.com. Other classified-like vertical sites quickly emerged for autos, apartments, homes, and personals (see Appendix 1 for more background on online classifieds).

Despite the emergence of so many new competitors, the Internet continued to look unattractive when viewed by the traditional resource allocation mechanisms of newspapers. First, early applications were not really about “news” in the traditional sense. In fact, the content and usage did not extend the traditional performance trajectory valued by the newspapers’ mainstream customers--both advertisers and readers. Loraine Chichowski, online manager at USA Today explains, “In the summer of 1994, the growth in online services was for e-mail, chat, and research. There was no evidence at that point that news would sell.”<sup>57</sup> Further, most of the pure Internet companies were losing money--they promoted their sites aggressively while giving away the content to users at no cost in an effort to build scale. Though the established newspaper businesses fundamentally benefited from similar scale economics, the process of building that scale

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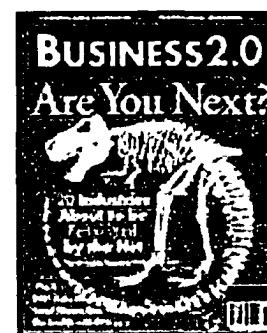
<sup>55</sup> Gipson, M. (1995). “Opportunities in Anarchy: A Guide to Building Businesses Online.” NAA Research Report.

<sup>56</sup> Outing, S. (1998). “Online Newspapers’ Biggest Mistake?” Editor and Publisher, Mediainfo.com, March 14, 1998, p. 42.

was not something most had actually participated in. Giving away circulation revenue seemed like throwing away money. Low early penetration rates led many to conclude that the Internet was a money-losing proposition and that the excitement of others was misplaced. As financial results from many of these online newspaper ventures emerged, managers began to conclude that Internet was a bad business.

### 3.5 THE INTERNET AS A THREAT THE NEWSPAPER INDUSTRY

Just as the powers of iterative resource allocation were working through a slow process of concluding that the business was bad opportunity, a shift was taking place in the motivation to compete. This was not an internal discovery, but rather the result of vocal external pundits and analysts. In



fact, one cover story of Business 2.0 featured newspapers threatened with extinction.<sup>57</sup> In general, analysts were arguing three points, all focussing on the potential for newspaper *loss* created by the Internet (Kahneman and Tversky, 1983; Dutton and Jackson, 1987; Jackson and Dutton, 1988. These included: 1) loss of audience, 2) loss of display advertising, and 3) loss of classified advertising.

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<sup>57</sup> Claymon, D. (1996). "USA Today Online: Chasing the Digital Marketplace." *The Red Herring*, Fall 1996.

<sup>58</sup> Schibsted, E. (1999). "Net Impact on Newspapers? Sorry that's Classified." *Business 2.0*, March 1999.

### **Loss of Audience**

The first threat was a fundamental loss of audience. As shown earlier in Table 3.1, circulation volume for newspapers had been slowly declining for nearly a decade. In 1996, Forrester Research predicted that print newspapers were likely to lose up to 14 percent of their readership by 2001.<sup>59</sup> Time and usage studies showed people were likely to decrease the amount of time spent using other media because of increased usage of the Internet. And while the television was most at risk, 16% of respondents in a Jupiter study reported they would read the newspaper less frequently.<sup>60</sup> Moreover, sites like Yahoo and other portals were getting national penetration that approached the combined penetration for the entire newspaper industry. For example, by 1999, Yahoo had greater than 50 percent national penetration. AOL and MSN also showed similarly high penetration.<sup>61</sup>

### **Loss of Display Advertising**

With declining circulation and newspaper usage trends in place, advertisers were expected to follow. The 1998 estimates for Internet advertising ranged from \$1.1 to \$2.1 billion in revenues, with forecasts between \$11 and \$17 billion by 2003.<sup>62</sup> These estimates imply that Internet advertising would grow from just over 1 percent of total U.S. advertising dollars to nearly 5.5 percent by 2003 (see Table 3.9).

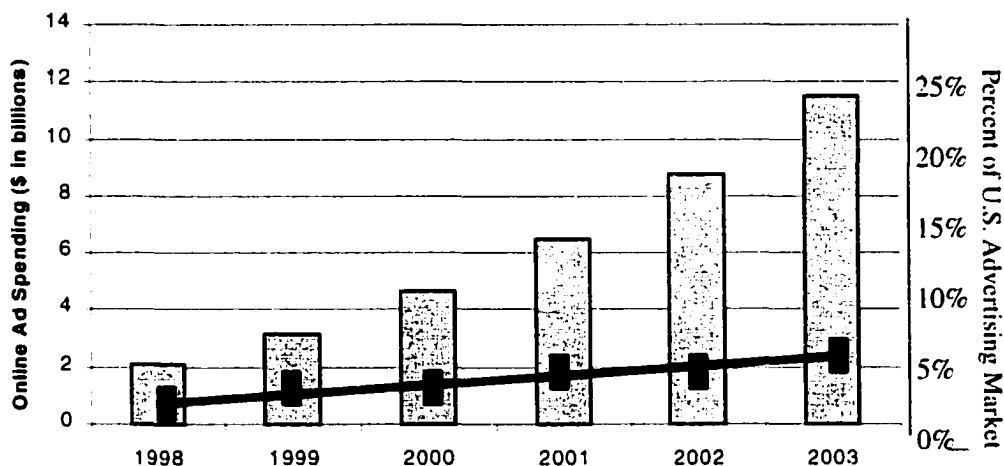
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<sup>59</sup> Frankel, Alex (1997). "Quicksilver on the Rise: Case Study: Mercury Center." *The Red Herring*, Winter 1997.

<sup>60</sup> Sacharow, A. (1999). "Cross Media Programming." Jupiter Communications, May 1999.

<sup>61</sup> Media Metrix, November 1999.

<sup>62</sup> NAA, Jupiter Communications, Forrester Research

**Table 3.9: Forecasted Growth in Internet Advertising Revenues<sup>63</sup>**

Note: Read bar graphs from the left for online ad spending dollars;  
Read line to the right for percent of advertising market.

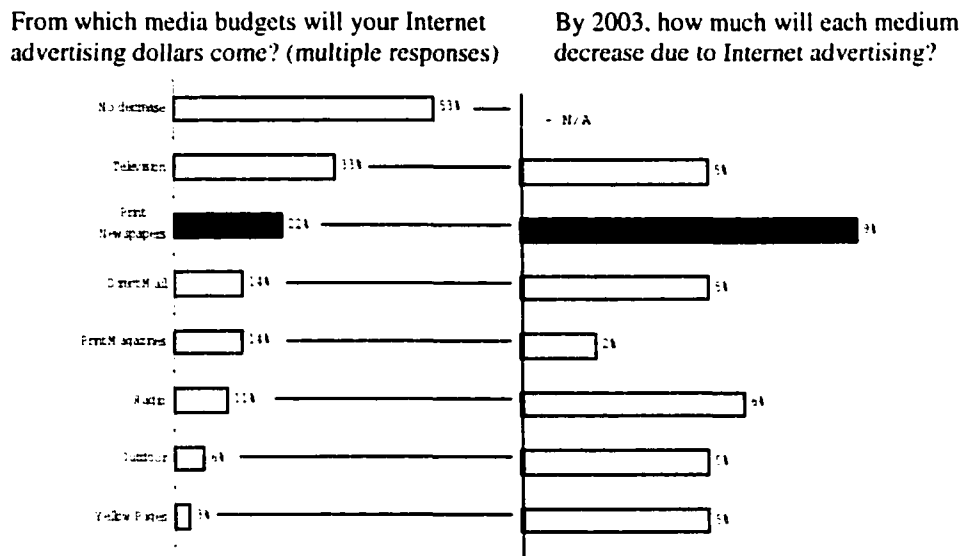
The question was, how much of this would come from newspaper budgets? Some analysts saw continued steady growth for national and retail print advertising, ranging from 5-12 percent annually.<sup>64</sup> Others were less optimistic. Forrester Research conducted a study showing that advertisers increasingly would move money toward the Internet. Newspapers were expected to experience the largest decrease of any advertising medium (Table 3.10).<sup>65</sup> Further, local advertising, the traditional strength of newspaper advertising, also looked vulnerable. One national study showed that Internet advertising had moved past direct mail and was alarmingly close to newspapers as the preferred advertising channel for small and medium local businesses.<sup>66</sup>

<sup>63</sup> Jupiter Communications: "Online Advertising through 2003: Online Growth a Catalyst for Changes in Traditional Media," July 1999.

<sup>64</sup> Westerfield, L. and C. Sargent (1999). "Long History, Bright Future: Publishers' Resilient Media Franchises." PaineWebber, December 1, 1999.

<sup>65</sup> Li, C. (1999). "Internet Advertising Skyrockets." Forrester Research, August 1999.

<sup>66</sup> The Kelsey Group and Constat, Inc.'s Local Commerce Monitor, 1999.

**Table 3.10: Internet Advertising Forecasted to Come from Print / T.V. Budgets<sup>67</sup>**

Percentages on the left represent share from 33 traditional and 17 Internet pure-play markets responding. Percentages on the right represent the median decrease for those marketers who indicated a cutback for that particular medium.

### Classified Advertising

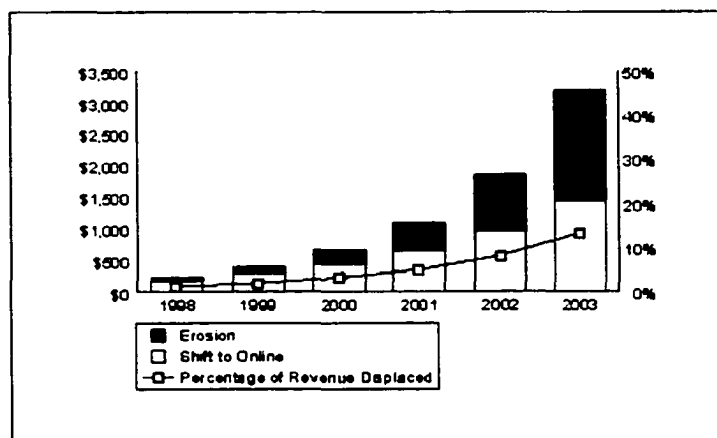
An even more important sub-category was classified advertising. As stated earlier, classifieds generated around one-third of total revenue, but nearly 70 percent of profits. Now, despite the current scale in print, a flood of new and traditional classifieds was emerging on the Internet. In October 1998, Forrester Research wrote a report entitled, "Goodbye to Classifieds". In the report, Forrester predicted a \$4.7 billion displacement of classifieds from print to Internet by 2003.<sup>68</sup> Jupiter was more conservative, but still estimated a net loss of over \$3 billion dollars. These estimates

<sup>67</sup> Li, C. (1999). "Internet Advertising Skyrockets." Forrester Research, August 1999.

<sup>68</sup> Charron, C. and B. Bass (1998). "Goodbye to Classifieds." Forrester Research Report, October 1998.

included a direct transfer of postings at \$1.4 billion and a price erosion effect (due to cheap or free postings on the net) of nearly \$1.8 billion by 2003 (see Table 3.11).<sup>69</sup>

**Table 3.11: Forecasts of Substitution and Price Erosion in Classifieds<sup>70</sup>**



	1998	1999	2000	2001	2002	2003
<b>Erosion (\$ in millions)</b>	\$53	\$101	\$211	\$441	\$883	\$1,754
<b>Shift to Online</b>	\$173	\$278	\$426	\$643	\$971	\$1,440
<b>Total (erosion and shift to online)</b>	\$226	\$379	\$637	\$1,084	\$1,854	\$3,195
<b>Percentage of revenue Displaced</b>	1.3%	2.0%	3.2%	5.0%	8.1%	13.2%

**Note:** Read bar graphs from the left for dollars lost, read line from the right for percentage of revenue displaced.

**Explanation:**

“Erosion” is the dollar loss to print classifieds associated with print price discounting that will be required in the new competitive landscape.

“Shift to Online” is the dollar loss to print classifieds of business that moves completely to online classified players.

“Percentage of Revenue Displaced” is the percentage of newspaper classified revenues lost to online vs. an environment without the Internet. It determined by adding the effects of both price erosion and direct shift to online.

<sup>69</sup> Gluck, M. and V. Patel (1999). “Classifieds: Online Projections.” Jupiter Research, July 1999.

<sup>70</sup> Ibid.



Even traditionally bullish Wall Street analysts were predicting classifieds to shrink at 2 percent annually, while historical growth had been close to 8 percent.<sup>71</sup> As Evans and Wurster argued, the new economics of information on the Internet implied that the traditional distribution economics that kept otherwise different businesses bundled were now “blown to bits.”<sup>72</sup> Being able to separate classifieds into a mass distributed stand-alone business allowed competitors to steal the most profitable piece of the traditional print newspaper. That threat appeared all too real as companies like Monster.com and Microsoft Carpoint continued to build recognition and traffic.

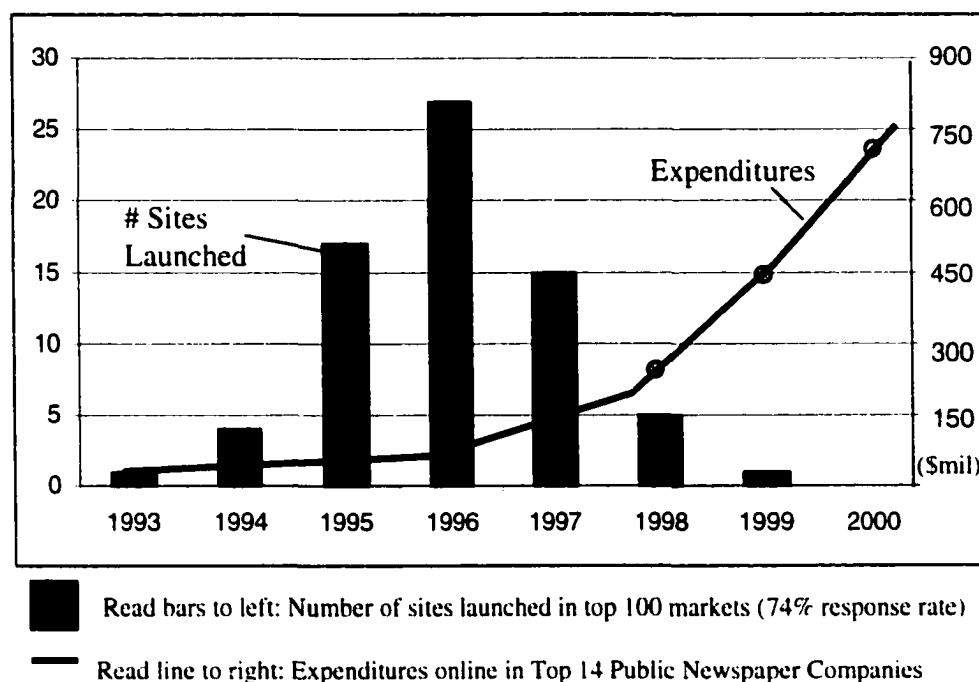
### **Financial Commitment Follows**

Though the majority of the industry had launched their Internet sites between 1995-1997, significant financial commitment seemed to follow the heightened sense of threat associate with the Internet. Even though the majority of sites had been launched for one to two years, the real growth in expenditures really started in 1998-2000. The top 14 public companies spent over \$250 million in online expenditures in 1998. That number was forecasted to grow to over \$700 million by the end of 2000 with most companies forecasting losses about the size of revenues. Commitment and urgency were generally widespread and intense. Table 3.12 compares lag between launch dates and the general growth in industry expenditures.

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<sup>71</sup> Westerfield, L. and C. Sargent (1999). "Long History, Bright Future: Publishers' Resilient Media Franchises." PaineWebber, December 1, 1999.

<sup>72</sup> Evans, P. and T.S. Wurster (1999). "Blown to Bits: How the New Economics of Information Transforms Strategy." Harvard Business School Press, Boston, MA.

**Table 3.12: Newspaper Response: Launch and Expenditures<sup>73</sup>**

### 3.5 THE INTERNET AS AN OPPORTUNITY TO THE NEWSPAPER INDUSTRY

Despite the resources and attention being focused around the threat of the Internet, there was also some evidence that an entirely new market opportunity was emerging for newspapers. The traditionally flat revenues in the print business could benefit from high growth in new markets. Three key factors pointed at the potential for

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<sup>73</sup> Data on launch dates was collected from a survey of the top 100 U.S. metro markets, with a response rate of 74 percent. Details on the survey methodology and background will be provided in Chapter 8. Data on expenditures were estimated using DLJ analyst reports and company specific data.

growth: 1) Internet advertising growth, 2) new audience creation, and 3) business model innovation.

### **Internet Advertising Growth**

Forecasts showed tremendous growth potential associated with the Internet (refer again to Tables 3.10 and 3.12). True, some of this growth was predicted to come at the expense of the newspaper industry. But regardless, a forecasted \$8 billion advertising market by 2002 presented a rare source of growth in an otherwise flat advertising environment.<sup>74</sup> Focusing solely on your own resource endowments might cause a firm to miss seeing the tremendous platform of growth associated with Internet advertising (Stevenson and Jarillo, 1991).

### **New Audience Creation**

The Internet created opportunities to reach constituencies that might otherwise go unserved by the printed newspaper: community groups, younger demographic users, and out-of-market users. The Internet provided new value as an interactive source of community dialogue through chat rooms, bulletin boards, and other user-driven content. The previously prohibitive cost for posting detailed information at the smallest community level (e.g. boy scout meetings, high school sports scores, PTA information, etc.) now was substantially reduced. There was also considerable opportunity for the newspaper site to become the “local portal” on the Internet--a place where people started

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<sup>74</sup> Jupiter Communications: “Online Advertising through 2003: Online Growth a Catalyst for Changes in Traditional Media.” July 1999.

their Internet experience to communicate and interact with their local communities. Finally, the Internet helped with distribution problems associated with non-resident members of a community who might still want to stay connected with the local interests and issues, but would not likely subscribe and pay for a printed newspaper to be *mailed* daily to their home. People who grew up in an area, went to college, or had family in certain locations and were physically separated from those communities could now access information that they might otherwise not have had access to.

### **Business Model Innovation**

The Internet created the opportunity to build new types of businesses to take advantage of interactive media. In fact, the online content business at scale could potentially be more profitable than the traditional print newspaper business (compare Tables 3.4 and 3.10). For example, electronic distribution removed the variable costs of ink and paper (17 percent of revenues) and lowered the physical distribution costs (10 percent of revenues) from the comparative income statement of a printed newspaper company. But to fully recognize the opportunity of the Internet required other business model innovation. With the online medium, websites were potentially able to target the market more effectively than ever before imagined. Information on viewing habits, purchasing patterns, likes and dislikes, etc. could be tracked down to the individual reader/user level and used in context-based advertising. In many ways, the Internet offered a way for a newspaper to meld content creation skills with the capabilities of a direct marketer. Additionally, because of user ability to electronically purchase products,

newspapers could actually start to become much more tightly integrated with the local marketplace.

In summary there were tremendous opportunities associated with the rapidly growing Internet. Industry expert Steve Outing explained, "The web is not a threat, it's an opportunity to both grow a new business and support the old one (print)."<sup>75</sup> The new business was the Internet's ability to create a locally relevant content and information utility, through global distribution at marginal cost. Focusing on the threat to the newspaper's existing endowments might blind managers to the unique opportunities presented by the Internet (Stevenson and Jarillo, 1991; Dutton and Jackson, 1987).

### **3.6 STATUS AT TIME OF THE STUDY**

"The newspaper industry has been battered and given up for dead for several years now. But something funny is happening on the way to the graveyard."<sup>76</sup> Toward the middle of 1999, a sea change was taking place in the analyst community regarding newspapers and the Internet. By no means did this translate into a view that all newspapers would succeed in the interactive space. There was, however, increasing evidence that some of these local papers might succeed. Leading sites like [accessatlanta.com](http://accessatlanta.com) (Atlanta Constitution Journal) and [Boston.com](http://Boston.com) (Boston Globe) were reaching 20-25 percent of their local Internet audiences. And while these sites were not

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<sup>75</sup> Outing, S. (1999). "When Will They Ever Learn?" E&P Interactive, June 25, 1999.

<sup>76</sup> Speech by Lincoln Millstein, CEO of Boston.com (1999). "Welcoming Remarks," NAA Connections '99 Conference, Chicago Illinois, July 15, 1999.

showing the local penetration rates of Yahoo, MSN, and AOL (around 50%), the growing newspaper site penetration was encouraging. Nonetheless, there was also considerable range in performance.

**Table 3.13: Local Market Penetration of Newspaper Sites--November 1999<sup>77</sup>**

Local Area	Reach %	Local Area	Reach %
Atlanta	25.6	Dallas/Ft.Worth	11.1
Boston	20.8	Chicago	11.0
Washington, D.C.	20.3	Raleigh-Durham	10.7
Columbus	19.7	Salt Lake City	10.6
Charlotte	19.2	Portland	10.4
Minneapolis-St.Paul	16.1	New York	10.3
Nashville	15.6	Los Angeles	10.1
Miami-Ft.Lauderdale	15.4	St. Louis	10.0
Cincinnati	15.0	Seattle-Tacoma	9.2
Houston	14.9	Denver	9.0
N-P-N	13.6	Cleveland	8.8
Detroit	13.3	Baltimore	8.6
Indianapolis	13.3	Philadelphia	7.4
Milwaukee	13.3	Buffalo	6.9
Orlando-Daytona	13.1	Harrisburg-Lancaster	6.7
Bay Area	13.1	Tampa-St. Petersburg	6.7
Phoenix	12.8	Greenville-Spart-Ash	5.1
San Diego	11.9	Pittsburgh	5.1
Sacramento-Modesto	11.4	Hartford-New Haven	5.0

Beyond penetration rates, some of these companies were transforming how they did business online. *The Atlanta Journal-Constitution's* accessAtlanta.com and *The Boston Globe's* Boston.com were examples of this. These local newspapers were moving beyond re-purposing the online editions of their paper and ink product and morphing into local destination sites. Revenues for many of these sites continued to grow. The New

York Times Company, which owned the Boston Globe, estimated its top-line Internet revenue was at \$30 million in 1999 (including Boston.com, nytimes.com, nytoday.com, and winetoday.com).<sup>78</sup> And while only 1.4 percent of total newspaper revenues, the company expected 42 percent growth in 2000. Other companies expected similar revenue growth rates (Table 3.14).

**Table 3.14: 1999-2000E Online Revenues and Losses for Newspaper Internet Sites<sup>79</sup>**

Internet Revenue and Operating Cash Flow Loss Forecast for 2000						
(\$ in millions).	1999		2000		YoY Rev % chg	
	Revenues	Oper CF	Revenues	Oper CF	1999	2000
Belo (BLC)	\$7.0	-\$8.2	\$10.1	-\$24.3	ND	44.0%
<b>Central Newspapers (ECP)</b>	<b>\$10.0</b>	<b>ND</b>	<b>ND</b>	<b>ND</b>	<b>100.0%</b>	<b>ND</b>
Dow Jones (DJ)**	\$43.0	-\$15.0	\$50.1	neg.	ND	16.5%
<b>Gannett (GCI)</b>	<b>\$40.0</b>	<b>-\$1.0</b>	<b>\$63.0</b>	<b>-\$2.0</b>	<b>60.0%</b>	<b>57.5%</b>
Hollinger (HLR)	\$5.7	-\$9.1	\$15.6	-\$20.5	ND	173.7%
<b>Journal Register (JRC)</b>	<b>\$2.5</b>	<b>\$1.8</b>	<b>\$3.3</b>	<b>\$2.5</b>	<b>ND</b>	<b>32.0%</b>
Knight Ridder (KRI)	\$31.4	-\$25.9	\$45.2	-\$48.7	57.0%	44.0%
<b>McClatchy (MNI)</b>	<b>\$12.3</b>	<b>ND</b>	<b>\$17.0</b>	<b>ND</b>	<b>ND</b>	<b>38.2%</b>
Media General (MEGA)*	\$2.0	pos.	\$3.0	pos.	ND	50.0%
<b>New York Times (NYT)</b>	<b>\$43.7</b>	<b>-\$9.5</b>	<b>\$66.5</b>	<b>-\$70.0</b>	<b>ND</b>	<b>52.2%</b>
E.W. Scripps (SSP)*	\$13.0	-\$6.0	\$20.0	-\$15.0	ND	53.8%
<b>Times Mirror (TMC)</b>	<b>\$20.0</b>	<b>-\$25.0</b>	<b>ND</b>	<b>ND</b>	<b>ND</b>	<b>ND</b>
Tribune (TRB)	\$21.0	-\$32.0	\$42.0	-\$53.0	16.7%	100.0%
<b>Washington Post (WPO)</b>	<b>\$17.0</b>	<b>ND</b>	<b>\$42.5</b>	<b>ND</b>	<b>ND</b>	<b>150.0%</b>
<b>Total</b>	<b>\$268.6</b>		<b>\$378.3</b>			

\*CSFB/DLJ Estimates

<sup>77</sup> Drewry, B. Newspapers.com--The DLJ Monthly Fast-Fax V.1, No.8. November 8, 1999.

<sup>78</sup> Drewry, B. Newspapers.com--The DLJ Monthly Fast-Fax V.1, No.7. December 16, 1999.

<sup>79</sup> Ibid.

### **3.7 RESEARCH SETTING CONCLUSIONS**

In conclusion, the newspaper industry was a very operations intensive, cash flow oriented business at the time the Internet arrived. Also, strong pressures to produce high quality journalism were a source of tension and conflict with the economic demands facing the business management. The Internet fit the model of disruptive technology in the way it was considered by the traditional resource allocation systems of newspaper companies. Print customers were different, early Internet applications were seen as weak on journalistic values, and the underlying economics appeared inferior to print. However, the Internet also created a new market with an emerging and different set of applications. From around 1996 forward, many analysts began to predict that the new medium might eventually displace large portions of the print newspaper business. The analysis focused on loss of audience, display advertising, and classified advertising. Many large newspaper sites had launched by 1996, but the heavy financial commitments really didn't start until 1998-1999. Despite an apparent industry-wide committed response, there was still considerable range in the performance and products supplied.





**SECTION II. CLINICAL ANALYSIS**

***CHAPTERS 4-7***

**CHAPTER 4: CLINICAL METHODOLOGY**

**CHAPTER 5: THE PROCESS OF COMMITMENT:**

**A REVELATORY CASE**

**CHAPTER 6: TESTING THE CLINICAL PROPOSITIONS**

**CHAPTER 7: CLINICAL ANALYSIS CONCLUSIONS**



## CHAPTER 4: CLINICAL METHODOLOGY

*“The saddest thing I see with some survey researchers is that in a rush to get at quantitative output, they fail to look deeply enough into the context and setting of the phenomenon and only at the end of their study do they start to see the questions they really should have been asking in the first place.”*

Personal conversation with Professor Clayton M. Christensen,  
Harvard Business School

### 4.1 CHOICE OF CASE STUDY METHODOLOGY

Bower (1997) notes that the area of strategy research has historically focussed on the *substance* of strategy, which is largely externally verifiable and measurable. However, strategy research has often ignored the *process* of strategy formation. In deciding what methodology to employ, it is useful to examine what types of questions you are asking. One area where case-based process research has made significant contribution is in understanding *why* a particular strategy was chosen in certain settings (Bower, 1970; Bower and Christensen, 1995; Noda and Bower, 1996; Eisenmann, 1998; Sull, 1997). Note that in the current research, there are a series of “*how*” and “*why*” questions as well as inquiry on “*how many*” and “*how much*”. For the first set of questions, the clinical case study methodology is the tool most useful. For the second set, a survey design will be employed (Chapters 8-10).

Yin (1994) positions case study research within the context of other research strategies by examining the types of research questions being asked:

**Table 4.1: When to Use Different Research Strategies**

<b>Strategy</b>	<b>Form of Research Strategy</b>	<b>Requires Control over Behavioral Events</b>	<b>Focuses on Contemporary Events</b>
Experiment	how, why	Yes	Yes
Survey	who, what, where, <i>how many, how much</i>	No	Yes
Archival Analysis	who, what, where, how many, how much	No	Yes/No
History	how, why	No	No
Case Study	<i>how, why</i>	No	Yes

There is precedent for case based research for both *theory testing* (Collis, 1991; Henderson and Clark, 1990) and *theory building* (Gersick, 1988; Burgelman, 1983; Eisenhardt and Bourgeois, 1988). There are also times when both are appropriate (Staw and Ross, 1991). In theory testing, the hypotheses must be stated up front (Bryman, 1998). In the current research, propositions were specified prior to entering the field--in fact, the matrix in Figure 2.7, which captures the threat response paradox, was created prior to conducting any formal fieldwork. Field based hypothesis testing is preferred when the phenomenon being studied is contextually embedded and difficult to separate from a more complex system (Bower, 1998; Bower, 1970; Van de Ven, 1992). An additional argument for this type of research in the current setting is that the underlying conceptual constructs are not sufficiently articulated or understood. One of the goals of the present study was to sharpen the underlying constructs to allow future empirical testing of the resultant propositions.

There were also key elements of inductive theory building that were part of this study. There was a clear lack of understanding concerning what Yin (1994) refers to as the “*how*” questions. Much has already been written about the resource allocation process and threat rigidity, but how the two interact and how threat actually leads to rigidity has received less attention. Consequently, much of this analysis was left to inductive discovery not considered prior to entering the field (Glaser and Strauss, 1967; Eisenhardt, 1989). Methods of pattern matching between theory and data were repeatedly employed to this end (Yin, 1994; Campbell, 1975).

#### **4.2: SELECTION OF CASE STUDIES AND UNIT OF ANALYSIS**

Following Yin (1994), a Type IV embedded, multi-case design was selected. A set of primary research sites was selected and follow-on sites were added. At the corporate level, four primary research sites were selected, with an addition of 10 extended sites. At the newspaper Internet venture level, eight sites were selected (2 per company), with an additional 13 extended venture sites (see Table 4.2).

**Table 4.2: Case Study Selection**

<b>Level</b>	<b>Corporate/Newspaper</b>	<b>Internet Venture</b>
Primary	4	8
Follow-on	10	13
<b>Total</b>	<b>14</b>	<b>21</b>

The primary unit of analysis was the corporate venture and the embedded unit was the corporate contest. Unusually detailed access to sensitive data was provided at each

company. As a condition for access, confidentiality will be observed in the presentation of data. The selection of the primary sites was based on dispersion in the pace, strategy, and structure of the Internet ventures at each company. Each of the sites represents large, well-known firms with successful flagship papers. All four parent companies are publicly traded firms whose primary holdings are newspaper businesses. The follow-on sites included private and public firms, though substantial differences were not detected between the two groups. The eight primary Internet ventures are associated with the flagship newspapers. For the confidentiality, the four primary companies are assigned disguised names: The Expositor, The Morning News, The Press, and The Beacon. Each paper is labeled by letter. For example, the two Expositor Company papers are referred to as *The Expositor A* and *The Expositor B*.

#### **4.3: SOURCES OF EVIDENCE AND CASE STUDY PROTOCOL**

Three main sources of data were collected: 1) open-ended interviews, 2) archival data, and 3) direct observation. Yin suggests: "With triangulation, the potential problems of *construct validity* also can be addressed because the multiple sources of evidence essentially provide multiple measures of the same phenomenon" (1994, p.92).

##### **Direct Observation**

To collect process data requires direct observation to observe phenomena in their organizational setting. The benefit of this is capturing events in real time and in their contextual complexity. However, there are many costs to this as well. First, direct

observations are extremely time consuming. This can create problems with selectivity as the research tries to focus on just the events that seem to matter. Also, the reactions and behavior being observed may alter because of the presence of the researcher. Efforts to avoid these potential biases were made by 1) defining the events broadly so as to include a series of similar comparative experiences and 2) by spending enough time in each organization to increase the comfort level with the research. As much as possible, suggestions and normative statements were avoided.

### **Interviews**

Interviews were the second source of evidence used to triangulate on the data. The value of using interviews is that they can be targeted on the topic or research and provide insight into thinking and causal processes. However, there are also biases that sometimes are associated with the method. There may be bias associated with poorly constructed questions. Accordingly, careful efforts were made by the researcher to build interview templates and then use early interviews as learning experiences to make revisions in those templates (Weiss, 1994). There is also the risk of inaccuracies associated with poor recall or retrospective bias. To manage this risk, the researcher used archival and public documents to introduce issues and to crosscheck statements that were made. This was done both before and after the interviews. Finally, there is the risk of reflexivity where the interviewee tells the researcher what he thinks the interview wants to hear. To avoid this every effort was made to avoid presenting any normative opinions during the interview. Rather, the researcher played the role of eager learner hoping to have those interviewed facilitate an understanding of their business.



## Archival Documents

Archival documents present the final source of data collected in the clinical study. One of the benefits associated with archival document analysis is that they represent a stable source of data that can be considered by multiple researchers for comparison. Moreover, because they are recorded and cannot be altered after the fact, they do not suffer from risks of retrospective bias. One challenge is that retrievability can be low and can be biased selectively if collections are incomplete. There are also risks that access will be blocked due privacy complications.

The relative costs and benefits of each source of data are listed in Table 4.3. Case study protocol used to strengthen individual sources of data is summarized in Table 4.4.

**Table 4.3: Strengths and Weaknesses of Different Sources of Evidence**

<b>Source of Evidence</b>	<b>Strengths</b>	<b>Weaknesses</b>
Direct Observations	<ul style="list-style-type: none"> <li>• Reality—covers events in real time</li> <li>• contextual—covers context of events</li> </ul>	<ul style="list-style-type: none"> <li>• time-consuming</li> <li>• selectivity—unless broad coverage</li> <li>• reflexivity—event may proceed differently because it is being observed</li> <li>• cost—hours needed by human observers</li> </ul>
Interviews	<ul style="list-style-type: none"> <li>• targeted—focuses directly on case study topic</li> <li>• insightful—provides perceived causal inferences</li> </ul>	<ul style="list-style-type: none"> <li>• bias due to poorly constructed questions</li> <li>• response bias</li> <li>• inaccuracies due to poor recall</li> <li>• reflexivity—interviewee gives what interviewer wants to hear</li> </ul>
Archival Records	<ul style="list-style-type: none"> <li>• stable—can be reviewed repeatedly</li> <li>• exact—contains exact names, references, and details of an event</li> <li>• precise and quantitative</li> </ul>	<ul style="list-style-type: none"> <li>• retrievability—can be low</li> <li>• biased selectivity, if collections incomplete</li> <li>• reporting bias—reflects (unknown biases of author)</li> <li>• access may be deliberately blocked</li> <li>• accessibility due to privacy reasons</li> </ul>

**Table 4.4: Case Study Protocol for Different Sources of Evidence**

<b>Source of Evidence</b>	<b>Case Study Protocol</b>
Direct Observations	<ul style="list-style-type: none"> <li>• Observe a broad number of events and processes an each organization</li> <li>• When possible observe the same type of event or process multiple times</li> <li>• Build comfort level with those being observe</li> <li>• Be helpful, but avoid normative suggestions</li> <li>• Record notes from site observations within 24 hours of participation</li> </ul>
Interviews	<ul style="list-style-type: none"> <li>• Build templates through early interview testing process</li> <li>• Prepare before each interview by understanding individuals position, company history, and other publicly available information</li> <li>• Use archival and public documents to help with recall and as a point of comparison for statements made</li> <li>• Avoid normative language--avoid statements of directional opinion during the interview</li> <li>• Record interviews whenever possible</li> <li>• Transcribe tapes or notes within 24 hours of interview</li> </ul>
Archival Records	<ul style="list-style-type: none"> <li>• Source similar documents across each of the companies</li> <li>• Use multiple rounds of follow-up to ensure every possible document is gathered</li> <li>• Analyze and record notes from archival documents at time received</li> </ul>

Although interview protocol around research questions and a general template were used, the interviews were allowed to follow the progress of the discussion. In total, 73 interviews were conducted--50 interviews in the primary sites, 23 in the extended sites. The majority of interviews were tape recorded and transcribed, though there were instances where a recording device was not allowed. Nearly 30 archival documents were gathered and 26 unique events were observed (see Table 4.5).

**Table 4.5: Triangulation across Sources of Data**

<b>Data Source</b>	<b>Primary</b>	<b>Follow-on</b>	<b>Total</b>
Interviews	50 Interviews (.5, 1.0, 1.5, and 2.0 hours)	23 Interviews (.5, 1.0 hours)	73 Interviews
Archival Documents	29 documents	2 documents	31 documents
Direct Observations	24 unique events	2 unique events	26 unique events

#### **4.4 DATA COLLECTION PROCESS**

The research employed an inherently a multi-level, multi-function, and multi-source data collection process. The data was collected across the functional levels at the corporate, newspaper, and venture level (see Table 4.6 below).

##### **Corporate Level**

At the corporate level of analysis, interviews were generally focused around perceptions and implications of the Internet on the overall business. Questions were asked about the decision to launch, when they decided to commit substantial resources to these ventures, and what the underlying motivation was initially and at the time of the interview. As noted in the case study protocol above, extensive preparation and document triangulation was made before each interview. Direct observation, where possible, occurred in observing planning meetings, executive interaction, and budgetary review meetings. Archival document collection included Internet proposals / business plans, internal memos, and other communications made with the new ventures. In one instance, a business plan that was rejected was compared to a business plan that was finally funded.

**Newspaper Level**

Interviews at the newspaper level occurred both with management and with the functional operations managers. Management interviews were generally done with the publisher, though the CFO or CEO was sometimes used instead. Questions to the management related to their motivation to fund proposals, when and why to commit resources, and the perception of the implications of the Internet on their overall business. The operating level interviews were with the editorial and sales / marketing staff. These interviews focused on culture, work cycles, and product profiles. Direct observations included sales calls and work process observations. Archival documents gathering included Internet proposals, customer lists, and sales collateral.

**Online Venture Level**

A similar data collection process occurred at the venture level, though more time was focused here than elsewhere. Management was generally done with the online general manager. Questions related to the perceptions of the future of online implications for their parent organizations, and how they work with the newspaper. The operating level interviews were with the editorial and sales / marketing staff. These followed the exact same form as those done in the newspaper. Note that in the integrated sites, these were often the same people. Direct observations included sales calls and work process observations and similar comparisons were made to print. Archival documents gathering included forecasts, customer lists, and sales collateral.

**Table 4.6: Multi-level, Multi-function, Multi-source Data Collection**

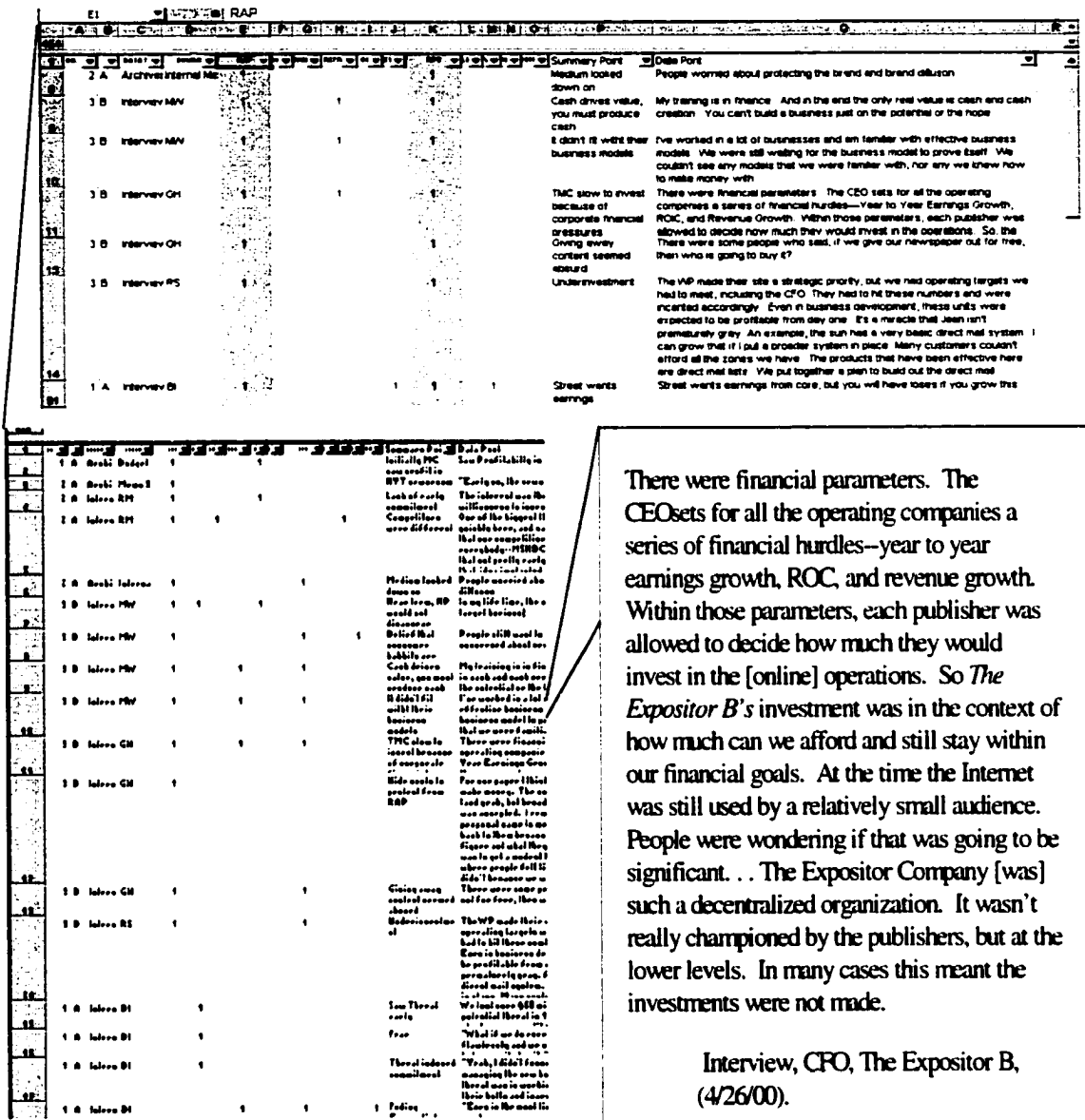
<b>Level in Organization</b>	<b>Specific Types of Data Collection</b>		
Corporate Level	<ul style="list-style-type: none"> <li>• <i>Interviews: Corporate Management (CEO/Chairman)</i> <ul style="list-style-type: none"> <li>- Threat aspects of the Internet--initially and now, including issues of loss, lack of control, and positive elements</li> <li>- Opportunity aspects of the Internet--initially and now, including issues of gain, control, and positive aspects</li> <li>- Interaction between online and print organization</li> <li>- Structural differences, coordination challenges and opportunities</li> <li>- Cultural, management, and business plan differences</li> <li>- Financial expectations and accountability</li> </ul> </li> <li>• <i>Direct Observation: Interaction with venture executives, planning meetings</i></li> <li>• <i>Archival Data: Proposals, internal memos, and communication with new venture</i></li> </ul>		
Newspaper Level	<p style="text-align: center;"><b>General Manager</b></p> <ul style="list-style-type: none"> <li>• <i>Interviews:</i> <ul style="list-style-type: none"> <li>- Threat aspects of the Internet--early / now</li> <li>- Opportunity aspects of the Internet--then/now</li> <li>- Coordination challenges</li> <li>- Cultural, management, and business plan differences</li> </ul> </li> </ul>	<p style="text-align: center;"><b>Marketing Manager</b></p> <ul style="list-style-type: none"> <li>• <i>Interviews:</i> <ul style="list-style-type: none"> <li>- Coordination challenges and opportunities</li> <li>- Culture</li> <li>- Incentive system</li> <li>- Sales cycle</li> <li>- Customer profile</li> </ul> </li> </ul>	<p style="text-align: center;"><b>Editorial Staff</b></p> <ul style="list-style-type: none"> <li>• <i>Interviews:</i> <ul style="list-style-type: none"> <li>- Coordination challenges and opportunities</li> <li>- Culture</li> <li>- Story development cycle</li> <li>- Content profile</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>• <i>Direct Observation: Story creation, sales calls</i></li> </ul>		
	<ul style="list-style-type: none"> <li>• <i>Archival Data: Internet proposals, customer lists, sales collateral</i></li> </ul>		
Venture Level	<p style="text-align: center;"><b>General Manager</b></p> <ul style="list-style-type: none"> <li>• <i>Interviews:</i> <ul style="list-style-type: none"> <li>- Threat aspects of the Internet--early / now</li> <li>- Opportunity aspects of the Internet--early /now</li> <li>- Coordination challenges</li> <li>- Cultural, management, and business plan differences</li> </ul> </li> </ul>	<p style="text-align: center;"><b>Marketing Manager</b></p> <ul style="list-style-type: none"> <li>• <i>Interviews:</i> <ul style="list-style-type: none"> <li>- Coordination challenges and opportunities</li> <li>- Culture</li> <li>- Incentive system</li> <li>- Sales cycle</li> <li>- Customer profile</li> </ul> </li> </ul>	<p style="text-align: center;"><b>Editorial Staff</b></p> <ul style="list-style-type: none"> <li>• <i>Interviews:</i> <ul style="list-style-type: none"> <li>- Coordination challenges and opportunities</li> <li>- Culture</li> <li>- Story development cycle</li> <li>- Content profile</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>• <i>Direct Observation: Story creation, sales calls</i></li> </ul>		
	<ul style="list-style-type: none"> <li>• <i>Archival Data: Customer lists, sales collateral</i></li> </ul>		

## Case Study Database

Data from the primary research sites were collected and entered into a case study database. The database was coded along 14 different categories. All entry into the database was done prior to interpretation. Analysis of the nearly 500 discrete data points was conducted separately once the database was populated. The data could be sorted by company, by data source, by thematic category or any appropriate combination. For example, a sort could be made to examine all data on The Beacon Company related to the resource allocation process that was gathered from interviews (see Figure 4.1).

Multiple techniques were then used to analyze the data, including tabular displays, data sequencing, and pattern matching (Miles and Huberman, 1984). The data were analyzed and presented in three stages. In Chapter 5, an in-depth, revelatory case study is presented using the multi-level process model of resource allocation described by Chapter 2 of the dissertation. The analysis builds on methods used by Bower (1970) and others (Christensen and Bower, 1996; Noda and Bower, 1996; Eisenmann, 1998). The critical case looks at strategic processes over time by considering the multiple levels of involvement in the various stages of resource allocation: *definition*, *impetus*, and *commitment*. The method provides structure in the analysis of data that is otherwise very complex analyze and present. In Chapter 6, we then use all eight primary field sites to test the clinical propositions introduced in the theory chapter. In Chapter 7, we summarize the analysis of the clinical data and inductively develop a longitudinal model of industry response, enfolding the theoretical literatures into the analysis.

Figure 4.1: Case Study Database



4.4 Clinical Methodology Conclusions

Because of the inherent complexity and embedded nature of the organizational phenomenon under consideration, a blend of clinical and large sample analysis was employed. Chapter 4 outlined the clinical methodology (the large sample methodology

will be presented in chapters 8-10). A case study approach to the research questions offered the advantages capturing an inherently contextually embedded, multi-level phenomenon. An embedded multi-case design was used with eight primary research sites and an additional 13 follow-on sites. The analysis of the data will include multi-level comparisons--corporate, newspaper, and venture management. Efforts to collect and then triangulate across multiple sources of data were employed to ensure internal validity (Yin 1994). Data collection was conducted using case study protocol and all data were recorded into a large database that could be sorted along a number of thematic and organization fields for further analysis.





## **CHAPTER 5: THE PROCESS OF COMMITMENT: A REVELATORY CASE**

### **5.1: A NOTE ON THE REVELATORY CASE METHOD**

Before introducing data from all eight primary research sites, we spend some effort looking at one single case: *The Beacon A*. The single case is used as a revelatory case, because it presented “an opportunity to observe and analyze a phenomenon previously inaccessible to scientific investigation” (Yin, 1994: p. 40). A revelatory case is powerful, not because it is rare or unique, but because it provides in-depth access and insight that might not be accessible elsewhere (Roethlisberger and Dickenson, 1939; Liebow, 1967; Burgelman, 1983). The data from *The Beacon A* extend from 1990 to 2000 and the researcher was given in-depth access to historical company documents, business plans, financial results, and company personnel.

The case data will be presented across three different periods of the commitment process in a way similar to the longitudinal analysis of Noda and Bower (1996). Period 1 describes a process where a single senior manager proposed a series of “experiments” to learn about the Internet. His personal credibility and involvement helped secure financial commitment the venture. Unfortunately, the operating organization then rejected the business in the day-to-day decision-making processes associated with the allocation of personal time and attention. This period runs from 1990-1995 and is entitled “All Dressed-up and Nowhere to Go.” The second period considered in the analysis is called “Going Nowhere in a Hurry.” This represents the time when both financial and organizational commitment to the Internet intensified substantially. Unfortunately, the

company failed to change significantly from being anything but a newspaper on the web. The company actively pushed Internet initiatives through the functional units of the organization in a thoroughly integrated process. This period runs from 1996-1998. The last period examined changes in the organization from 1999-2000. The changes take place initially by giving the Internet increased autonomy from the print organization and culminate with the formal separation from the newspaper. This period is entitled "Ownership Has Its Privileges." Each period is described using a multi-level, multi-stage resource allocation framework to analyze the process of commitment (Bower, 1970; Burgelman, 1983).

## **5.2 BACKGROUND ON *THE BEACON A***

The Beacon Company was one of the largest U.S. newspaper publishing firms with more than 10 different newspapers in medium to large metropolitan markets and a collective readership in the millions. Some of the senior management of the company were family owners, though the board was able to replace under-performing management. The company was very market-oriented and had a strong emphasis on meeting annual earnings forecasts.

*The Beacon A* was not the flagship paper of The Beacon Company, but it was certainly one of its larger papers. The 1994 average daily circulation was over 250,000 and readership had a large technology-oriented, cosmopolitan demographic. The newspaper launched its Internet site in 1994, making it one of the newspaper pioneers of the Internet. The company had invested early and aggressively in other new media,

particularly videotex. In this sense, *The Beacon A* was unusual. It was part of a corporate entity that had invested early and heavily in new media projects since the 80s and it was located in a market that was highly technology-oriented. The paper was also unique in that its publisher was very personally interested in and committed to new media and the Internet, and had insights very early on as to how the media might evolve.

### **5.3: PERIOD 1: “ALL DRESSED-UP AND NOWHERE TO GO” (1990-1995)**

The first period we will consider at *The Beacon A* went from 1990-1995. We will first look at the strategic and structural context by examining the three stages of resource allocation: definition, impetus, and commitment.

#### **Strategic Context**

The Beacon Company had long been experimenting with various forms of new media. Its experience with an earlier form of new media proved influential. The Beacon Company had really pioneered videotex, a media that sent slow-loading news text to a video screen through a dedicated telephone connection. The Beacon Company lost over \$60 million dollars ensuring that if the media developed, newspapers would lead the way. As *The Beacon A* publisher declared: “It would be nothing short of criminal if the company that had the courage to launch videotex failed to seize the moment when the market turned.”<sup>80</sup> Previous investments had been made out of fear and a desire to protect the print franchise from potential attacks from telephone companies and yellow pages

competitors. A memo evaluating the videotex experience stated that the newspaper had managed the project out of fear of what technology could do to traditional print competition.<sup>81</sup> This time the company would try to influence the future “rather than worrying what new technologies will displace” the newspaper.<sup>82</sup>

Reasons for the failure in videotex were believed to be two-fold. First, the technology was not ready. Videotex required the purchase of dedicated terminals usable only for the newspaper application. The technology was slow and expensive, and the concept was thought to be ahead of its time. Second, very little learning occurred in the new venture. The publisher of *The Beacon A* described, “We lost over \$60 million on videotex. We recognized the potential threat in 1978, launched, and didn’t change strategy once until 1986 when we shut it down. We learned from the videotex experiment that there really wasn’t much of an appetite for an ‘electronic newspaper.’”<sup>83</sup> Learning what consumers would want in through digital media “required a series of small, very low-cost, isolated research initiatives.”<sup>84</sup> Noting that the future of technology

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<sup>80</sup> Archival Document, “Vision Memo for Electronic Publishing,” by Publisher of *The Beacon A* (1/19/90).

<sup>81</sup> Archival Document, “Memo to the Vice President of The Beacon Company Newspapers,” by Publisher of *The Beacon A* (1/16/90).

<sup>82</sup> Archival Document, “Vision Memo for Electronic Publishing,” by Publisher of *The Beacon A* (1/19/90).

<sup>83</sup> Interview, Publisher and Original Head of New Media, The Beacon Company (3/14/00).

<sup>84</sup> Archival Document, “Vision Memo for Electronic Publishing,” by Publisher of *The Beacon A* (1/19/90).

was still unclear, the publisher stated: “If the future is unanswerable (and it is), then our best strategy is to hoist a sail to catch the wind when it comes up.”<sup>85</sup>

### **Structural Context**

The same memo from the publisher called for a series of structured experiments and also demanded that they take place within an integrated organization. The section on structure was entitled: “Integration, Integration, Integration” and the introduction included the following statement: “The power of the newspaper to provide thrust for the new services can be harnessed only if it achieves deep levels of integration with the newspaper. Structuring the experiment as an enterprise separate from the newspaper would be crippling if not fatal.”<sup>86</sup> Eventually an online general manager was hired, but the operating activities of the business flowed through the functional areas of the print organization. Thus, the editorial staff was ultimately responsible for the online content, the sales department was responsible for Internet sales, etc. This structure would remain generally unchanged throughout Period 1 (see Chart 5.1). There was not a lot of discussion as to why separation would be so “fatal”, other than the mention of missing the chance to leverage the existing resources of the newspaper. “We have a good newspaper and they [the new competition] don’t.”<sup>87</sup> Throughout this period, financial pressures at the time remained high and the experiments were carefully guarded from expansion, given the heavy losses in the earlier videotex ventures.

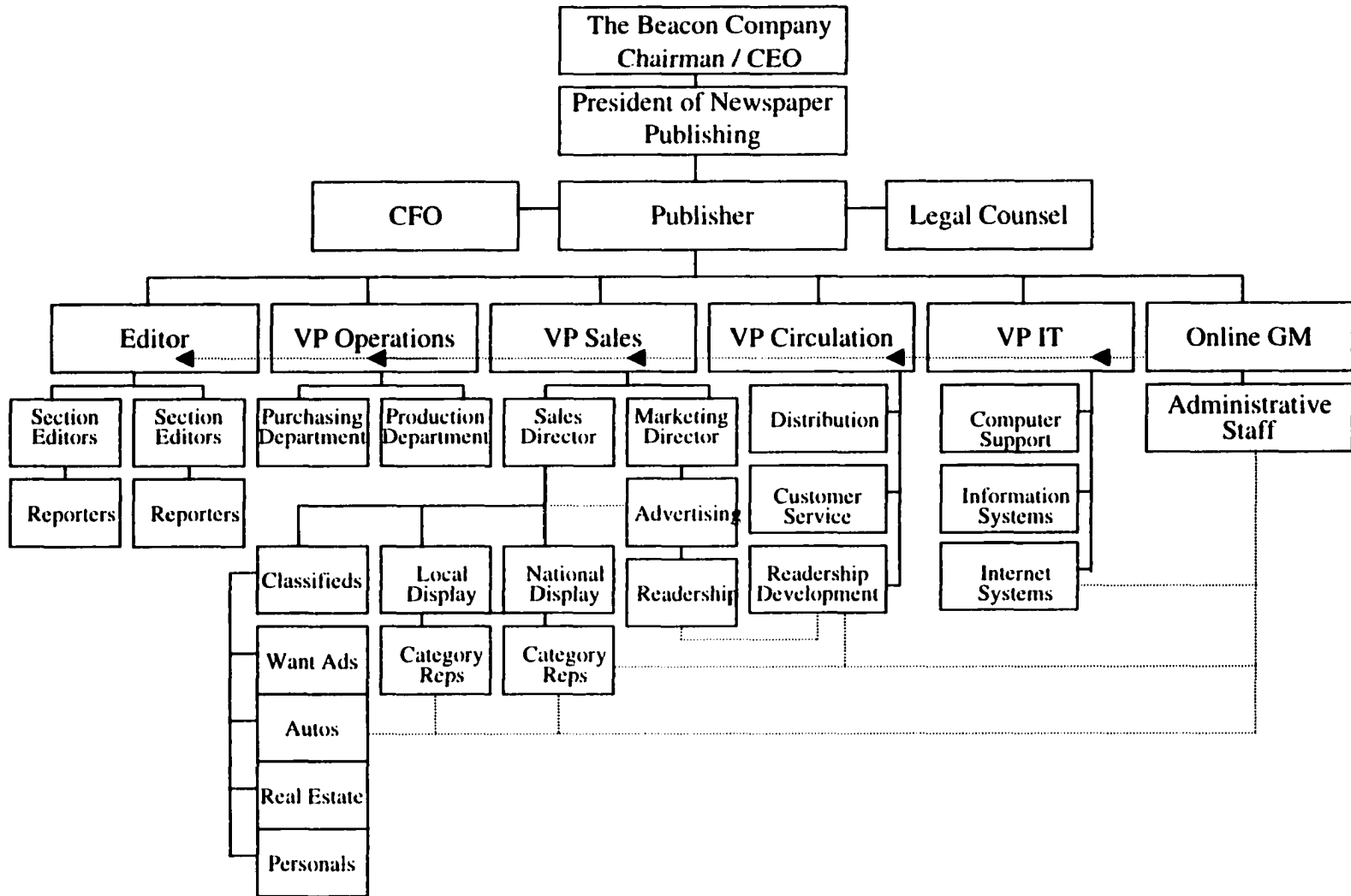
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<sup>85</sup> Ibid.

<sup>86</sup> Ibid.

<sup>87</sup> Ibid.

**Chart 5.1: The Beacon A Organization Chart 1992-1995**



### **Definition and Impetus**

The publisher's individual and indirect experience with videotex (he sat on some of the projects oversight committees) and his personal commitment to the online medium allowed him to actually start the definition process for the Internet business. Even at his level in the organization, he was involved enough to articulate many of the economic and technical aspects of the new business (Bower, 1970). For example, his memo to the Vice President of Newspapers at The Beacon Company discussed a very detailed vision of what types of features and products needed to be developed with the new product. These included: chat, customized delivery of content, customized advertising, development of a local portal role, development of multiple online communities.

The publisher felt there would be important differences in the online product from the print product. He pointed out, "One mistake early videotex projects made was that they tried to replicate, in condensed form, the print product. This experiment would not be a videotex system in that it would not attempt to replace the newspaper."<sup>88</sup> Not only content replication, but also business model replication would be avoided. The sources of revenue would have to come from multiple and new types of services. Given that the original memos were written in 1990 before the word Internet was even in use, the vision and ideas were quite remarkable (Compare "Different Performance Trajectory" section in Chapter 3). And because the publisher had defined the new business, he could also

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<sup>88</sup> Ibid.



provide the impetus to propose it to the corporate management given his position of credibility as the publisher of the newspaper.

### **Commitment**

The sponsorship of the publisher at *The Beacon A* helped convince corporate that the business should be approved as a series of “low cost experiments.” In 1992, after nearly two years of dialogue with corporate, funds were provided to start the venture. The initial financial commitment was small, largely because of concerns over videotex-like losses. Nevertheless, this initial financial commitment was commensurate with the strategic vision of what the publisher wanted to do.

Despite the financial resources, the process of commitment failed at the operational levels of the organization. This happened as managers failed to allocate their individual time and attention to the Internet. Based on established routines for prioritization, they chose to focus on other responsibilities. The publisher had stated, “The only way to tap the creativity and commitment of all our people was by practicing inclusion and involvement from the beginning.”<sup>89</sup> But he had overestimated the structural pressures that drove managers to ignore the new venture. Even the publisher, though he had sponsored the proposal, faced time constraints given his operating responsibility to run a large newspaper organization (see Chart 5.1). When he tried to encourage participation from his functional operating managers, the challenges were even greater. Two examples include the sales organization and the newsroom.

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<sup>89</sup> Ibid.

Because the early online advertisers were different than print, the existing sales force found little success selling online to their established customers. Similarly, they had very little structural incentive to contact “Internet only” sales leads because the sales size was small compared to what they could get from selling a print solution. An online sales representative at The Beacon Company explained, “Print reps could sell the online product, but with varying degrees of success. Their margins were higher on other products that were easier for them to sell. Online was really just a novelty to them.”<sup>90</sup> Another online manager at the company was more extreme, saying, “Print reps are the laziest people in the world. The print product is easy to sell. People just call you. What would you rather sell, a \$50,000 ad that calls you or a \$500 ad that you have to hunt down, pin, and commit yourself?”<sup>91</sup> As the publisher reflected on his early efforts to integrate the existing sales force he noted: “It did work sometimes if you got lucky, if the print person did enough calls, they began to catch on. Maybe you could see a world where they could do both, but it is just too different now.”<sup>92</sup>

Part of the reason it was so hard for print reps to sell online was that the people they were used to calling on had little use for the product (Christensen and Rosenbloom, 1995). The vice-president of technology and operations at The Beacon Company’s new media division explained, “In most cases they [online advertisers] aren’t our [print] customers. There aren’t many department stores--our leading electronics advertiser

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<sup>90</sup> Interview, Online Sales Representative, *The Beacon A*, (6/16/00).

<sup>91</sup> Interview, Online Sales Manger, *The Beacon A*, (6/16/00).

doesn't sell online."<sup>93</sup> The net effect was that print reps concluded that the Internet ad was a small, difficult, and unprofitable product to try to sell.

In the newsroom, a similar devaluation of the online business occurred. A story from the publisher at *The Beacon A* is indicative:

"I had trumpeted this thing to everyone and asked for their cooperation with the online group. One day I asked an online staff member how things were going and if the newspaper staff was helping out. He told me a conversation where he had asked for some help, and the response was, 'Get the hell out of here, I've got a *real* newspaper to get out.'<sup>94</sup>

The interaction demonstrates two things. First, the online product was looked at with some disdain. It was considered lowbrow and lowered the traditional performance trajectory of editorial excellence (Christensen, 1997). Second, this interaction demonstrates the challenge of time allocation. In the operations intensive environment of a newsroom, it is very difficult for someone to stop what they are working for an unproven product when the daily demands of the existing product are so overwhelming.

During this period at *The Beacon A*, the publisher failed to build commitment largely because of operational constraints associated with the allocation of personal time and attention. Despite a senior sponsor, a remarkable initial vision for the Internet, and the financial resources to launch a site, the publisher was unable to generate operational

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<sup>92</sup> Interview, Publisher and Original Head of New Media, The Beacon Company (3/14/00).

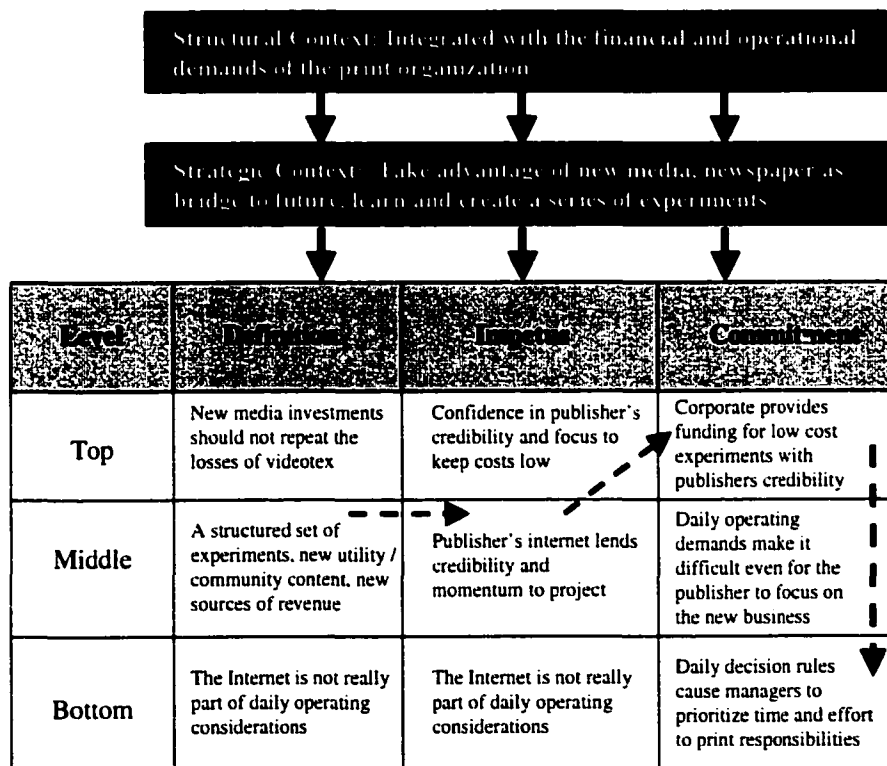
<sup>93</sup> Interview, Vice President of Technology and Operations, The Beacon Company New Media Division, former COO of *The Beacon A* (3/14/00).

<sup>94</sup> Interview, Publisher and Original Head of New Media, The Beacon Company, (3/14/00).

commitment to the Internet. Because the site was integrated into the newspaper where the existing structural context was dominated by the demands of the print product, the ability of managers to commit their time and energy to the new business was significantly constrained. The Internet was “All Dressed-up with Nowhere to Go.”

The process of definition, impetus, and organizational commitment are summarized in Figure 5.1. We have focused on the major contributing levels at each stage of the process. Again, the project was defined by the publisher. His personal credibility immediately gave the venture momentum. Financial commitment then followed from corporate, but organizational commitment was not forthcoming at the operational levels of the firm.

**Figure 5.1 Process Analysis of Clinical Data  
“All Dressed-up and Nowhere to Go” (1990-1995)**



#### **5.4: PERIOD 2: “GOING NOWHERE IN A HURRY” (1996-1998)**

The second period of *The Beacon A* was quite different from the first. In Period 1, the Internet was framed as an opportunity to experiment and learn and received very little organizational commitment. In Period 2, the Internet was framed almost entirely as a threat and received strong financial and organizational commitment, but saw very little experimentation and learning. Threat motivation also created a form of behavior very different than that previously observed by Noda and Bower (1996), where early market failure led to the abandonment of cellular telephony by U.S. West. In *The Beacon A*, despite early market failure there was a rapid *expansion* of investment. The difference was related to the strong perception of threat that was associated with considerations at *The Beacon A*. Again, we will use the components of the Bower-Burgelman model to analyze and present the data.

##### **Strategic Context**

1996 and 1997 could be classified as years of refocus on the newspaper business for The Beacon Company. Holdings in radio and cable were divested in an effort to refocus the company on the print newspaper business. In 1997, the company spent more than \$1.5 billion acquiring several large metropolitan newspapers, making it one of the largest newspaper companies in the United States. This focused more than 90 percent of the company's revenues in the print newspaper business. It also increased the company's exposure to fluctuations in the health of the newspaper industry. The Beacon Company was now squarely reliant on the growth of the newspaper business and more vulnerable to any attack on the newspaper business.

The fact that the company had been involved in other new media projects and that *The Beacon A* was located in a technology-centered environment also heightened awareness and perception of a possible threat to the newspaper business via digital technology. The publisher, despite early calls for experimentation and learning, now described a heightened sense of urgency and concern, “I live in terror that some big thing’s going to happen that I don’t see coming.”<sup>95</sup> There was a sense that the evolution of the Internet, despite everything the company and newspaper were doing, was out of their control. The publisher worried, “What if we do every damn thing we can think of and execute flawlessly and we still don’t make it? We can slow it down, but we can’t stop it.”<sup>96</sup> This sense of threat was not lost on the corporate leadership who saw *The Beacon A* as a leading indicator of the future for their other newspapers. The CEO and chairman of the company placed a great deal of attention and focus on the progress of *The Beacon A*.

### **Structural Context**

Whereas the earlier period saw low corporate involvement, the structure was changing such that corporate had much greater control over the paths taken. A centralized new media group was formed to provide strategy and planning for all of the newspapers. The CEO of the company asked the publisher of *The Beacon A* to head this division. Operational responsibility and budgeting would remain integrated inside the

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<sup>95</sup> Archival document, Business Magazine Interview, “If You Can’t Beat ‘Em . . .” January 18, 1999.

newspapers, but direction and planning would come from the Internet group. The vice-president of technology and operations at The Beacon Company's Internet division explained, "It was very centralized in the beginning, which was very uncharacteristic, because the culture is very much to let these guys run their own businesses. We had a basic business model for every site. We gave them money. We told them they could hire people, but we told them exactly how to do it."<sup>97</sup> In fact, sample budgets, marketing plans, and checklists were distributed to all of the publishers.<sup>98</sup> But again, despite the active involvement of the corporate Internet division, the operations of the new venture remained tightly integrated into the functional organization of the print newspaper. The role of the corporate group was to provide advice and develop strategy, but the operations of the new business were woven into the organization of the print newspaper. The online general manager at *The Beacon A* continued to have primary reporting responsibility to the new local publisher and functional responsibilities continued to reside with the print operating groups (see Chart 5.2).

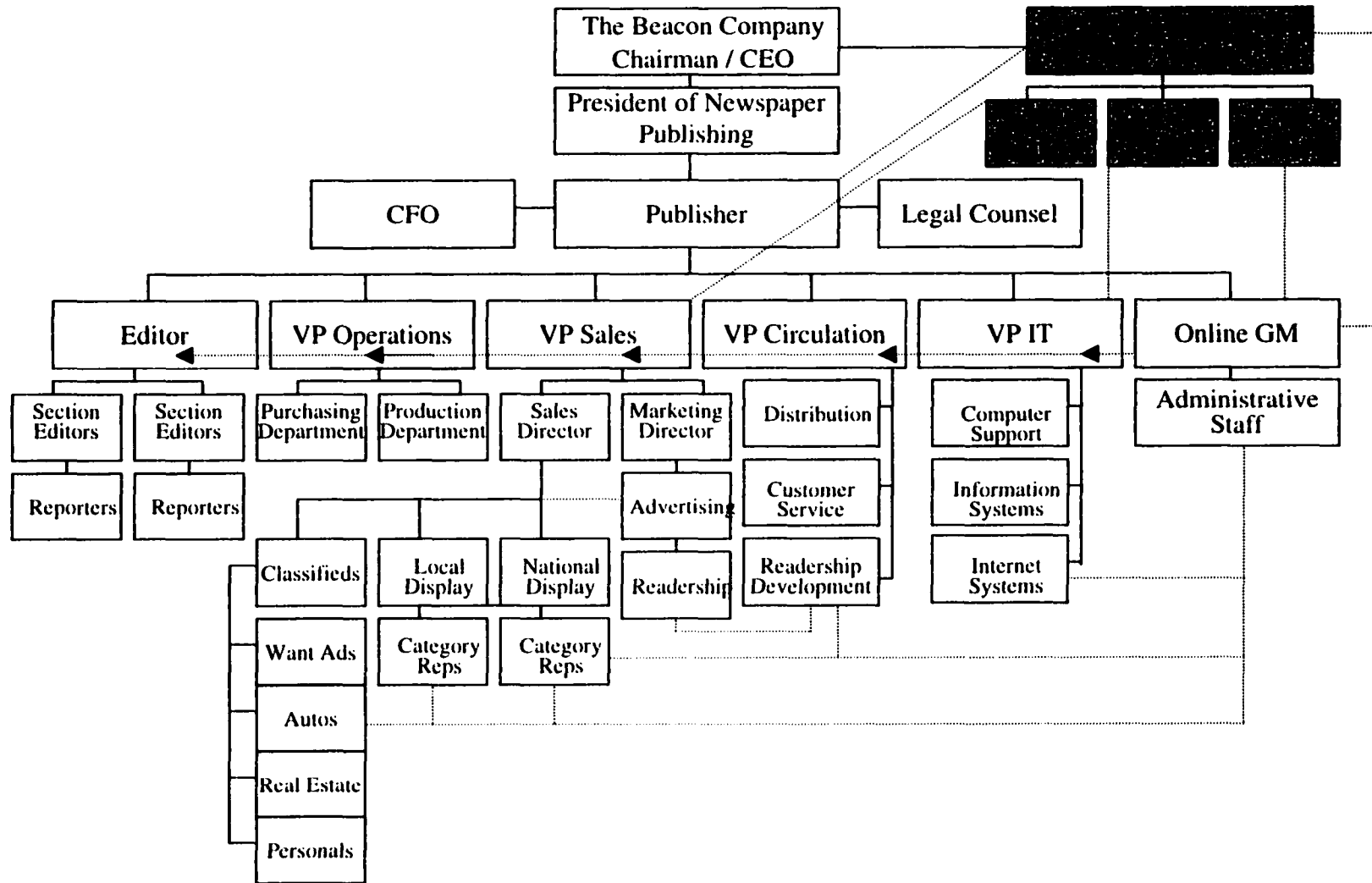
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<sup>96</sup> Interview, Publisher and Original Head of New Media, The Beacon Company, (3/14/00).

<sup>97</sup> Interview, Vice President of Technology and Operations, The Beacon Company New Media Division, (3/14/00).

<sup>98</sup> Archival Documents, "Budgeting for New Media" (10/94), "Welcome to Internet Publishing" (1995), "Internet Publishing Check List" (12/1/95). These documents were written centrally and distributed to all of the publishers.

Chart 5.2: The Beacon A Organization Chart 1996-1998





### **Definition and Impetus**

There were two key differences in the definition process during this period in *The Beacon A*. First, while the source of definition in the earlier period was generally the individual publisher, the corporate management was increasingly involved in the definition process. As the Chairman and CEO described, “We traditionally let them run their own things, but when it came to the Internet we absolutely intervened.”<sup>99</sup> The corporate office now became much more involved in defining what the venture would be and how it needed to be done. The other major difference in the definition process during this period was that the Internet was now largely perceived as a threat. Rather than a series of structured experiments, the growth of the Internet in *The Beacon A*’s market had caused both the publisher and the corporate management to become increasingly concerned that the pace and implications of what was happening had changed. The publisher of *The Beacon A* described how early efforts to develop the venture as an opportunity gave way to fear of an impending crisis,

“Well, what if we instead look at it as an opportunity. We then tried to figure out that approach. Then the problem is, can you grow the opportunity as fast as the core is under attack? The answer is yes, maybe, ultimately, if you can act fast enough and find enough ways to expand that business. But there is this real painful period in the middle where you might be losing faster than you are gaining.”<sup>100</sup>

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<sup>99</sup> Interview, Chairman and CEO, The Beacon Company, (3/14/00).

<sup>100</sup> Interview, Publisher and Original Head of New Media, The Beacon Company, (3/14/00).

The focus had become fear of loss, not hope for gain (Dutton and Jackson, 1987; Jackson and Dutton, 1988). The CEO of The Beacon Company described a transition in a similar way, "When we started out, it was really more experimental and I think we were the first to do it. . . [But as it developed] I think it was primarily viewed as delivering the newspaper in a different way, and in that sense it was defensive . . . We felt with the news we needed to be in a position to deliver that through multiple mechanisms." The focus of response was now focused squarely on concerns for defending the print newspaper franchise.

### **Commitment**

What the involvement of the publisher and early financial commitments could not do, a heightened sense of threat could. Both financial and organizational commitment grew tremendously during this period. Unlike the earlier low-cost experiments, financial expenditures from 1996-1998 grew significantly. We do not have data that isolates the individual newspaper, but the company's aggregate Internet financials are representative of the *The Beacon A*, according to managers.<sup>101</sup> Original forecasts in 1995 showed modest spending, in line with earlier experiments. That spending was assumed to grow commensurate with revenue growth and the business would be profitable by 1997 at 25 percent EBITDA margins. Incidentally, these were the same target margins for the print newspaper organization. In 1996, losses were overwhelming. But rather than pull back in the face of missed goals, the company pushed even harder. In 1997 the company spent

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<sup>101</sup> Other newspaper launch dates tended to lag *The Beacon A* by 8 to 14 months.

almost \$20 million on the Internet and in 1998 that number was nearly \$30 million with a loss of over \$10 million (see Table 5.1). *The Beacon A* itself was still losing money, but the company continued to expand its investment.

**Table 5.1: Approved Online Budgets vs. Actual Results at The Beacon Company**

<b>Approved<sup>102</sup></b>	<b>Budget 1995</b>	<b>Budget 1996</b>	<b>Budget 1997</b>
<b>Revenue</b>	\$91,057	\$11,100,224	\$28,019,758
<b>Expenses</b>	\$794,938	\$11,396,169	\$20,886,221
<b>EBITDA</b>	\$(703,871)	\$(295,945)	\$7,133,537
<b>EBITDA %</b>	<b>-773%</b>	<b>-3%</b>	<b>25%</b>

<b>Actual<sup>103</sup></b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
<b>Revenue</b>	NA	\$4,661,029	\$9,323,251	\$17,083,825
<b>Expenses</b>	NA	\$7,979,239	\$19,596,943	\$28,193,645
<b>EBITDA</b>	NA	\$(3,318,210)	\$(10,273,692)	\$(11,109,820)
<b>EBITDA %</b>	<b>NA</b>	<b>-71%</b>	<b>-110%</b>	<b>-65%</b>

From 1990-1995, managers had been asked to prioritize the Internet, but the operational demands and financial incentives made this very difficult. Defined as an opportunity to help better serve their customers or improve the way they wrote stories, it was very hard for operational managers to see any motivation to commit personal time and attention to the Internet. However, defined as a threat to the future of the organization, commitments started to follow. One sales manager described, "Look, it didn't make any sense for us to try to sell this stuff, but we were made to feel that if we didn't work on it, it might come back to haunt us."<sup>104</sup> Reporters were asked to

<sup>102</sup> Archival Document, "The Beacon A Budgeted Forecasts," (2/5/94).

<sup>103</sup> Archival Document, "The Beacon Company Budget Report," (7/99).

<sup>104</sup> Interview, Print Sales Manger, *The Beacon A*, (6/15/00).

summarize articles and stories before they were published in print. Many were also encouraged to write follow-on stories just for the web.

Three features about the nature of these threat-motivated commitments stand out. First, they were deployed aggressively, with few formal mechanisms to evaluate and learn after each capital infusion. Unlike Period 1, there was now a deep “willingness to spend” (Mittal and Ross, 1998), but very few stages of evaluation of that spending. As the losses grew, rather than carefully evaluating what had been learned, more resources were deployed. Second, the functional managers, though very involved and committed, also assumed authority and control over those employees who were assigned to the Internet (Dutton and Jackson, 1987; Herman, 1963). For example, rather than relying on the line managers, senior editorial staff wanted to review and revise content that was posted to the web. Third, the increased involvement of senior print managers forced decision-making to focus considerations on the existing newspaper franchise. The senior editorial staff spent relatively little effort asking what was different about the Internet that might change the way information was collected, assimilated, and distributed (Mittal and Ross, 1998). Thus, commitment was a mixed blessing. Significant amounts of financial and human resources were available for the development of the venture, but those resources were focused around defending the existing business.

## Still a Newspaper

Despite all the money and effort, the product, business, and strategy were “going nowhere in a hurry.” Versions of the mid-1990s website were really just a longer version of the printed newspaper. Content features like site customization and community building that had been discussed as early as 1990 had largely been ignored. Rather, most of the content was focused around the format of the print newspaper. The website flowed like a newspaper with almost the identical sections as in print. And despite the fact that off-the-shelf search technologies were widely available, the site did not provide a search feature until the late 1990s. The company’s CEO described the failure: “But there was the real mistake. . . . When the search companies<sup>105</sup> came along in 1995, we didn’t really pick up . . . . So when they were starting up search, we never really jumped on the bandwagon and our Internet operations were really run by people who came out of the newsroom, so they were editors who tended to look at this more as a newspaper.”<sup>106</sup>

The early ideas for multiple streams of revenue were also under-developed. The site’s sources of revenue were still mainly subscription fees and general advertising. Sales managers were trying to sell the Internet product to their best print customers, which caused them to try to force it to meet the needs of those customers. Unfortunately, large print advertisers were still not focused on the Internet. *The Beacon A* was not

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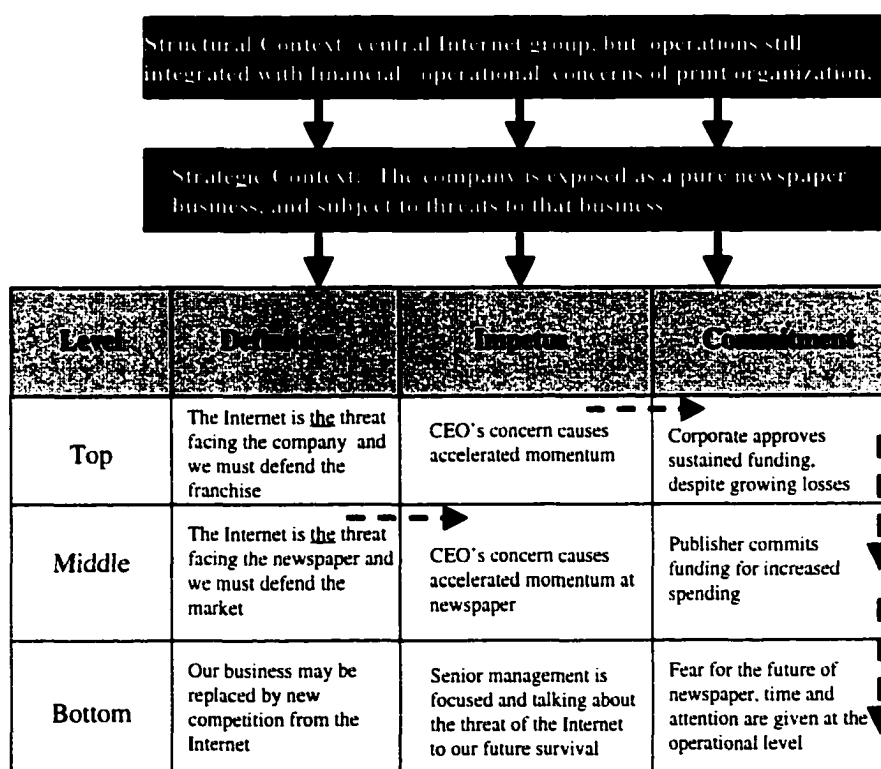
<sup>105</sup> Refers to search portals that helped web users navigate to different sites on the Internet. Examples include Yahoo, Excite, Lycos, and AltaVista.

<sup>106</sup> Interview, Chairman and CEO, The Beacon Company, (3/14/00).

actively collecting consumer demographic data, nor were its print advertisers yet capable of using consumer direct marketing using the Internet.

It seemed that with high levels of financial resources and deep organizational commitment, the ability to experiment and learn had been reduced. The real irony was that in a period when the organization would not commit substantially to the Internet, there was an abundance of new and novel ideas around the content and commercialization of the business. Then in a period with intense financial and organizational commitment, those ideas were largely ignored. The processes that led to the replication of the newspaper on the web are summarized in Figure 5.2

**Figure 5.2 Process Analysis of Clinical Data  
“Going Nowhere in a Hurry” (1996-1998)**



### **5.5 PERIOD 3: “OWNERSHIP HAS ITS PRIVLEDGES” (1999-2000)**

This final period represented a huge transition for *The Beacon A*. The changes came first through structure--the Internet unit was separated, removing reporting and financial control from the newspaper. The decision to separate was driven partly by capital market rewards to separate and partly by a series of serendipitous experiences that showed notable differences between separated and integrated efforts. Once separated, managers were able to focus on the business independent of considerations of the newspaper. This led to a process of innovation different than the traditional business model and content strategy of the newspaper.

#### **Strategic Context**

As comparisons were made to other Internet sites, there was a growing sense at the corporate level that the Internet product was not what it could be. During the period of rapid expansion from 1996-1998, the emphasis had been on defending the existing business. In the period from 1999-2000, senior management started to feel that the Internet should be allowed to attack the paper or even go a different direction altogether. The CEO described the shift: "I think that if the people in the Internet business don't feel that there are any restrictions on basically what they can do, that they're not going to be held back, then we're going to have a better business. Because they can take the best of the newspaper. But they'll have to pay for it. And they'll chip away at the newspaper. The newspaper can't do anything about it."

With this change from a newspaper centric model, comparisons to competitors other than newspaper companies became much more relevant. Managers recognized a

gap between the product that had been created and the product that would need to be developed. In an interview with the original head of new media, the researcher pointed out that the company's sites had user traffic among the highest in the newspaper industry. The manager quickly responded, "We're a giant among the pigmies. Our real competition is the pure Internet companies like Yahoo."<sup>107</sup> The CEO of The Beacon Company concurred in an interview:

CEO: "I don't want to make it sound like we are this big success, because I'm disappointed in online in many ways."

Interviewer: "Some people in the industry feel that newspapers have made it through?"

CEO: "We're abysmal. We don't look at the newspapers as our peers, we look outward and realize we've got a lot left to do."

### **Structural Context**

The pace and level of investment sometimes made it hard for managers to recognize that integrated structure constrained strategy, but repeatedly internal experience demonstrated the problems of being integrated with the newspaper. The most influential example of this was in sales and occurred almost serendipitously.

#### *Zip2--A Mini-Case*

One of the key discoveries happened almost by accident. In the previous period of integrated sales efforts, the print sales organization had focused aggressively on selling the Internet with very little success. Although very little sales experimentation was

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<sup>107</sup> Interview, Publisher and Original Head of New Media, The Beacon Company,



occurring at the time, an unplanned one did occur. The company Zip2 had developed a business directory product that it was selling and posting on *The Beacon A* website through a licensing arrangement. It had hoped the product would develop on its own and that the newspaper sales force could sell it. The print sales force did make it a priority and dedicated four print sales reps to the product. Unfortunately, they had very little success promoting it to traditional print customers. The problem was not just that interest was low, but that the cycle and selling process of quarterly visits to print advertisers was too slow and targeted at too few potential advertisers. The business directory required high selling volume more similar to a yellow pages product.

In 1997, frustrated by the lack of success, Zip2 asked *The Beacon A* if it could hire its own sales reps to promote the product. *The Beacon A* agreed, but reserved the right to buy the new organization for an option price of \$1. Zip2 then hired four outside sales reps--the same number that had been dedicated in the print sales division. Referred to as "The Agency," they opened an office 15 miles north of the *The Beacon A* and started selling at the end of the first quarter. By the end of the year, the differences were startling. Despite the first quarter differential, The Agency's client base was nearly double and the weekly closings per sales rep were nearly triple the print group (see Table 5.2).

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(3/14/00).

**Table 5.2: Print Sales vs. “Agency” Sales, End of 1997**

	<b>Dedicated Print Sales Team</b>	<b>“The Agency” Sales Team</b>
Location	Newspaper’s sales offices	Location
Ownership	Newspaper	Zip2 with newspaper option
Sales Staff	4 full-time people	4 full-time people
Client Base	100	200
Clients / Rep Per Week	5-6	12-15

In January 1998, management at *The Beacon A* decided to exercise their \$1 option. Part of the deal was that the print sales force do “nothing to jeopardize the current structure.”<sup>108</sup> Once acquired, The Agency started looking for other online products to sell. The first addition wasn’t even part of a formal decision in the print sales organization. The online sales manager described, “Classified Ventures [an online classified product] came along and the print reps weren’t sure what to do about it . . . We saw the product and said ‘hey, we can sell this.’ So we just started selling it. Pretty soon we had so many accounts that they had to formally turn it over to us. The print folks call us the ‘online raptors’--we just suck everything up that comes in our path.”<sup>109</sup> The Agency continued to grow and today employs nearly 50 people and all of *The Beacon A* “Internet only” ads run through that office.

The structural integration that had been so strong from the launch of the venture through 1998 was loosening. Budgets were separated from the newspapers’ print

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<sup>108</sup> Interview, Online Sales Manger, *The Beacon A*, (6/16/00).

operating budgets and separate targets were established for online. The CEO described the thinking, “We separated it from the publisher’s budget, included it in measurement goals, and pulled the ventures aside to focus on growing the vertical business.”<sup>110</sup> *The Beacon A* also looked increasingly to outside experience in its hiring process. “Since 1998, most of the people who we hired joined the company to work on the Internet. They are not recycled newspaper people anymore. I think it is a problem for people who come from newspapers--you've got a new set of standards.”<sup>111</sup>

In 1999, senior management at The Beacon Company began discussions to more formally separate their Internet businesses from the newspapers. Some of this was driven by the excitement around Internet IPOs. By 1999, there was considerable opportunity to raise money through the IPO of an Internet spinout, and many established companies were eyeing the chance to raise cheap capital.<sup>112</sup> However, interviews with The Beacon Company management revealed that this was an important consideration, but not the sole motivation. They believed that separating would give them the autonomy needed to grow. When reminded about his vision to “Integrate, Integrate, Integrate,” the publisher and former head of the New Media division explained, “That was probably ‘Mie Culpa.’ The thinking was so much around the newspaper that we wanted to leverage it and bring

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<sup>109</sup> Ibid.

<sup>110</sup> Interview, Chairman and CEO, The Beacon Company, (3/14/00).

<sup>111</sup> Ibid.

<sup>112</sup> Mergers and Acquisitions (1999). “The Internet Bounce for Equity Carve-outs.” Mergers and Acquisitions, March/April, 1999.

the organization with it. It just didn't work."<sup>113</sup> The company had not given up on integration; they just believed that a separate organization was needed first while the business developed. The Vice President of Human Relations noted:

We needed online to be separate so this organization could figure out what was in its best interest. And the print organization could figure out what was in their best interest. Then let them decide what and where the points of integration would be. If we would have started out integrated we wouldn't have known where those points were. You can't know before, you just have to let it emerge itself. Set up a structure and let the organizations figure it out themselves.<sup>114</sup>

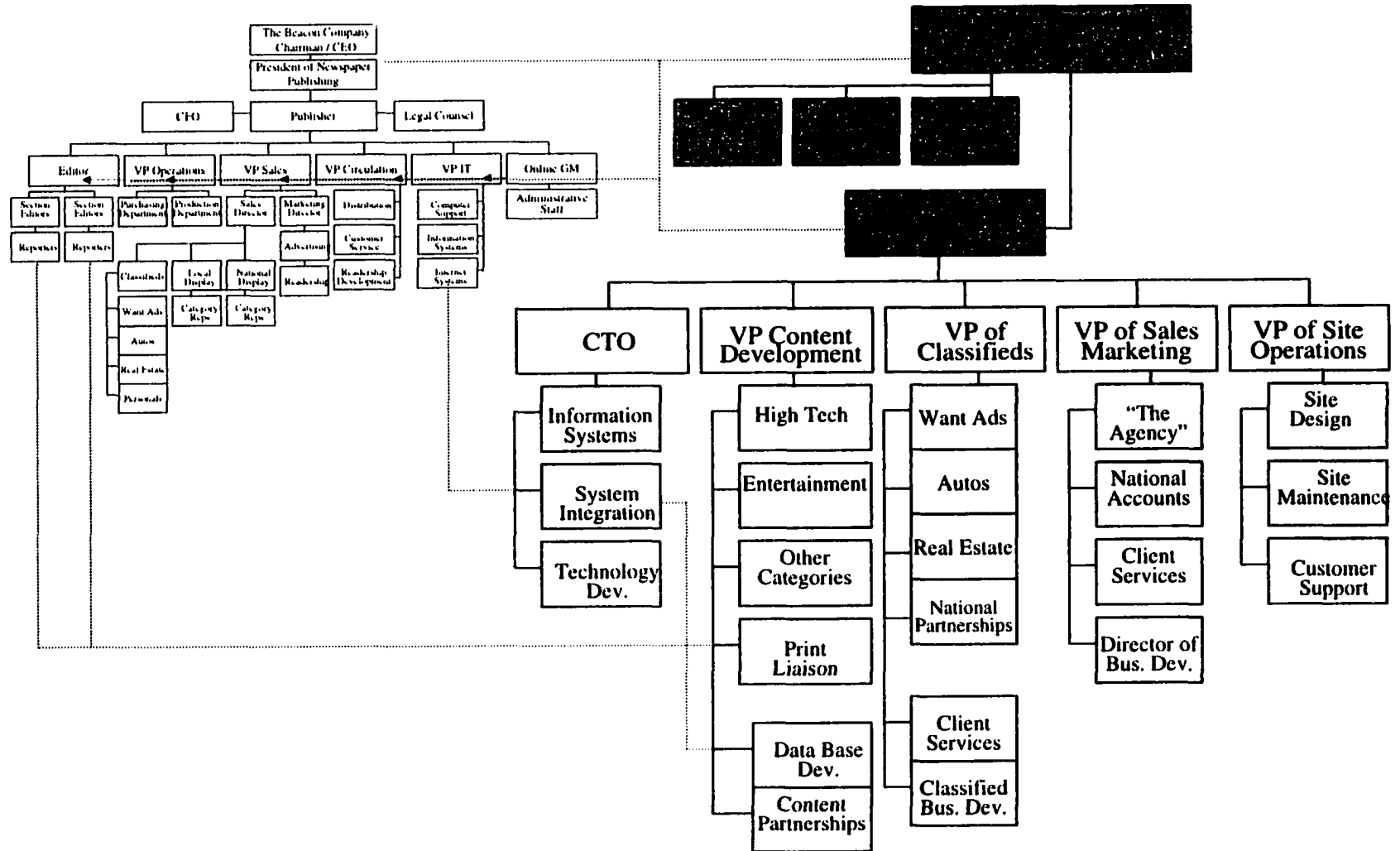
The company formally announced its decision to set up a separate Internet unit to house its Internet sites in early 2000. The sites reversed the previous reporting priorities, giving direct responsibility for the Internet ventures to the new media and pulling them away from the local newspapers. More significantly, autonomy from the newspaper was given to the separated venture at *The Beacon A*, and all reporting responsibility went directly through the online general manager to the head of the new media division. Other positions that did not even exist in print were identified and developed, particularly in the area of partnerships and business development (see Chart 5.3). The head of new media and former publisher of *The Beacon A* was soon thereafter replaced with a manager from outside the newspaper industry to run the separated units.

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<sup>113</sup> Interview, Publisher and Original Head of New Media, The Beacon Company, (3/14/00).

<sup>114</sup> Interview, VP of Human Relations, The Beacon Company (5/3/00).

**Chart 5.3: The Beacon A Organization Chart 1996-1998**



### **Strategic Process**

In an environment where the structural and strategic context isolated the Internet as a discrete and independent opportunity from the newspaper, the process of strategy formulation changed considerably. In Period 1, the structural context had been integrated with the existing responsibility and demands of the print business. It was very difficult to achieve organizational commitment to a proposal that was framed as just another opportunity. Had the original sponsor of the business not been the publisher, it would have also been difficult to achieve financial commitment. The priorities and obligations to the existing resources were just too great. However, framed as a threat to those same established resources, commitment was forthcoming at every level. Even though threat generated a much deeper series of commitments, all of the energy around those commitments was focused on defending the existing business rather than creating something new. In this sense, the structural context constrained the strategic context from changing. When the structural context at *The Beacon A* was changed to isolate the venture from the obligations and considerations of the exiting business, experimentation and learning could flourish. Different than the experimental efforts in Period 1, the process could have much more of a “bottoms-up” path from definition to commitment (Bower, 1970). The process did not require the publisher’s direct involvement and support to gain impetus. In this sense, strategy developed much more emergently in the new organization (Mintzberg and Waters, 1985; Burgelman, 1983). It seems that resource deployment needed to be deliberate, but strategy formulation needed to be emergent. Thus, threat motivated impetus prevented learning both because it focused

behavior on defending the existing resource base, but also because it created an environment dependent on deliberate strategic processes, which make learning very difficult.

### **The Product Evolved**

The change in strategic focus and structural obligations allowed the rigidity around the newspaper product to relax, and the managers in the new venture began to build what was really a new and different business. In fact, the position that was evolving by 2000 was much closer to that originally considered by the publisher in his 1990 vision memo. Content customization features appeared on the site in 1999 and 2000, allowing users to select which sections they would prioritize on the site. Customization also came in the form of e-mail news summaries with links to articles focused around different user interests, such as technology, sports, and headlines. Toward the end of 1999, the site separated its technology and information news into another separately branded site. The head of new media described the discovery: "When we started tracking browsers we realized that that tons of our traffic was coming from India. For sure these users were not coming to the site to check the local weather or estimate commute times. They were interested in the technology information we provided."<sup>115</sup> These out-of-market users had been trying to force the newspaper to "do a job" that it really wasn't designed to do. Once the site was separately branded, page impressions soared. Also, because of the technology focus of the site, they were able to

collect CPM advertising rates of close to 60 dollars--a huge premium over the industry average of around 35 dollars.<sup>116</sup>

The company also started providing more utility-oriented content that took advantage of the searchable characteristics of the Internet. For example, in a section on the site call "Community Life" users could type in their income and work location, and a database would calculate average home price and cost of living indicators to help guide a housing search. Other types of events calendars were created that allowed users to plan entertainment ideas based on dozens of search criteria. The site overall had become something more like a locally focused content and community information utility than just a newspaper on the web.

### **Expanding the Argument for Separation**

Despite the evolution of the business as a separate unit, the context at the print organization remained the same. Financial commitment continued as threat to the new print franchise remained the primary motivation to sustain commitment. However, organizational and operational commitment was now isolated in the new venture. At the same time, the context of the separated venture remained as describe above.

Previous research has argued that the power of separation was to protect the new venture from a resource allocation process that would starve it of financial and operational resources (Christensen, 1997). In the case of *The Beacon A*, a great deal of

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<sup>115</sup> Interview, Publisher and Original Head of New Media, The Beacon Company, (3/14/00).



financial and operational resources had been provided before separation ever occurred. Obtaining the necessary resources had been possible by framing the technology as a threat to the very existence of the newspaper business. Unfortunately, those resources were deployed around a very narrow concept of corporate strategy. Prior to 1999, the structural context had significantly constrained the strategic context. Thus, separation changed the structural context and allowed the strategic context to change and evolve with the concept of strategy. As the new head of new media described, "Now that we are separate, we *own the opportunity* in a way we never did when we were still in the newspaper [italics added]."<sup>117</sup> Ideas in this environment could develop in a "bottoms-up," emergent process that was not possible before. Managers could now frame the Internet as a separate opportunity and frame proposals and new ideas in a like manner.

Integrating across these very different contexts became quite important. Sustaining the concern and threat motivation in the core print organization was critical to continued financial commitment. However this had to be done so that it isolated those managing the new business from obligations and considerations to defend the print franchise. The original director of new media and former publisher of *The Beacon A* learned to facilitate this process. He described his role, "Yeah, I didn't focus people on the threat, especially those managing the new business. Where I did emphasize the threat was in working with the print folks to get them off their butts and in arguing for

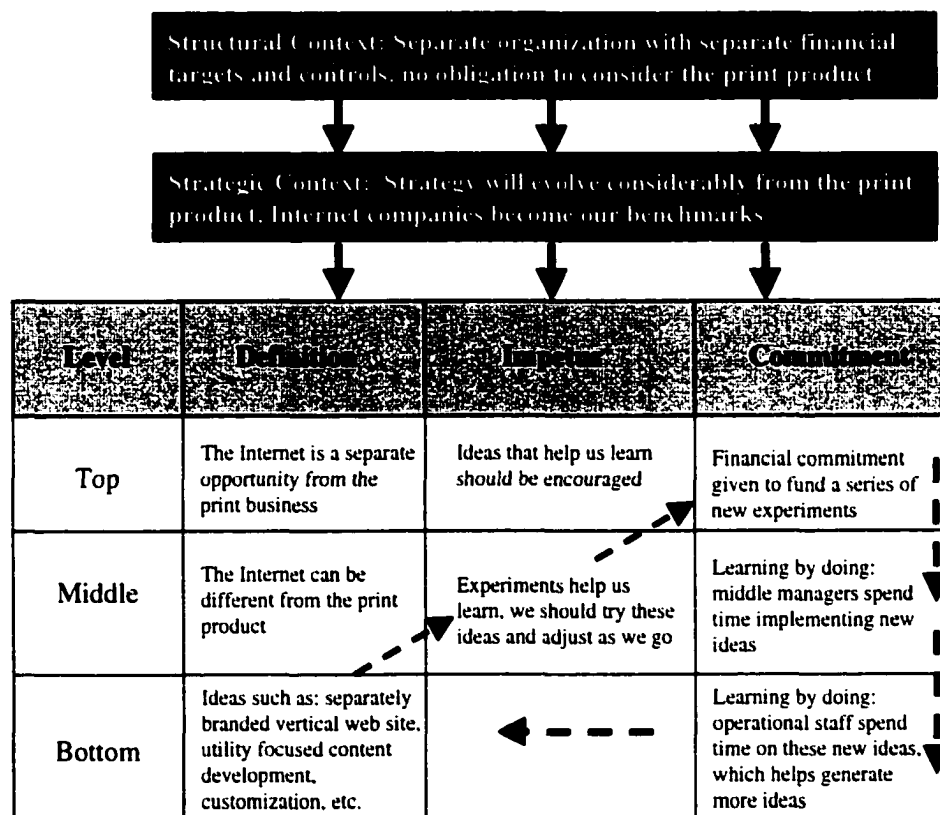
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<sup>116</sup> CPM means cost per thousand page impressions. Eisenmann's (2000c) note on content providers estimated industry average CPM rates of \$34 in 1999 and \$33 in 2000.

<sup>117</sup> Interview, New Head of New Media, The Beacon Company, (6/19/00).

resources.”<sup>118</sup> Indeed, when asked about concern for the print business, the Vice President of New Media reacted surprised: “We never talked about the threat here. It is possible that the head of new media screened us from that. But also, headquarters was across the country so we didn't get a lot of that from them.”<sup>119</sup> The processes that led to these behavioral outcomes are summarized in Figure 5.3.

**Figure 5.3 Process Analysis of Clinical Data  
“Ownership Has Its Privileges” (1996-1998)**



<sup>118</sup> Interview, Publisher and Original Head of New Media, The Beacon Company, (3/14/00).

<sup>119</sup> Interview, Vice President of Technology and Operations, The Beacon New Media Division, (4/14/00).

## 5.6 THE PROCESS OF COMMITMENT IN OTHER SITES

The following section expands the analysis to consider the seven other primary research sites in the study. The purpose of this section is not to present exhaustive comparisons, but rather to suggest that the implications from *The Beacon A* extend to other sites as well. Accordingly, the discussion is divided into two sections: 1) delimitations of the revelatory case and 2) brief descriptions of the process of commitment in the other primary research sites.

### **Delimitations of the Revelatory Case**

*The Beacon A* was selected as a single revelatory case study for a number of reasons. First, the access provided at the newspaper created an opportunity to view the phenomenon with a degree of depth and richness that had previously been unavailable. Other sites in the study were also experiencing similar pressures, but the degree of access, particularly to archival records, was exceptional at *The Beacon A*.

Second, the issues at *The Beacon A* were relevant to the research questions posed by this study and offered insight into the broader phenomenon being studied. There were some peculiarities about *The Beacon A*. The fact that it was located in an area where the Internet was an integral part of the local economy probably accelerated the awareness of the threat and also provided access to close Internet comparisons and benchmarks. The location probably also helped the venture hire Internet-oriented talent. Thus, when making comparisons to other sites, we might expect an accelerated pace of commitment. However, that proximity to these ideas and local Internet talent did not help *The Beacon A* overcome product and strategic rigidity makes the case data even more compelling.

Similarly, the situation with the publisher of *The Beacon A* was unique. His early interest helped secure initial financial commitment for the venture. However, even with his direct participation, he could not secure sustained commitment with the operating managers' time and attention. Senior level involvement of managers in the other research sites was mixed, but in every case, organizational commitment was a challenge to the early development of these ventures. And similar to other sites, threat was the eventual motivation driving expanded financial and organizational commitment to the venture. Thus, while acknowledging the unique elements of the revelatory case at *The Beacon A*, we also conclude that the underlying causal processes were similar and comparable to the other research sites.

#### **A Brief Description of the Process of Commitment in the Other Research Sites**

This section will provide a brief introduction and description of the process of commitment at the other seven primary research sites. All seven sites were similar in that they struggled to achieve financial and organizational commitment to the Internet. Ultimately, it was a sense of threat that actually helped define the Internet in a way where commitment could coalesce. And even though each of the sites was able to use threat motivation to develop significant commitment to the Internet, how those resources were deployed evolved quite differently. The first three sites presented eventually developed the product and business into something quite beyond an electronic version of the newspaper. The other four sites continued to replicate a product quite similar to the newspaper throughout the time of the study. Each site will be described briefly and then site comparisons will be summarized in Tables 5.3 and 5.4 below.

- *The Beacon B*. This newspaper was also owned by The Beacon Company. Unlike its counterpart, it was located in a medium-sized market in the Midwest. Its average daily circulation was around 200,000 at the time of the study. It launched its website in 1996, but similar to *The Beacon A*, the newspaper did not really become financially committed until after the site launched. Significant financial expenditures started to increase in 1997. The first three years after launch, *The Beacon B* promoted a site that was very similar to the newspaper. Like *The Beacon A*, managers began a process of separation starting around 1998, by separating budgets and then physical location. Over the 1999-2000 period, the site formally separated from the newspaper and became part of The Beacon Company's Internet Group. The *Beacon B* online employed 20 people in 2000.

The site is today recognized as one of the more innovative sites at The Beacon Company, especially given its location in a medium-sized Midwest market. Because it has largely evolved the types of content it delivers, *The Beacon B* could be characterized as a "local portal",<sup>120</sup> rather than a newspaper on the web. Over half of its content comes from sources other than

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<sup>120</sup> Note: For labeling purpose, we will use the term "local portal" to capture a site's evolution from simply a newspaper in electronic form. In this sense, a local portal is something that has innovated considerably in the content, selling, and business model processes associated with the traditional newspaper. In its extreme comparison, we would consider a local portal to being something more like a one-to-one marketing, e-

the printed newspaper.<sup>121</sup> We calculated a penetration index score for all eight of the primary research sites. The index allowed us to make appropriate Internet penetration comparisons across different sized markets by dividing the number of average monthly website users by the print newspaper's average daily readers.<sup>122</sup> For example, a website that had average monthly users of 200,000 with daily print circulation of 200,000 would have a penetration index score of 1.0. If on the other hand, that same newspaper had monthly users of 100,000, the penetration index score would be 0.5. *The Beacon B's* penetration index score was 1.4.

- *The Press A*. This newspaper was the flagship paper of The Press Company. It was a metropolitan newspaper with national distribution. The paper had a strong reputation for producing high quality journalism, having won many awards for the work of its journalists. *The Press A* launched its website in 1994, which was largely a replication of the print product online. The venture expanded by hiring newspaper managers until the end of 1995, when the company brought in an outside manager with significant new media

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commerce, and locally relevant content and information utility vs. a traditional newspaper posted to the web.

<sup>121</sup> This values comes from a question that was asked to all of the general managers at each of the primary research sites, asking them to estimate what percent of the sites content comes directly from the printed newspaper and what percent is new. The new content could be either internally developed of from a 3<sup>rd</sup> party.

experience to run the business. The venture physically separated its offices from the newspaper in 1996 and subsequently formed The Press Internet Group as a separate division from the paper. The venture slowly started to move away from hiring newspaper managers and increasingly looked outside the newspaper industry, including key hires in database marketing and software development.

The company created tension with the print organization in 1997 by posting a link-through to purchase a book from the book review section. At the time, a group of print editors and reporters was upset, pointing out the perceived journalistic conflict of interest. Nevertheless, the separate group pushed on, largely with the support of the CEO of The Press Company and an aggressively articulated defense from the head of the Internet division. Other business model changes included the development of a consumer direct targeting capability. The product also developed many content features that were not available in print, particularly in the area of online community development.

Management decided to separate content development into two distinctly branded sites--a newspaper.com site that focused largely on news and information and a cityguide.com site that really became a local portal for its

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<sup>122</sup> Note: the average monthly website users was estimated using Media Metrix (February 2000) data and company information. The average daily circulation comes from the Audited Bureau of Circulation (1999).

metropolitan market. The newspaper.com product remained largely focussed on the newspaper, though roughly 30 percent of the content on the site still originated from sources other than the print newspaper. The cityguide.com had half of its content coming from sources other than the print newspaper. In 2000, the venture had over 100 employees. Its penetration index score was 2.1, the highest in the case study sample. This ratio likely benefited from the national interest in the site's information and content--i.e. it benefited from non-local traffic not available to typical metro newspaper sites.

- *The Press B*. This newspaper was acquired by The Press Company in 1993, but the context and commitment processes at *The Press B* were very different than *The Press A*. Like many of their peers, the newspaper was very concerned about the threat presented by the Internet and electronic media. But unlike any of the newspaper sites in the study, *The Press B* online was structured as a separate, wholly owned subsidiary nearly from its inception. They hired a manager with Internet experience from outside of the newspaper industry to write the business plan and brought in a larger percent of outside employees than most other newspaper sites. *The Press B* physically separated the venture from the newspaper in 1995 by moving more than a mile and a half from the print offices. The site launched later that year.

Spending grew at a similar pace as many of the other sites in the study, with the most rapid increase in expenses coming in 1998-2000. By early



2000, the venture employed around 60 people. The site was separately branded with a city.com name and was rapidly developing into something much different than a newspaper on the Internet. Managers created several new content categories that didn't exist in the newspaper, particularly around the entertainment and technology topics. Today, more than 60 percent of the site's content comes from sources outside of the printed newspaper, the highest percent of new content in the case study sample. Today the site is the leading local portal in its market with penetration that placed it in the top quartile of all metro newspaper sites. Its penetration index score was 1.7.

- *The Morning News A*. This paper was the only pure nationally distributed newspaper in the research sample, giving it some very unique considerations relative to the other sites. The parent company was one of the largest newspaper publishing companies in the United States and the *Morning News A* was its flagship paper. Despite its large circulation size vis-à-vis a typical metropolitan newspaper, the *Morning News A* generally had lower circulation scale than the leading local paper in each of its distribution markets. Thus, unlike most of the other newspapers, organizational commitment was less of a problem for *The Morning News A* largely because of the unique opportunity afforded a nationally distributed paper. The Internet helped solve the newspaper's largest operational challenges--geographically dispersed production and distribution. The management were concerned about the

Internet, but also saw it as an opportunity to help solve some of their persistent past production and distribution challenges.

The newspaper launched its Internet site in 1994 and expanded its financial commitment fairly steadily over time. It started out and has remained a venture that was integrated tightly with the newspaper. The site in 2000 was largely an electronic version of the newspaper on the Internet. The layout, graphics, and sectional organization were exactly the same as the newspaper. There were some innovations on the navigation of the site, including article summaries. But for the most part, the product had a very similar look and feel to the newspaper. Around 90 percent of the site came from the newspaper. The one notable exception to this was breaking news, which came almost 100 percent from the news wire services. Its penetration index score was 1.6, the highest of sites that remained integrated with their newspaper parents. The site employed over 100 people.

- *The Morning News B*. This newspaper was in a mid-size metropolitan area in the Midwest. Its average daily circulation was around 200,000 at the time of the study. Concern about the Internet developed fairly early at *The Morning News B*, despite being located in a market with below average levels of Internet reach. Most of early management concerns about the Internet centered on cannibalization and loss of readership. The publisher was directly

involved in an analysis examining potential readership loss. The site launched in this context 1996.

The Internet operations were tightly integrated with the functional operations of the print newspaper. For example, the Internet marketing staff sat next to and reported to the print marketing management. This was true for the editorial operations as well. In many cases people were just reassigned to work on the Internet from within their functional areas. The site expanded rapidly and employed over 32 people by the summer of 2000. Though the site had branded itself as a local portal, approximately 75 percent of its content came directly from the printed newspaper. Despite the branding and high number of online employees, the site's penetration index score was 0.5, the lowest in the case study sample.

- *The Expositor A*. This paper was the flagship newspaper of The Expositor Company and was located in its corporate offices. Early proposals to fund the Internet were repeatedly blocked. The process of commitment really developed in stages. First, formal financial screens blocked proposals because the Internet failed to meet the time-to-profitability minimums set by the corporate office. Despite this, many operating managers started to become fearful that the newspaper was vulnerable to online competitors and argued repeatedly for more resources. At this point it was the CEO of the company who actively refused to provide the venture significant levels of financial

resources. But by 1999-2000, the capital markets developed such that Wall Street actually started to reward Internet investment with higher valuations. It was this change in the capital markets that eventually convinced the CEO to finally allow expanded financial commitment. Thus, while the newspaper management and operating managers were concerned about the vulnerability created by the Internet, it took the capital markets to convince the CEO to finally consent to larger financial expenditures.

Even though the site launched in 1995, large capital deployment did not progress until the end of 1999 and 2000. Throughout, the site remained largely integrated. In 1999, the general manager and some of her staff were given offices separated from the newspaper offices, but the vast majority of online employees were still located inside the functional operations of the newspaper. This meant that she had to try to coordinate an Internet team across three different locations. Further, the Internet staff had only a "dotted" line of responsibility to the online general manager, with primary accountability remaining with the print functional manager. Despite growing to over 100 employees by 2000, the site had a penetration index score of only 1.1. It was branded as a newspaper and re-purposed 75 percent of its content from the printed newspaper.

- *The Expositor B.* This newspaper was located across the country from corporate headquarters. Print circulation was around 300,000 at the time of

the study. Like its counterpart, proposals for the *The Expositor B* struggled to gain initial impetus and commitment in the resource allocation process. However, unlike *The Expositor B*, this site was able to gain more early financial support once the Internet was defined as a threat to the newspaper franchise. Nevertheless, expenditures were still constrained by corporate until the late 1990s. The site launched in 1996, started receiving larger financial commitments in 1998, and then really expanded its spending in 1999-2000.

Conversations had developed around separation, but the management and operational staff remained largely integrated with the newspaper at the time of the study. By 2000, *The Expositor B* employed over 30 people. Content on the site was somewhat more innovative than many of the other integrated sites. For example new sections around sports and community issues were created. Also, utility features such as traffic reports and maps had also been developed. However, 70 percent of the content of the site still came directly from the newspaper and the site's penetration index was only 0.9.

The process of commitment over time in the eight primary research sites is summarized in Table 5.3 and comparative statistics are captured in Table 5.4. Note that in each of the sites, early commitment processes were ineffective until the Internet was framed as a threat. In nearly every case, threat perception helped the ventures build impetus and commitment. And in every case but *The Press B*, that same threat-motivated behavior led to strong organizational rigidities. Sites that separated were able to evolve their concept

of product strategy away from the business of a newspaper into something new and very different. This was reflected in the amount of new content that was provided specifically for the Internet and in the way the site was branded in the market. Those same sites that became local portals with higher amounts of new content also built higher relative penetration rates.

The power of this cross-case comparison is that all of the sites had similar resource endowments--each site was given significant levels of financial and human resources to build the Internet business. However, how those resources were deployed was very different across the separate and integrated sites. Data from all eight sites were collected in the case study database and will be used to formally analyze the clinical propositions in Chapter 6.

**Table 5.3: The Process of Commitment in the Eight Primary Research Sites**

	1993	1994	1995	1996	1997	1998	1999	2000
<i>The Beacon A</i>	← • First funds allocated to Internet in 1992	▲ • Internet site launches	• Low organizational commitment		• Perception of threat builds • Financial resources expand dramatically		• Sales Agency option exercised • Budgets pulled from newspaper	• Internet formally separated • Opportunity framed in separate organization
<i>The Beacon B</i>			• First funds allocated to Internet	▲ • Internet site launches	• Low organizational commitment	• Perception of threat builds	• Financial resources expand • Budgets pulled from newspaper	• Internet formally separated • Opportunity focus in venture
<i>The Press A</i>		▲ • Internet site launches	• First funds allocated to Internet • New media exec hired		• Offices separated from paper • Outside direct marketing staff	• Perception of threat builds in print	• Financial resources expand • Opportunity focus in venture	
<i>The Press B</i>			• First funds allocated to Internet	▲ • Internet site launches	• Site structured as separate/ wholly owned subsidiary	• High org commitment in separate site	• Perception of threat in print organization builds • Financial resources expand dramatically	• Separately branded city.com site • Opportunity focus high in separated site
<i>The Morning News A</i>		▲ • Internet site launches	• First funds allocated to Internet • Strong organizational commitment		• Perception of urgency builds	• Financial resources expand		
<i>The Morning News B</i>			• First funds allocated to Internet	▲ • Internet site launches	• Publisher involved in audience study	• Modest early organizational commitment	• Perception of threat builds • Organizational and financial resources expand	
<i>The Expositor A</i>			• First funds allocated to Internet	▲ • Internet site launches		• Perception of threat builds at operating level • CEO disbelieves threat and blocks resources	• Capital markets change • Financial resources expand	
<i>The Expositor B</i>				▲ • Internet site launches	• First funds allocated to Internet	• Low early organizational commitment • Perception of threat expands		• Financial and organizational commitment

▲ = Launch Date      ⇨ = Process of Separating from Newspaper

**Table 5.4: Comparative Data across the 8 Primary Research Sites**

	<i>The Beacon A</i>	<i>The Beacon B</i>	<i>The Press A</i>	<i>The Press B</i>	<i>The Morning News A</i>	<i>The Morning News B</i>	<i>The Expositor A</i>	<i>The Expositor B</i>
<b>Print Circulation (1999)</b>	250,000	200,000	>600,000	>400,000	>600,000	200,000	>600,000	300,000
<b>Site Launch Date</b>	1994	1995	1994	1995	1994	1996	1995	1996
<b>Structure at Launch</b>	Integrated	Integrated	Integrated	Separated	Integrated	Integrated	Integrated	Integrated
<b>Structure in 2000</b>	Separated	Separated	Separated	Separated	Integrated	Integrated	Integrated	Integrated
<b>Online Employees (2000)</b>	45	20	>100	60	>100	32	>100	31
<b>Early Product</b>	Newspaper on the Web	Newspaper on the Web	Newspaper on the Web	Local Portal	Newspaper on the Web	Newspaper on the Web	Newspaper on the Web	Newspaper on the Web
<b>Product Evolution</b>	1) Local Portal with 2) Vertically Branded Separate Sites	Local Portal	1) Enhanced Newspaper on the Web and 2) Local Portal	Local Portal	A More Current Newspaper on the Web	Newspaper on the Web	Newspaper on the Web	Newspaper on the Web with some added utility
<b>Percent of Content from Print Newspaper</b>	1) 70% 2) 20%	50%	1) 70% 2) 30%	35%	90% with large outside breaking news section	75%	75%	70%
<b>Penetration Index Score</b>	1.9	1.4	2.1	1.7	1.6	0.5	1.1	0.9





## CHAPTER 6: TESTING THE CLINICAL PROPOSITIONS

*“You felt like Chicken Little screaming ‘the sky is falling’, but after a while people started listening . . .”<sup>123</sup>*

Vice President of Marketing, *The Morning Press B*

### 6.1: PROPOSITION #1--THREAT INDUCES ACTION

To analyze Proposition #1--Threat Induces Action--it must first be shown that absent threat, commitment was not forthcoming. This section looks at three different considerations: 1) firm response absent threat perception, 2) response with threat perception, and 3) competing explanations.

#### **Response Absent Threat Framing**

Similar to the results found in Christensen and Bower (1996), the disruptive projects were initially rejected because of their disconnect with traditional resource allocation mechanisms. Note that this occurred both explicitly in the formal budgeting process as well as in the day-to-day decision-making processes at the operational level of these newspapers. When formally rejected, the calculation was simple: newspapers are measured on EBITDA and most of these proposals did not meet the traditional financial hurdles. The chairman and CEO of The Expositor Company explained his thinking: “My training is in finance. And in the end, the only real value is cash and cash creation. You

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<sup>123</sup> Interview, Vice President of Marketing, *The Morning Press B*, (6/17/00).

can't build a business just on potential or hope."<sup>124</sup> Internet projects were consistently denied resources. The Vice President of Product Development at *The Expositor B* explained how that philosophy spilled down into the resource allocation metrics:

We had operating targets we had to meet . . . Even in business development, these units were expected to be profitable from day one. An example, *The Expositor B* has a very basic direct mail business. . . We put together a plan to build out the direct mail business. The problem was that it didn't breakeven in the timeline allowed by our operating goals. We proposed it to finance and they said, 'Look. When we role these up into our budgets we miss our targets.' What that means is that most greenfield businesses don't get invested in--unless they are very small, and the Internet is not very small.<sup>125</sup>

When projects did get funding, it was because their budgeted forecasts promised to generate the types of returns that would fit the resource allocation requirements of the firm. The CFO at *The Expositor B* describe how proposals she reviewed frequently tried to hide costs:

I remember being the CFO and the first proposal came to me saying we will make money and I sent it back to them because I knew it would not. People were trying to figure out what they had to do to get it approved. The goal was to get a modest loss. . . You almost had to hide its costs so that it didn't look as bad as it was.<sup>126</sup>

As we described at The Beacon Company, newspapers actually did approve funding for their collective new media businesses, but did so only once the forecasts showed these

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<sup>124</sup> Interview, Chairman and CEO, The Expositor Company, (5/2/00).

<sup>125</sup> Interview, VP of New Business Development, The Expositor Company, (4/26/00).

<sup>126</sup> Interview, CFO, *The Expositor B*, (4/26/00).

ventures breaking even in short time horizons and returning EBITDA margins exactly in-line with core business expectations (refer back to Table 5.1 in previous chapter).

Unfortunately even with financial commitment, resource allocation can deny attention and time resources at the operating levels of the organization. The problem was that the new business just did not fit the functioning decision rules and priorities of the operating print organization. The examples in the sales office and newsroom described in *The Beacon A* case were typical of the operating challenges faced by every organization. In sales, part of the reason it was so hard for print reps to sell online was that the people they were used to calling on had little use for the product (Christensen and Rosenbloom, 1995). A print rep at *The Press A* described his efforts to try to find ways to sell the online product to his existing print customers, "I occasionally sell a bundled package [online and print]. There is no standard package and it is hard to really know what the [print] advertisers would want."<sup>127</sup> Data were gathered on five of the research sites concerning the customer overlap between print and online. We asked managers to estimate how many of their top 25 customers online were in the top 25 customers in print. Of a possible customer overlap of 125, there were only seven. The travel category at *The Press A* was a good example. Of the top ten booking agents online, only four even advertised in print, and none were major print accounts. The net effect of these customer differences was that print reps concluded that the Internet ad was a small, difficult, and unprofitable product to try to sell. The resource allocation challenges associated with

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<sup>127</sup> Interview, Print Sales Manager, *The Press A*, (4/24/00).

commitment to the Internet business were difficult across each of the organizations in the sample. Sites were launched, but resources were usually sparse. More important, even with funding, the operating organizations repeatedly prioritized time to projects other than the Internet.

### **Response with Threat Framing**

While the resource allocation processes focussed attention on the traditional newspaper business, a surge of new economy companies was actively building the Internet content markets. And while they did start out with a different set of customers and a different set of applications, the Internet content companies were rapidly expanding their reach and threatening to invade the newspaper business. At first, the threat was not really recognized, but eventually a sense of alarm started to build. The director of marketing at *The Morning News B* described their evolution: "You felt like Chicken Little screaming 'the sky is falling', but after a while people started listening when they saw what the other competitors were doing. We made watch lists for TV, radio, vertical start-ups, telephone companies, and Citysearch. Citysearch was poaching people. . . . The publisher was unlike some in that he saw the threat."<sup>128</sup>

In all of the primary research sites but one, threat was the primary motivator toward action. In each of these cases, there was an associated negativity, fear of loss, and low feeling of control (Dutton and Jackson, 1987; Jackson and Dutton, 1988). The CEO of The Press Company's Internet group described:

McKinsey had come in and had done a rather startling analysis of the classified business . . . They predicted that 20-30 percent of our classified revenue would disappear by 1998. That raised enormous alarm bells in some people. I think the notion that people would start reading their newspapers on the screen was also quite prevalent. . . There were people who thought we would lose half of our circulation.<sup>129</sup>

There was also a general concern that the future of this media was largely out of the newspaper companies' control. Recall the statement of the publisher of *The Beacon A*: "What if we do every damn thing we can think of and execute flawlessly and we still don't make it? We can slow it down, but we can't stop it."<sup>130</sup> The potential for opportunity was not completely absent, but the overall tone was generally defensive and negative. As the President of The Press Company described:

"We were worried about the web in that it would alter the way in which people would get information, but it was not purely defensive. We had launched into entertainment years ago as a defensive move in the paper. It eventually became a new source of growth for us. Many of the threats eventually become opportunities. The Internet may be the same way. We definitely classified this as a threat and were concerned about the potential impact on the core business, but there is also something new there we could never have done before."<sup>131</sup>

The timing of threat perceptions differed slightly across firms. As discussed previously, threat perception at *The Beacon A* started to expand from 1996-1998 period. The onset of fear at other sites was similar, though sometimes lagging by eight to twelve months (see

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<sup>128</sup> Interview, Vice President of Marketing, *The Morning Press B*, (6/17/00).

<sup>129</sup> Interview, CEO, The Press Company Internet Group, (4/30/00).

<sup>130</sup> Interview, Publisher and Original Head of New Media, The Beacon Company, (3/14/00).

<sup>131</sup> Interview, President of The Press Company, (4/18/00).

Table 5.4 in previous chapter). In seven of the cases, financial and organizational commitment followed. Financial expenditures in the eight primary research sites expanded sometimes 200 percent from 1998 to 2000. This expansion came despite increasing losses, typically 100 percent of revenues. Similar expenditure patterns were building across the industry (see Tables 3.9 and 3.14).

Two exceptions are worth mentioning. In one case, the Internet actually helped solve an existing organizational problem and accordingly needed less threat motivation to generate response. In the other exception, threat motivation only occurred at the operating levels of the organization and it eventually took external capital market pressure to convince the senior management to invest. We will briefly describe both of these cases.

At *The Morning News A*, the Internet solved an existing set of operational problems that were perhaps unique to the operative environment of that specific paper. Mentioned earlier, *The Morning News A* was the only pure nationally distributed newspaper. In this sense, the Internet offered some unique operational benefits that sustained the existing business. The president and publisher described:

This was a wonderful opportunity from the start. If you are a national newspaper with a three [percent] penetration, all of a sudden you have an opportunity for virtually no cost to distribute the product . . . The Internet creates huge opportunities to deliver product in areas that were uneconomical before. . . Eighty percent of my costs are production and distribution. Now all of a sudden I have a solution. It is not a content play, but a major cost reducer and product expander. It is not as simple as all of that, but you get the picture.

Also, the newspaper had limited classifieds and was not straddled with the fear of cannibalization. In many ways, the Internet fit with a set of sustaining needs for the print newspaper business and was accepted accordingly.

*The Expositor A* presented another type of exception to the general pattern. Here, even though the middle and operating managers became quite concerned about the looming threat, the senior corporate managers, particularly the CEO, remained convinced the newspaper was not in danger. He described his conviction that newspapers were safe:

In the end, we are all creatures of our own experiences. I had two experiences that really shaped how I looked at the Internet and its potential threat. The first was when I was the director of research at the Federal Reserve. There were people who were saying that electronic payments would soon replace paper checks. . . . The same was true when I worked in retail with the emergence of catalogues. Both continued to grow throughout others' predictions of extinction. People still want to hold the newspaper, they are still concerned about security on the Internet. The newspaper will not go away, at least in my lifetime.<sup>132</sup>

One of the managers at The Expositor Company described how the CEO's thinking had evolved differently than the others in the organization: "Something had changed in the CEO's thinking—it may have been the market, it may have been competitive. We [middle level managers] had been concerned for a while, but if you ask me, the reason we finally got into the market was that our CEO was taking heat from Wall Street."<sup>133</sup>

Eventually the CEO allowed *The Expositor A* to spend aggressively, but his market-based motivation was different than the threat perception in the other sites.

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<sup>132</sup> Interview, Chairman and CEO, The Expositor Company, (5/2/00).

<sup>133</sup> Interview, VP of New Business Development, The Expositor Company, (4/26/00).



Note that even in these exceptions we find differences, but for theoretically consistent reasons (Yin, 1994). In general, the focus of these Internet considerations was centered on protecting the core franchise from a literal displacement to the Internet. Most discussions centered on the negativity, loss, and lack of control that the Internet created for the established print business. Other than previously noted, it was the strong sense of threat that eventually generated deep financial and organizational commitment.

### **Competing Explanations to Threat-Induced Action**

A competing explanation we considered was that participation in the Internet was only a matter of time and that funding would come as a larger market developed. There are two weaknesses to such an argument. First, this is exactly why firms miss disruptive technologies--the new business prospects do not look attractive as considered against traditional metrics and by the time they do, it is too late (Christensen, 1997). By then, entrant firms have gained momentum and compete from a lower cost structure. Second, even though early forecasts had shown estimates of profitability two or three years out, there was not a clear path to profitability or an implicit earnings argument as part of the decision to increase expenditures. In fact, spending was increasing in the face of missed forecasts. Motivation was not grounded on a sense of investment opportunity, but rather on survival itself. In each of the cases presented, the perception of an emerging threat proved to be the dominant argument for the suspension of traditional funding requirements and a commitment to the new, unproven business.

## 6.2: PROPOSITION #2—THREAT-INDUCED ACTION CREATES RIGIDITY

In order to show that threat-induced action leads to rigidity, it must first be shown that a threat-framed response creates a set of managerial behaviors that evoke processes built around the core business. This section is also divided into three components: 1) rigidity producing actions associated with threat framing, 2) the manifestations of rigidity in the new ventures, and 3) competing explanations to rigidity.

### Rigidity Inducing Activities

In the primary newspaper cases (and in the expanded cases as well), it was the strong perception of threat that generated the impetus and commitment necessary for sustained investment in their Internet ventures. However, this threat framing evoked a set of activities that proved inappropriate: *willingness to commit single-staged resources, contraction of authority, and focus on existing resources.*

These companies were now very serious about the Internet. Unfortunately, they spent very *aggressively without structuring formal learning events* into the process. The Director of Marketing at *The Morning News B* stated that “in June 1998 we started a ramp up from 5 to 40 people by October.”<sup>134</sup> As described in the previous chapter, The Beacon Company doubled, then nearly doubled again its expenditures in 1997 and 1998 with losses greater than 65 percent both years. This occurred despite original forecasts for profitability by 1996 (see Table 5.1 in previous chapter).

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<sup>134</sup> Interview, Vice President of Marketing, *The Morning Press B*, (6/17/00).

Aggressive spending alone is not problematic. But when done without formal checks to allow reflection and adjustment, aggressive spending stifles learning. In fact, strong evidence for the rigidity argument was that in all eight research sites, spending expanded aggressively with little change or adjustment to the content of the strategy. Part of this was the *contraction of authority* that was evident in all of the sites but one. Recall the comment of the vice-president of technology and operations at The Beacon Company's Internet division, "It was very centralized in the beginning, which was very uncharacteristic, because the culture is very much to let these guys run their own businesses. . . . We had a basic business model for every site. We gave them money. We told them they could hire people, but we told them exactly how to do it."<sup>135</sup> More critically, this aggressive and controlled response was focused around *defending the existing resources*. One manager described, "Cannibalization was a huge concern for everyone initially, both of print subscriptions and the Lexis-Nexis type vendors (archives) . . . . We asked questions about readership overlap and whether they would stop reading the paper when people registered on the site."<sup>136</sup> There was a real concern in many of the ventures as to how their actions would impact the existing resources of the paper. In some cases, this meant functional managers held onto the control of the Internet in order to ensure that enough focus was given to their area. The president of *The Expositor A* Internet site explained that "because [the classified] organization was so worried about

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<sup>135</sup> Interview, Vice President of Technology and Operations, The Beacon Company New Media Division, (3/14/00).

<sup>136</sup> Interview, Research Director, The Press Company Internet Group, (4/3/00).

defending the print classifieds business, that group held onto the online business.”<sup>137</sup>

This focus on the newspaper was powerful even when groups were told they had reasonable autonomy. The head of sales for The Press Company’s Internet group explained, “On the one hand I should go do whatever we need to do, but on the other hand there is concern about the paper.”<sup>138</sup>

### **Manifestations of Rigidity**

These activities resulted in a replication of the core print product. The CEO of The Press Company’s Internet group described the rigidity:

The month prior to my arrival, I was thinking quite radically about my notions of what this could become. I was following this company called Magellan, Yahoo was out there, and I had the notion that the company could be more than a newspaper on the web. Remember that I had said to the CEO at the time that it made absolutely no sense to replicate the newspaper on the Internet. Then I saw the prototype and it was just that.<sup>139</sup>

The nature of the rigidity was evident across three different dimensions of the firm: content, business management, and sales and marketing.

#### *Content Rigidity*

On the content side, many of the rigidities actually grew out of rules and norms that had been very important to the success of the print product (Leonard-Barton, 1992a). For example, print editors placed a high value on the careful review and selection of what goes into the newspaper and in what order. On the Internet, users looked for content to

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<sup>137</sup> Interview, The Early President of *The Expositor A*, (5/2/00).

<sup>138</sup> Interview, The Head of Sales, The Press Company Internet Group, (4/3/00).

be customized and on demand. Some forms of content, chat in particular, actually provided the content by way of user-dialogue. Mentioned earlier, navigation was also very different in print vs. online. Whereas a newspaper was organized into sections around its own content, online users were demanding much more fluid navigation and search capability. If this took a user away from the site to somewhere else, the user would recognize this and continue to support the site.<sup>140</sup> The life span of Internet content was very different. Other than some residual value in archives, “day-old” news wasn’t worth that much. On the web, the life of content was expanding in either direction. Some information was “old” within the hour it was posted--e.g. stock quotes, traffic reports. Other content might remain useful for months or even longer, e.g. restaurant databases.

Similar differences existed with advertising. As discussed in the case of *The Press A*, contextual marketing--inserting a link to Amazon.com in a book review--clearly seemed anathema to the traditional separation of the advertising and content functions of a newspaper. However, on the Internet, advertising was increasingly viewed as important source of utility. Since many users of a site are trying to find information, this can include purchase information, and a link to purchase actually enhances the value of the

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<sup>139</sup> Interview, CEO, The Press Company Internet Group, (4/30/00).

<sup>140</sup> The case of CNET is a good example of this. When there was information that was relevant to the needs of their users, CNET would create a link to that content even if it sat on a competitors website. Industry peers initially laughed at this, but the convenience created for CNET users actually drove great traffic to the site itself. See Tom

site. This points to another underlying rigidity associated with the whole producer/consumer relationship. In print, consumers were *readers*. On the Internet, consumers were *users*. The metro editor who was hired over to the Internet venture at *The Press B* explained the different way of thinking, “When I first came to the Internet group, it drove me nuts that these guys talked about our readers as ‘users.’ After a while I realized the name was right--because that was how people were interacting with our content.”<sup>141</sup> The early products of every site but *The Press A* actively reinforced content values associated with print and were extremely slow in developing content that captured the needs and values of users on the Internet. The rigidities that were useful in print, those that kept editorial integrity high, often proved to be disabling in the Internet business. These content rigidities are summarized in Table 6.1.

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Eisenmann’s teaching case (2000, “CNET 2000,” Harvard Business School Press, 9-800-284).

<sup>141</sup> Interview, Online Editor, *The Press B*, (2/9/00).

**Table 6.1: Rigidity Maps--Content Rigidity**

<b>Assumptions</b>	<b>Print<sup>142</sup></b>	<b>Online<sup>143</sup></b>
<b>Editorial Control</b>	Value in editorial review and selection.	Users want to select what and how they use the media, they also want to generate their own content through chat and discussion boards.
<b>Navigation</b>	Organized in sections with continuations.	Similar sectional organizations, but heavy reliance of search.
<b>Product Life Span</b>	Rapid Consumption – daily, sub-weekly.	Similar sectional organization, but heavy reliance on search.
<b>Alternative Sources of Information</b>	If the paper cannot produce it itself, this somehow degrades the product.	Outside information is O.K. when contextually relevant.
<b>Advertising</b>	Separate and discrete source of revenue. Should be completely disconnected from content.	Important source of revenue, but also an important source of user information.
<b>Relationship with Reader</b>	"Reader." Generally uni-directionally informative.	"User." Interactive. Uni-directional, bi-directional, network broker.

### *Business Model Rigidity*

On the business side, managers sought to build the same business models that worked in print. The chairman of The Beacon Company described:

Where I think we missed the boat is that we saw it as an extension of the newspaper. In other words something richer and deeper than the newspaper. We didn't see it so much as an advertising model as we did a subscription model and we thought we could make money that way. It soon became clear that the name of the game was traffic and advertising and not subscriptions. The head of new media initially really believed in the subscription model and was very upset that one of the sites wasn't charging.<sup>144</sup>

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<sup>142</sup> Based on direct observation, interviews, and extensive secondary interviews and documents.

<sup>143</sup> Based on extensive secondary interviews and documents as well as direct observation.

<sup>144</sup> Interview, Chairman and CEO, The Beacon Company, (3/14/00).

In fact, on some of the sites, payments were based on time usage, creating a disincentive to stay on the site. Missing the advertising connection caused many ventures to miss the tremendous opportunity around direct marketing. Only *The Press A* and *The Press B* made the collection of demographic data in the first few years of development. The failure of the other sites to collect this data excluded them from sources of revenue for demographic targeted banner advertising and e-mail direct marketing. These sources of revenue could make up close to one third of the potential revenues on a site (see Discussion in Chapter 3 called "Alternative Sources of Revenue"). Another key source of business model rigidity related to a failure to see classifieds as a separate business unto itself. The arguments of Evans and Wurster (1999) point out that the newspaper business is really a bundle of separate businesses bound together by an aging set of distribution economics. Yet most of the primary research sites placed classifieds as just another section on their web sets. Competitors like Monster.com and Carpoint.com were vertically branding specific segments of the classified products and expanding the types of services (and revenues) they provided to clients. The initial response in the sample was simply to upload their classified databases to the Internet. Many of these were not even searchable. Those that were generated results that were very confusing based on the legacy data retrieval systems of newspaper classifieds.

Decision-making processes in an operations intensive environment where products and business models are well developed tend to have important checks and hierarchical review stages. Such a way of managing can be very efficient in an



environment where administrative control and monitoring are important. However, the pace of development and the new and different nature of the Internet business required these formal checks and hierarchical constraints to relax so that experimentation could develop. This was difficult coming from the operations intensive traditional newspaper industry. As functional managers assumed control of Internet planning, they often imposed these processes on the new business. The publisher of *The Beacon A* described the difference:

The problem is that we are mired in a traditional way of getting approval through levels and levels of people. That is not the Internet world. You get these young kids at these Internet companies and they go into a room and make decisions and they come out and they just do whatever they just decided to do. It is just a totally different dynamic. [Newspapers] tend to have way more checks and balances built into their organization that probably don't need to be there in this new world.

These sources of business model rigidity are summarized in Table 6.2. Again, assumptions once useful in print actually crippled the evolution of a new business model.

**Table 6.2: Rigidity Maps--Business Model Rigidity**

<b>Underlying Assumptions</b>	<b>Print<sup>145</sup></b>	<b>Online<sup>146</sup></b>
<b>Pricing</b>	Subscriptions are important part of revenue model.	Subscriptions reduce traffic, the Internet is an advertising model and requires high traffic.
<b>Alternative Sources of Income</b>	Insert and sectional advertising	Direct marketing, auctions, other transactions, banner advertising, pop-up advertising, and sponsorships.
<b>Aggregated, Bundled Single Product</b>	Distribution economics imply bundled product.	Internet de-bundles products, "Blown to Bits" (Evans and Wurster, 1999)
<b>Classifieds</b>	Classifieds are high margin business, 30% of Revenues, but 60% of profits.	Classifieds can become a good product, but will not be able to carry the costs of other businesses.
<b>Decisions Making Process</b>	Hierarchical, with multiple checks, formal.	Flat, quick, adaptive, less permanent, informal.

#### *Sales and Marketing Rigidity*

Finally, these rigidities also showed up in sales and marketing. While size obviously differs across markets, a large print advertiser typically spent around \$100,000 on a print newspaper ad. At the time of the study, an order size for a typical online add was closer to \$1000. The selling cycles for products of such different sizes were very different. Print cycles tended to be quarterly, while online needed to be weekly or even sub-weekly. Thus, even if the print staff was committed to selling the smaller product, the actual nature of selling Internet advertising was quite different than the traditional print cycle. This was quite evident in the case of *The Beacon A* when they tried to sell the Zip2 product. Also the way to seek out and serve advertising customers was very different in print vs. online. Print tended to be much more relationship selling and

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<sup>145</sup> Based on direct observation, interviews, and extensive secondary sources.

<sup>146</sup> Based on extensive secondary interviews and documents as well as direct observation.

transactional, while online was required much prospecting and consultative data. The head of business development for The Morning News Company described, "In the newspaper business [marketing effectiveness] measurement is pretty simple. In the online world it is a lot about selling image and branding and our newspaper people are not as accustomed to selling image and branding. Results are often small and expectations are very high."<sup>147</sup> This also related to the ability to manage and understand consumer direct data, something most newspaper sites did not even collect, let alone sell. These manifestations of sales and marketing rigidities are summarized in Table 6.3.

**Table 6.3: Rigidity Maps--Sales and Marketing**

<b>Underlying Assumptions</b>	<b>Print<sup>148</sup></b>	<b>Online<sup>149</sup></b>
<b>Decision Metric for Large Advertiser</b>	Advertiser buys \$100,000 orders.	Advertiser buys \$1000 orders.
<b>Sales Cycle</b>	Typically quarterly	Weekly, sub-weekly
<b>Search Process</b>	Relationship management	Prospecting
<b>Sales Style</b>	Transactional	Consultative
<b>Use of Data</b>	Increasingly important, geographically based	Pivotal, one-to-one marketing

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<sup>147</sup> Interview, Vice President of New Business Development, The Morning News Company, (5/31/00).

<sup>148</sup> Based on direct observation, interviews, and extensive secondary interviews and documents.

<sup>149</sup> Based on extensive secondary interviews and documents as well as direct observation.

### **Competing Explanations for Threat-Induced Rigidity**

Another possible explanation for the rigidity is that the nature of the new business simply presented a different set of assumptions than those that were powerfully reinforced in the core business (Argyris, 1990; Huber, 1991; Daft and Huber, 1987; Senge, 1994; Schein, 1993; Gnyawali and Grant, 1997). However, note that the underlying argument of threat rigidity is that it reinforces a firm's "best known response" mechanisms (Dutton and Jackson, 1987). It is not that the stories are entirely inconsistent, but rather that threat-induced actions makes it even more difficult to discover and unlearn deeply held assumptions. Specifically, the behaviors associated with threat-induced response--1) the actions of aggressive response, 2) contraction of authority, and 3) focus on existing resources--make it extremely difficult to recognize rigidity is occurring, even when learning is actively encouraged. The example described at *The Beacon A* demonstrates this point. The original online president had stated as early as 1990 that, "This experiment . . . would not attempt to replace the newspaper . . . Rather it would try to be a significant and growing adjunct."<sup>150</sup> Concepts such as chat, auctions, customization, and customized readership were mentioned in the original strategy documents. However, the behaviors associated with threat-induced response resulted in a site that failed to achieve many of these new features and attributes. Early suggestions were made that "experimentation" would be critical. And yet, once the

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<sup>150</sup> Archival Document, "Vision Memo for Electronic Publishing," by Publisher of *The Beacon A* (1/19/90).

Internet was framed as a threat, those behaviors of 1) aggressive spending, 2) contraction of authority, and 3) focus on existing resources hindered early efforts to test and experiment. The venture moved forward with aggressive repetition of failed print assumptions. It was not until the firm relaxed those rigidity producing behaviors that the *content of strategy*, that which was originally conceived, really took hold. Efforts were made to test and learn, but they were ineffective until the forces of behaviors associated with threat framing were relaxed.

### **6.3 PROPOSITION #3--STRUCTURE ALLOWS FRAME DE-COUPLING**

One key finding from the analysis of the first two propositions is the confirmation of the response paradox: absent threat, response to disruptive opportunities is inadequate; but with threat, the fully funded response is maladaptive. The examination of Proposition 3 helps resolve the paradox. The following section demonstrates how a separate structure for the Internet venture allows the simultaneous management of competing frames by decoupling the management and processes associated with resource allocation from those associated with strategy development.

#### **Threat Rigidity--The Notable Exception**

The most notable exception to the pattern of rigidity is *The Press B*. In this case, the Internet was still undervalued by the traditional resource allocation mechanisms of the firm. And it was threat that eventually motivated action. In fact, managers argued that

“if we don’t cannibalize ourselves, someone else will.”<sup>151</sup> And just like the other firms, the early thought of the newspaper management was that the Internet should be the “newspaper in electronic form.” However, unlike other incumbents, *The Press B* did not follow that initial impulse to replicate the newspaper. First, the management looked outside for advice on the strategy, hiring an MBA from Silicon Valley to write their original business plan. Second, and more importantly, they decided to setup the Internet business as a separate, wholly owned subsidiary. The separated entity then developed its own brand name so that it would not be viewed as an “electronic version of the newspaper.” *The Press B* also set up a separate sales force that would price and sell online ads independently. Finally, the Internet group moved out of their newspaper offices and setup more than a mile away from the print organization. From very early on, rather than replicating the newspaper, the site became a regional portal, with significant differences from the newspaper. Its lead stories were different. It also added sections that did not exist in print, but were more relevant to the Internet audience, and it created user tools that took advantage of the medium: traffic web cameras, event databases that were searchable early on, interactive discussion forums on local area issues, music downloads from local artists, and many other new forms of content. One online editor described just how different the new product became:

Page views from the newspaper are now barely more than 1/3 of the available pages on our site. We are really becoming a separate company

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<sup>151</sup> Interview, Vice President of The Press Company Internet Group, Founding President of *The Press B*, (3/23/00).

from the newspaper. I came from there. I love the paper, but we are now a different group with a very different way of working. They are one source of information--an important source. But we buy our content from them like we buy it from anywhere else.<sup>152</sup>

**Divergence in Structure Leads to Divergence in Performance**

Other sites started to follow the lead of *The Press B* in finding new applications, uses, and customers. This was highly linked to structural independence. In the primary research sites, separated sites included *The Press A*, *The Press B*, *The Beacon A*, and *The Beacon B*. All four eventually separated out Internet divisions, moved locations, and hired a dedicated online sales staff with outside experience. In The Morning News Company and The Expositor Company papers, integration continued. Table 6.4 maps several levels of structural comparison across the eight primary research sites.

**Table 6.4: Structural Differences Across Primary Research Sites<sup>153</sup>**

	Integrated				Separated			
What to separate?	<i>The Morning News A</i>	<i>The Morning News B</i>	<i>The Expositor A</i>	<i>The Expositor B</i>	<i>The Press A</i>	<i>The Press B</i>	<i>The Beacon A</i>	<i>The Beacon B</i>
Divisional Unit	I	I	I, S	I, S	S	S	S*	S*
Reporting Lines	I	I	I	I	S	S	S	S
Newroom	I	I						
Other Content					S	S	S	S
Sales	H	H			S	S	S*, H	S*, H
Marketing/ Circulation	I	I	I	I	S	S	S	S
Location	I	I		I	S	S	S*, H	
Staffing	I, H	I, H			S, H	S, H	S, H	S, H

S=Separate, H=Hybrid (some of both), I=Integrated

<sup>152</sup> Interview, Online Editor, The Press B, (2/09/00).

<sup>153</sup> Based on interviews and direct observation.

Recall that in the case of *The Beacon A*, the publisher, despite understanding the need to change the product, initially failed to perceive the challenges that an integrated organization motivated by threat would impose on the new business. His early memo explained, “Structuring the experiment as an enterprise separate from the newspaper would be crippling if not fatal.”<sup>154</sup> The newspaper proceeded to integrate the business into a threat-motivated organization. It was not until the organization separated in 1998, and in turn relaxed the threat-inducing activities, that the new business was really evolved. As other sites separated, names changed, content moved to a less print-dominated product, and the vision of what the site would become significantly transformed. One manager described, “When we simply changed our name from the newspaper name to the city.com . . . [it] changed people’s expectations of what would be on the site. This in turn changed how people in our online organization viewed who they were and what they were producing.”<sup>155</sup> The integrated sites continued to largely replicate the newspaper and “defend” the print business. Because all of their actions were focused around an organization motivated by threat, decisions tended to be made under contracted authority and framed around their impact on print resources. Companies that were integrated had considerably high percentages of re-purposed content on their sites than companies that were separated (see Table 6.5).

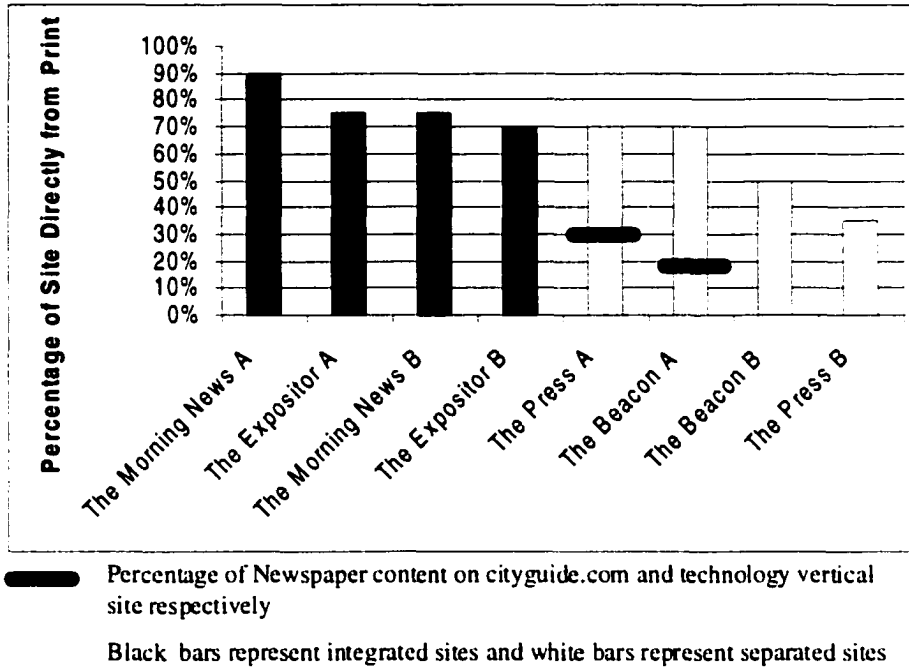
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<sup>154</sup> Archival Document, “Vision Memo for Electronic Publishing,” by Publisher of *The Beacon A* (1/19/90).

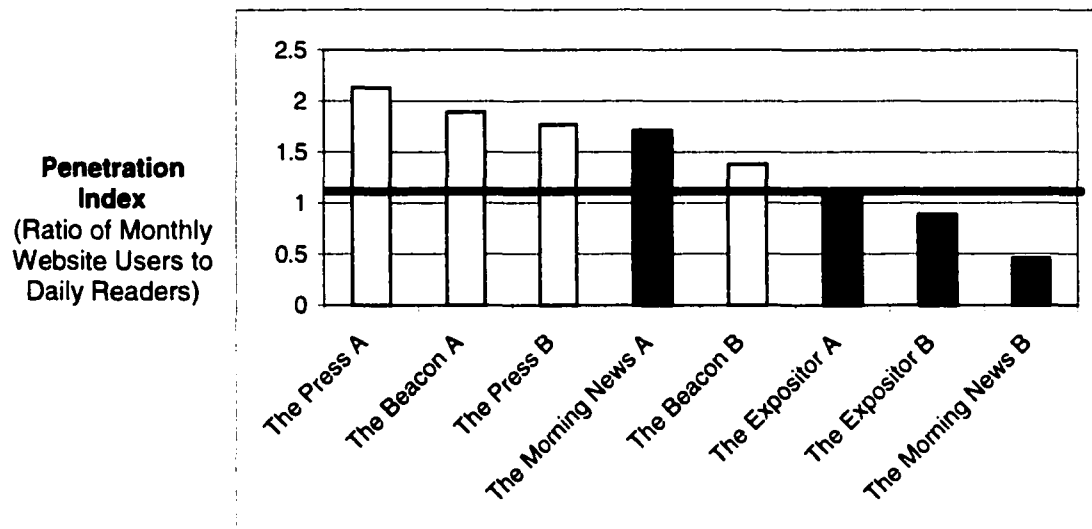
<sup>155</sup> Interview, Publisher of Extended Company #1, (6/17/00)



**Table 6.5: Rigidity in Newspaper Sites: Integrated vs. Separated**



The market responded to these differences in innovation. Controlling for market size, penetration rates showed a strong relationship between market penetration and structure. Creating an index that compares monthly site users to daily newspaper readers in each market, the separated sites averaged nearly 60% higher penetration than the integrated sites (see Table 6.6).

**Table 6.6: Differences in Internet Penetration: Separated vs. Integrated Sites<sup>156</sup>**

### Structure Protects the Venture from Traditional Resource Allocation

One of the benefits of separation is that it created an independent resource allocation processes that allowed the separated ventures to gain better financial and attention-based resources. Unquestionably, the separation helped protect resources for these new ventures from projects that sustained the existing print business. As the chairman of The Beacon Company explained that publishers would focus on this because we “separated it from the publisher’s budget, included it in measurement goals and pulled the ventures aside to focus on growing the vertical business.”<sup>157</sup> Beyond the formal budgeting process, separate structure freed those who were working on the Internet from other operating obligations that existed in an integrated situation. These findings are

<sup>156</sup> Unique monthly users estimated using company information and Media Metrix, (February 2000) penetration data. Average daily circulation from ABC (1999).

<sup>157</sup> Interview, Chairman and CEO, The Beacon Company, (3/14/00).

consistent with previous research by Christensen and Bower (1996) about the benefits of structure in helping managers allocate both financial and attention resources to disruptive technologies.

### **Beyond Resource Allocation: De-coupling of Competing Frames**

However, recall that each of the originally integrated sites was actually able to generate considerable financial and operational commitment to the Internet even without the benefits of separation. Each of the companies had resources; it was the way in which those resources were eventually deployed that differentiated performance. The CEO of The Press Company's Internet group explained, "It's not that they [print] were pulling resource from us. It's that the company overall wasn't an Internet company."<sup>158</sup>

To change the underlying nature of the business required changing the frames with which the business was being managed. In firms using a separate structure, there was a clear split between those involved in the venture and those making funding decisions. And while those who formally allocated the resources often still perpetuated their threat framing, those running the more successful ventures were able to nurture opportunity. For example, the senior management of the newspapers at The Beacon Company, including the CEO and chairman, felt concern and threat. Their motivation was fear driven until reasonably late in the process. Recall that it was the publisher of

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<sup>158</sup> Interview, CEO, The Press Company Internet Group, (4/3/00).

*The Beacon A* who said, “We can slow it down, but we can’t stop it.”<sup>159</sup> The online management on the other hand appeared completely screened from that threat perception, and generally viewed the Internet as a tremendous growth opportunity for the newspaper. The vice-president of technology and operations at The Beacon Company’s new media division described the duality, “We never talked about the threat here. It is possible that the head of new media screened us from that. But also, headquarters was across the country so we didn't get a lot of that from them.”<sup>160</sup> The entire online management team at *The Press A* concurred in discussion that the Internet was really a new and separate growth opportunity, despite a threat frame that dominated the funding motivation in the parent company.

### **Competing Explanations for the Role of Structure**

Clearly there is a correlation between separate structure and performance, measured both on innovation and market penetration metrics. Whether the benefits of independent structure are the result of opportunity framing or if they stem from other causes that happen to be correlated with framing is a point to consider. One explanation for the difference in performance is that structure simply provides a new identity and environment that allows new culture and values to develop around a separate business. This argument flows from substantial research in the corporate venturing literature--

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<sup>159</sup> Interview, Publisher and Original Head of New Media, The Beacon Company, (3/14/00).

<sup>160</sup> Interview, Vice President of Technology and Operations, The Beacon New Media Division, (4/14/00).

assumption testing and stage spending (Block and MacMillan, 1985; McGrath and MacMillan, 1995; Sykes and Dunham, 1995), visceral contact and delegation of authority (McGrath, 1995); and focus on opportunity and new resource (Stevenson and Jarillo, 1991). However, the current argument is unique because it presents an explanation as to why it is so difficult to follow the existing advice when operating under a threat frame. In fact, the activities that lead to rigidity map perfectly opposite to the prescriptions of the corporate venturing literature--aggressive single-stage spending, contraction of authority, and focus on existing resources. To the degree that structure de-couples the activities that inhibit implementation of the corporate venturing advice, learning can develop and rigidity can relax. Further, managers that are not able to focus solely on the opportunity are freed from a concern to defend existing resources. As mentioned earlier, "Now that we are separate, we *own the opportunity* in a way we never did when we were still in the newspaper [italics added]." <sup>161</sup>

It should be noted in conclusion that separate structure is hardly a panacea that guarantees success. Much work and effort to learn and relearn still need to occur. As the Head of Sales at The Press Company explained:

A lot of people who work here, even if they never worked at the paper, have this awe for the print product, *even though we are our own division* [italics added]. And they will model their work after the paper. That's what this off-site was about--push, break boundaries, blow-up those models, and fall down. The management really needs to blow up the old

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<sup>161</sup> Interview, New Head of New Media, The Beacon Company, (6/19/00).

model. It is not just that we are afraid of competing with print; we just have a tendency to think like them.<sup>162</sup>

However, separate structure creates an environment where new assumptions can be discovered and reinforced as they are developed more iteratively (vs. single-staged), at operational levels (vs. corporate authority), and around a new set of resources (vs. defending the existing product)--processes very difficult to develop under threat motivated response.

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<sup>162</sup> Interview, The Head of Sales, The Press Company Internet Group, (4/3/00).



## CHAPTER 7: CLINICAL ANALYSIS CONCLUSIONS

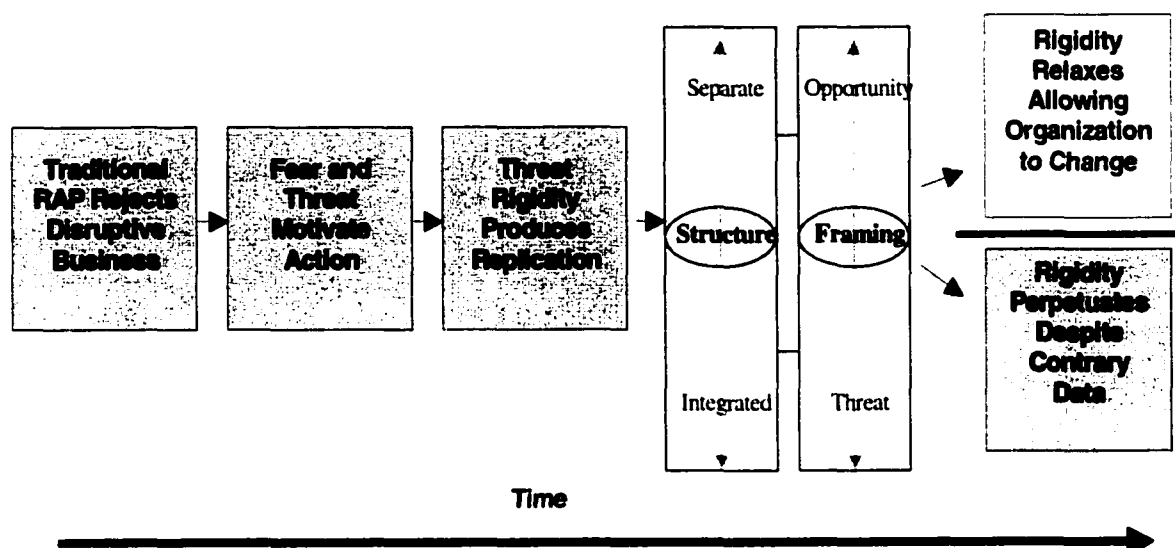
In this chapter we refer again to the formal propositions. Regarding Proposition 1, data presented show considerable evidence that threat framing indeed proved effective in generating impetus and commitment. Projects initially stalled when compared to other mainline business opportunities. However, as the perception of threat escalated, these projects gained substantial commitment and resources. As put forth in Proposition 2, threat framing then created a rigid response. How this process developed was linked to three activities: *aggressive, single-staged funding, contraction of authority, and focus on loss areas*. Finally, in Proposition 3 we argued that structure created a mechanism to allow the simultaneous management of contradictory frames. Another key finding from this analysis was the key role played by an integrator. This person helped facilitate the benefits of threat-induced commitment while protecting the new organization from the pitfalls of threat rigidity. In summary, structure, framing, and an integrator help create deliberate resource allocation while simultaneously allowing emergent strategy development.

### 7.1 A LONGITUDINAL MODEL OF FIRM RESPONSE.

As the three formal propositions were tested with field data, it was possible to construct a four-stage longitudinal process model of firm response. The four primary stages in the model are: 1) rejection, 2) threat-induced action, 3) rigidity, and 4) change or perpetuation. The final stage, change or perpetuation, is a function of firm structure and framing. The model is presented in Figure 7.1.



**Figure 7.1: Longitudinal Process Model of Firm Response**



The model describes the longitudinal process of development of the online ventures as they emerged in the organizations in the study. It is grounded in the literature and benefits from the simultaneous interaction between the case data and the enveloped literatures. It also benefits from the inductive process of understanding how threat framing actually creates a process that leads to rigidity. The model employs *analytical replication* (Yin, 1994) in an effort to generalize to theory. Following Christensen and Bower (1996), data are aggregated in tabular form for each of the research sites across a series of categorizations. An "L" was recorded when there was a literal replication of the model. This type of replication implies that the data on that case site confirm outcomes the model would predict. A "T" is inserted where there is a theoretical replication. Theoretical replication occurs when the case data do not conform to the model, but do so for theoretically consistent reasons. Finally, an "X" is inserted when the

data for the case do not confirm the model for any theoretically consistent reason. Only the data for the primary research cases are presented here, though the extended cases also confirm the model. A summary of the tabular data is presented in Table 7.1.

**Table 7.1: Data in Support of the Key Elements of the Model Found in all 8 Primary Research Sites**

<b>Company (Paper)</b>	<b>Traditional RAP Rejects</b>	<b>Threat Causes Action</b>	<b>Threat Rigidity</b>	<b>Rigidity Relaxes</b>	<b>Rigidity Perpetuates</b>	<b>Structure</b>	<b>Framing</b>
<b>The Beacon (A)</b>	L	L	L	L		Separate	Opportunity
<b>The Beacon (B)</b>	L	L	L	L		Separate	Opportunity
<b>The Press (A)</b>	L	L	L	L		Separate	Opportunity
<b>The Press (B)</b>	L	L	T	L		Separate	Opportunity
<b>The Expositor (A)</b>	L	X,T	L		L	Integrated	Threat
<b>The Expositor (B)</b>	L	L	L		L	Integrated	Threat
<b>The Morning News (A)</b>	T,L	L	L		L	Integrated	Threat
<b>The Morning News (B)</b>	L	L	L		L	Integrated	Threat

At each stage of the model, there was considerable evidence that the model was being replicated across each of the sites. The results are triangulated across all three sources of case data--interviews, direct observations, and archival documents. Perhaps the most interesting finding from the analysis is the powerful link between structure and framing. In every case where a decision to separate structure was made, threat framing was subsequently relaxed. While it might be argued that some level of frame de-coupling must have occurred to make the decision to separate the new business, the case data would suggest that this was largely idiosyncratic--one individual's belief, a desire to

isolate the losses from the core business, etc. However, in each of the four sites that separated, the majority of the frame de-coupling processes developed subsequent to the structural decision. However, the two constructs were still independent. Separate structure did not force opportunity framing; it just created an environment where the new framing could evolve without impacting the corporate threat-induced motivation to fund the venture. Thus, as we saw in the case of *The Beacon A*, the threatened context of the core organization can remain unchanged as long as the ownership of the business and strategy development of the separate unit are built around the opportunity.

## **7.2 THE ROLE OF THE INTEGRATOR**

In both *The Beacon A* and *The Press A* example, there was considerable separation between those who were motivated by threat in the resource allocation process and those who were motivated by opportunity in the strategy development process. Prior to separation, there was a tight link between those who were allocating resources and those who were managing the new business. Consequently, it became very difficult to de-couple the competing threat and opportunity framing. Separation actually allowed rigidity to relax by separating the new ventures from the behavioral patterns associated with threat-induced behavior. For example, separation made it more difficult for print managers to assert authority over the decision-making processes of the venture. The vice-president of technology and operations at The Beacon Company's new media division told how the existing organization contracted its authority, thus limiting the ability of the new organization to experiment and learn. "We were all set to let people buy ads online

[online only]. We even had algorithms to estimate rates. The papers didn't want to buy into it. This is one area where we will do better as a separate company because we will sell online only ads.”<sup>163</sup> Part of the contraction of authority was that the existing organization repeatedly made decisions based on how they would impact the *existing resources*. The separate organization was largely freed from those obligations and could then focus on independent opportunity associated with the Internet. As the new online president of The Beacon Company’s new media division described, “Now that we are separate, we *own the opportunity* in a way we never did when we were still in the newspaper [italics added].”<sup>164</sup>

However, while separation might have allowed for de-coupling to occur, it did not guarantee it. There was also a smaller subset, sometimes just one individual, who could see both the threat and the opportunity associated with the new technology. Tushman, Anderson, and O’Reilly explain that “It is the crucial role of the senior team to embrace these contradictions and take advantage of the tensions and synergies that emerge from juggling multiple competencies simultaneously” (1997, p.19). And while organizations struggle to consider two conflicting ideas simultaneously, flexible managers sometimes succeed. The person who played the integrative role within each company was often very different. At *The Beacon A*, the integrator was the head of new media who had formerly been a publisher. In *The Press B* it was the chairman of the new Internet

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<sup>163</sup> Interview, Vice President of Technology and Operations, The Beacon New Media Division, (4/14/00).

<sup>164</sup> Interview, New Head of New Media, The Beacon Company, (6/19/00).

subsidiary, who had been an executive vice-president in the newspaper. At the *Press A*, the integrating role was shared by the CEO of the newspaper *and* the CEO of the Internet group.

The actions played by each manager suggest that the integrating role described by Bower (1970) is extremely pivotal in the management of disruptive technology and in the manipulation of alternative framing. The integrator can be either a senior operating manager or a corporate executive, but must have a high degree of credibility and autonomy to navigate between the two organizations. As we saw in the case of *The Beacon A*, the publisher learned to emphasize the threat to the print organization to help secure financial commitments, but he screened the new unit from any sense of obligation or concern for the print product. Note that being an active integrator does not imply a perfect knowledge of the strategy itself. As the head of sales for the Press Company's Internet group explained,

Our CEO can live in both worlds, but no one else. Even if he doesn't fully understand the Internet world, he has to create an environment where it can thrive, where *someone else can figure it out* and he will value that. We feel that way. We could not have pulled this off without his support. They just sit there and *make us figure it out, they don't make the decisions for us* [italics added].<sup>165</sup>

Structure makes it possible to manage competing frames, but an integrator helps actively develop those cognitive models. This implies a deliberate commitment of resources, but allows for strategic content to emerge at the operational level of the organization.<sup>166</sup>

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<sup>165</sup> Interview, The Head of Sales, The Press Company Internet Group, (4/3/00).

<sup>166</sup> Note: the literature is full of debates about whether strategy should be deliberate or emergent (Mintzberg and Waters, 1985; Mintzberg, Alstrand, and Lampel, 1998; Ansoff,

### 7.3 THE ENTIRE CONCEPT OF OPPORTUNITY CHANGES

There is a great irony in the current findings. It was *threat* to the core organization the motivated action, but in reality, the newspaper companies were sitting on a tremendous *growth opportunity*. Early on, one of the largest fears was that of cannibalization--replacing a \$40,000 classified with a \$1000 classified, or replacing a subscription-paying reader with a non-paying user. As *The Press B* managers explained, "if we don't cannibalize ourselves, someone else will."<sup>167</sup> However, as the Internet grew, classified ads did not seem to be disappearing.<sup>168</sup> Additionally, the general advertising customers were not choosing between print and online. As one manger at The Beacon Company explained, "Interestingly, the overwhelming majority--close to 90 percent--of the [online] customers are not newspaper advertisers. This has led us to believe that . . . the site gives us a valuable product and price-point for advertisers that otherwise could

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1991). The deliberate school argues that strategy must be planned, concerted, and calculated. The emergent school argues that strategy must be iterative, responsive, and unplanned in order to capture learning from the environment (Pascale, 1984). Burgelman (1991) argues that autonomous and induced processes need to exist simultaneously within the same organization. The current research indicates that in the face of disruptive change, both *deliberate and emergent processes need to simultaneously exist within the same project*. The decision to enter the new business needs to be deliberate and calculated otherwise it will not gain impetus and commitment. However, the subsequent development of that new business strategy needs to be emergent, otherwise it will be very difficult to learn. Structure plays a pivotal role in allowing both processes to co-exist. Thus, resource allocation can act deliberately, while resource deployment can be executed emergently.

<sup>167</sup> Interview, Vice President of The Press Company Internet Group, Founding President of *The Press B*, (3/23/00).

not afford to be with the newspaper.”<sup>169</sup> This was true with subscriptions as well. The research director for The Press Company’s Internet group explained the process:

We asked questions about readership overlap and whether they would stop reading the paper when people registered on the site. We eventually dropped the question . . . Cannibalization is really not a topic you hear a lot about any more. About 50% of the people who use the online product have some relationship with the print product, but only 20% subscribe. We now view this as complementary utility and functionality of the website.<sup>170</sup>

Similarly, the vice-president of technology and operations at The Beacon Company’s new media division described, “The long term trend is that this isn’t speeding our print shrinkage. People who quit the paper are doing so for other reasons than moving online. It is a *new category* [italics added].”<sup>171</sup> The Internet, like most disruptive businesses, creates a new business by providing a new set of applications to a new set of customers. And while some of its functionality may eventually grow to have some cannibalistic elements, the overwhelming feature of disruption is how it creates something *new and separate*. As one newspaper board member described, “I’ve misunderstood this all along . . . the threat is not what will happen to the newspaper--that may survive--the threat is in missing the next big opportunity.”<sup>172</sup>

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<sup>168</sup> Westerfield, L. and C. Sargent (1999). “Long History, Bright Future: Publishers’ Resilient Media Franchises.” PaineWebber, Equity Research.

<sup>169</sup> Interview, Vice President of Technology and Operations, The Beacon New Media Division, (4/14/00).

<sup>170</sup> Interview, Research Director, The Press Company Internet Group, (4/3/00).

<sup>171</sup> Interview, Vice President of Technology and Operations, The Beacon New Media Division, (4/14/00).

#### **7.4 STRENGTHS AND WEAKNESSES**

The most important contribution of the clinical research is the way it expands the dimensionality of the problem of firm sustainability in the face of disruptive change. We see cognitive framing and organizational processes interact to determine the shape of strategic commitment. Four distinct elements stand out. First, threat rigidity as a construct is active at the organizational level. This is a contribution to the cognitive framing literature in that many previous studies have made this assertion based on laboratory experiments, but few have isolated “natural experiments” that present data in its embedded context (Staw and Ross, 1993). Second, the identification of the strategic paradox of disruptive response has implications for the sustainability and life of the firm. Threat framing is useful. It evokes deep response, when commitment might otherwise not be forthcoming. However, if the very cognitive frame required to fund a disruptive technology then becomes a source of dysfunctional behavior, a frame de-coupling mechanism becomes essential. Third, the identification of structure’s role in facilitating the simultaneous management of competing frames is unique. The concept of frame manipulation, though often advocated in the literature, has gone previously without an underlying theory as to how competing frames can actually be managed. Fourth, the current research moves the theory of disruptive change beyond resource allocation to the crucial role of management cognition. All the firms in the study obtained resources; it was how they used those resources that differentiated their response. Previous research

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<sup>172</sup> Interview, Board Member, The Extended Company #2, (7/11/00).



has focussed on the allocation of resources and largely ignored the implications of management cognition.

There are also some limitations with the clinical data. First, the majority of the data collected came from eight primary research sites. While other extension field sites were added, the ideas around structure and framing need to be tested with a larger data set. One of the benefits of the current study is that it helped sharpen the underlying constructs, to allow the type of large sample analysis that will be presented in the following chapters. The following sections of the dissertation will include a broader analysis of the ideas identified in the clinical data against a larger sample examination. Finally, there is the issue of external validity. The current data creates a clear argument for separation, but there are also case examples in other industries where integration has worked. Note that in this research, there were clearly disruptive elements with the Internet for the newspaper industry. However, the *same* technology may be in one instance disruptive and in another sustaining, depending on how it interacts with the firm resource allocation process, external markets, and existing firm structure. Further cross-industry studies on structural relationship should be conducted. Nonetheless, it is hoped that the findings of the current study have helped clarify and explain the phenomenon of response and its implications for future research and practice.

**SECTION III. SURVEY ANALYSIS**

**CHAPTERS 8-11**

**CHAPTER 8: SURVEY QUESTIONS AND METHODOLOGY**

**CHAPTER 9: DESCRIPTIVE ANALYSIS**

**CHAPTER 10: TESTING HYPOTHESES USING REGRESSION ANALYSIS**

**CHAPTER 11: UNDERSTANDING THE EXCEPTIONS**



## CHAPTER 8: SURVEY METHODOLOGY

*“Certain studies may benefit when the same questions are posed for two pools of ‘sites’—a smaller pool that is the subject of case studies and a larger pool that is the subject of a survey. The answers can be compared for consistency, but the case study sites can allow some insight into the causal processes, whereas the survey sites can provide some indication of the prevalence of the phenomenon (p. 86).”*

Robert K. Yin, Case Study Research: Design and Methods (1994)

### 8.1 MOTIVATION AND HYPOTHESES

Integrating case-based clinical process research with survey evidence can offer an additional source of triangulation. The clinical research methodology created advantages in understanding the “causal processes” of a phenomenon that was extremely complex and organizationally embedded within the firm. There is richness in that data that is difficult to replicate under any other methodology. However, the time cost of obtaining this data is extremely high, limiting the number of cases that can realistically be examined. To get at questions of *how much* and *how many*, a “larger pool” must also be studied. To extend the initial clinical research and to test for incidence of the phenomenon, the researcher employed a survey tool, complemented with other large sample data collection and analysis. This proved productive for replication, but it also helped extend the findings in ways not immediately obvious in the clinical data.

One of the fruits of the early clinical fieldwork was that it helped surface a set of formal hypotheses that could be tested in a large sample setting. How the underlying constructs were measured will be introduced briefly here and then expanded further in the next section. Three sets of formal hypotheses will be presented.

In the clinical data, sites that separated tended to eventually frame the Internet as an opportunity--at least at the venture level (see Table 7.1). Note that the longitudinal data implicated that most of the opportunity framing occurred *after* the separation of structure--not that the separate structure caused the opportunity framing to change, but that the separate structure created an environment where opportunity framing was more likely to take root and develop. Thus, the first formal hypothesis looks at the correlation between structure and framing.

*H1: Managers in separated sites are more likely to engage in opportunity framing than managers in integrated sites.*

Based on the initial fieldwork, we would expect a strong correlation between structure and management framing. Integrated sites would be more likely to frame the Internet as a threat than separated sites. However, we would still anticipate some variation, noting that structure is a facilitating, but not causal factor for framing.

The next set of hypotheses relates to innovation. The fieldwork indicated that threat-induced action would lead to rigidity. This was evident in the processes and values that emerged in the content development, sales and marketing, and business management processes at each of the sites (see Tables 5.3, 5.4, and 5.5). While all three are relevant forms of rigidity, the measure of innovation used in the survey study was content rigidity. Following the findings from the clinical data that separated sites with high opportunity perceptions were more likely to see their earlier rigid response relax and thus allow innovation to develop, a second set of hypotheses is set forth:

*H2a: Newspaper websites whose managers perceive the new business as an opportunity will be more innovative than sites whose managers perceive the new business as a threat.*

*H2b: Newspaper websites that are structurally separated will be more innovative than sites that are structurally integrated.*

The constructs are tested separately to isolate the independent effects of both. However, given the first set of hypotheses that structure and framing might be correlated, the analysis will have to consider potential limitations related to co-linearity (Afifi and Clark, 1996--Chapter 7, 9; Morrow-Howell, 1994).

Finally, because the applications and markets are different between a disruptive technology and the core business, it is anticipated that market penetration will vary with both of the predictor variables. Thus the final set of hypotheses are stated:

*H3a: Newspaper websites whose managers perceive the new business as an opportunity will have higher market penetration than sites whose managers perceive the new business as a threat.*

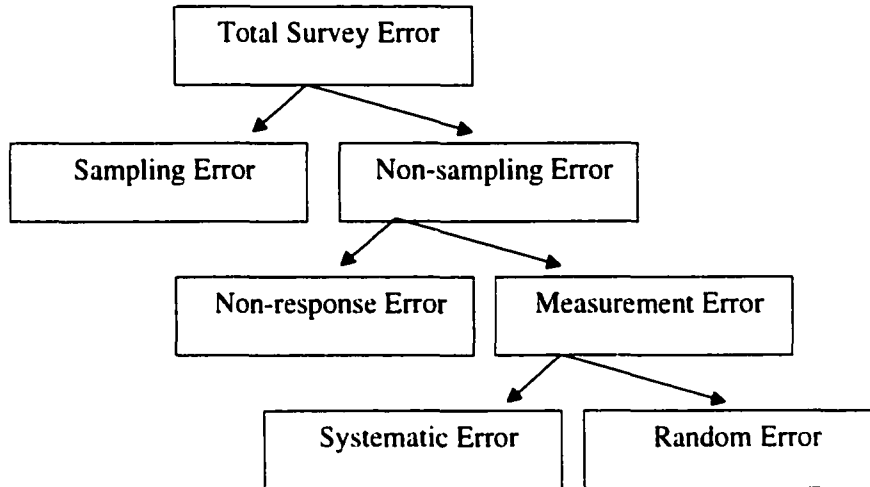
*H3b: Newspaper websites that are structurally separated will have higher market penetration than sites that are structurally integrated.*

## **8.2 SURVEY METHODOLOGY**

A survey methodology was chosen because of its ability to measure the incidence of a phenomenon that is fundamentally difficult to observe from external sources of data. The challenge with any measurement device is to minimize the potential for bias and error. This section is devoted to systematically addressing the risks of survey error and makes heavy use of a framework for analyzing survey error summarized by Silk (1990).

Silk divides survey error into two main categories—Sampling error and non-sampling error. Non-sampling error is then divided into non-response error and measurement error, which is further divided into systematic and random error (see Figure 8.1).

**Figure 8.1: Reducing Survey Error (Silk, 1990)**



### **Sampling Error**

Sampling error occurs when observations are obtained from a sample of some population rather than from the entire population. However, because the population for the survey research is *all* online newspapers of U.S. metro newspapers with average daily print circulation of over 100,000, sampling error is not immediately a concern. The survey will target the entire population under consideration.

### **Non-sampling Error: Non-response Error**

Non-sampling errors can be divided into non-response errors and measurement errors. Non-response errors occur when responses from certain members of the sample

population do not participate in the survey. Failure to account for this type of non-sampling error results in underestimating total survey error (Converse and Traugott, 1986). The target population for the survey was all U.S. metro newspapers with average daily circulation greater than 100,000 (based on the Audited Bureau of Circulation data in 1999). Selecting metro newspapers meant that notable national papers such as *The New York Times* and *USA Today* were not included.<sup>174</sup> Though this presents a cost to external validity, the issues involving national sites were substantially unique, and thus, they imposed comparison problems. For similar problems of comparison, non-English papers were also excluded from the population.<sup>175</sup> Finally, two sites were removed that were used in the pilot. The informants became aware of the research purpose of questions through the revision process and the researcher did not wish to introduce any research bias into their subsequent response. Thus, the total U.S. English metro newspaper population with greater than average daily circulation of 100,000 was 97 newspapers. The online general managers were then tracked down with the help of the Newspaper Association of America (NAA) and also extensive telephone and e-mail contact by the researcher directly. A list of the sites, their general managers and contact information is listed in Appendix 2.

Availability and motivation are the two major factors influencing response rate. Researchers can increase response rate through several activities. One is simply

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<sup>174</sup> Non-metro papers excluded from the study include: *USA Today*, *The New York Times*, *The Wall Street Journal*, *The Washington Post*, *The LA Times*, and *Investor's Business Daily*.



persistent efforts to follow-up and call back. Prior to e-mailing the survey out, the researcher called each of the general managers in the population or their senior reports in an effort to encourage participation and receive verbal commitment to take the survey. Once the survey had been e-mailed, the researcher delivered bi-weekly e-mail follow-up notices and eventually phone calls to all managers who had not responded to the survey. Dillman (1978) suggests that there are three additional things that can be done to maximize the level of survey response: “minimize the costs of responding, maximize the rewards for doing so, and establish trust so that those rewards will be delivered” (p. 12). Unfortunately, because of the nature and complexity of the problem being studied, the survey was fairly invasive and required 45 minutes to one hour to fill-out. To help with the logistical constraints and filling out the survey and mailing it back, a web-based java poll was used, which allowed the general managers to fill out the survey electronically and merely click on the “submit” button when complete. To “maximize the benefit” being offered to the participant firms, the researcher promised to provide a detailed aggregate report of the data (disguised) at the conclusion of the study. Finally, the researcher was able to build credibility with the participants by leveraging the reputation of his doctoral institution and entitling the survey as the Harvard Study on Interactive Newspapers. More importantly, the survey was formally endorsed by the NAA and a letter from the Vice President of New Media was sent directly to the informants the week before the survey was distributed. These efforts resulted in a survey response of 72 firms

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<sup>175</sup> Non-English papers include: *La Opinion* and *El Nuevo Herald*.

or 74 percent of informants. This unusually high response rate was likely the result of the efforts described above, but also benefited from the importance placed on these issues by the industry in general. There were no notable differences in size, geography, or ownership type in the non-responding firms.

### **Non-sampling Error: Measurement Error**

The difference between systematic and random measurement error is linked to two concepts: reliability and validity. Reliability measures how “stable, consistent, and reproducible are the responses obtained from some measurement instrument” and is concerned with random error (Silk, 1990). Construct validity typically concerns systematic error and indicates whether a tool measures the construct it claims to measure. A number of efforts were made to strengthen the reliability and validity of the survey methodology. As mentioned earlier, all informants were the general manager or president of the online newspaper. Note the term informant is used because the managers respond as members of organizations and are providing their perceptions and judgements of the activities of those organizations as well as their own perceptions (Seidler, 1974). Selecting the general manager ensures that they are familiar with the online product’s structure, strategy, and history. Efforts were made in conjunction with the NAA to identify these individuals at every online newspaper in the population. To strengthen memory and accurateness, informants were encouraged to consult records when necessary. Also, efforts were made to keep the question’s language neutral. Wherever possible potentially embarrassing questions were omitted or worded in a way as to allow

the informant to save face. This helped reduce problems of self-presentation (Sudman and Bradburn, 1974). Informants who felt they had been negligent in their progress might otherwise feel compelled to paint their organization in a more positive light. Efforts to avoid wording that would accentuate this bias were made wherever possible. The survey was then reviewed by three sets of individuals: industry experts, academic peers, and pilot sites. Three different industry experts reviewed the survey, checking for things like definition accuracy, confusing questions, logical ranges of response, etc. Four different academic peers also reviewed the survey and provided feedback on question type, question balance, and phrasing. Three different sites then piloted the survey. Two were from the target population and one from a paper smaller than the range of the target population. They took the survey using the java poll and provided feedback on length, confusing questions, and missing questions. The survey was revised sequentially at each stage before being sent out to the entire target response population. As mentioned earlier, the pilot sites were not included in response data.

### **8.3 SURVEY DESIGN**

The survey was designed *after* most of the fieldwork was completed. Since the issues being studied were so complex, trying to test and measure them in a large sample prior to conducting careful clinical research would likely cause the survey to be inherently flawed or shortsighted. The survey is divided into five main sections: framing, structure, traditional news content, other forms of content, and alternative streams of revenue (see

Table 8.1 for overview and Appendix 3 for actual survey). The questions were ordered by category, though the scale and type of question varied.

**Table 8.1: Overview of Survey Questions**

<b>Category</b>	<b>Types of questions</b>	<b>Variable Name</b>
Framing	<ul style="list-style-type: none"> <li>• Effect</li> <li>• Control</li> <li>• Loss</li> <li>• Opportunity</li> <li>• Threat</li> <li>• Revenue as Competitive with Print</li> <li>• Concern about Cannibalism</li> </ul>	<ul style="list-style-type: none"> <li>• (NEG)</li> <li>• (NOCTRL)</li> <li>• (LOSS)</li> <li>• (OPP)</li> <li>• (THREAT)</li> <li>• (COMP)</li> <li>• (CNBL1, CNBL2)</li> </ul>
Structure	<ul style="list-style-type: none"> <li>• Stated Structure</li> <li>• GM Reporting Responsibility</li> <li>• Functional Reporting</li> <li>• GM's Outside Experience</li> <li>• Staff's Outside Experience</li> <li>• Physical Location</li> </ul>	<ul style="list-style-type: none"> <li>• (STRUCT)</li> <li>• (GMRPT)</li> <li>• (FRPT)</li> <li>• (GMEXP)</li> <li>• (STAFFEXP)</li> <li>• (LOC)</li> </ul>
Overall Innovation	<ul style="list-style-type: none"> <li>• Percent of Site Content Not from Print Newspaper</li> </ul>	<ul style="list-style-type: none"> <li>• (INNO)</li> </ul>
Traditional News Content	<ul style="list-style-type: none"> <li>• Home Page Story Rotation</li> <li>• Unique Content Sections</li> <li>• Enhanced Print Coverage</li> <li>• Percent Original Content</li> </ul>	<ul style="list-style-type: none"> <li>• (HOMEPAGE)</li> <li>• (SECTIONS)</li> <li>• (ENHANCED)</li> <li>• (INNO)</li> </ul>
Other Forms of Content	<ul style="list-style-type: none"> <li>• Customization</li> <li>• Chat / Discussion</li> <li>• Traffic Reports</li> <li>• Weather Reports</li> <li>• Permanent Searchable Databases</li> </ul>	<ul style="list-style-type: none"> <li>• (CUSTOM)</li> <li>• (CHAT)</li> <li>• (TRAFFIC)</li> <li>• (WEATHER)</li> <li>• (DB)</li> </ul>
Alternative Streams of Revenue	<ul style="list-style-type: none"> <li>• Retail</li> <li>• Auctions</li> <li>• E-mail Tracking</li> <li>• User Demographics</li> </ul>	<ul style="list-style-type: none"> <li>• (RETAIL)</li> <li>• (AUCTION)</li> <li>• (EMAIL)</li> <li>• (DEMOS)</li> </ul>

One of the key results of collecting clinical data is that it helped sharpen the constructs around framing and structure and how to operationalize them into a survey instrument. For the framing category, the survey was trying to measure whether the informants perceived the Internet as an opportunity or a threat. The existing theory had

indicated that threats have high cue validity along the attributes of negativity, lack of control, and loss. Issues framed as opportunities have high cue validity along an inverse set of attributes: positive, control, and gain (Dutton and Jackson, 1987; Jackson and Dutton, 1988). Those attributes were included as separate questions represented on a continuous Likert-like scale (see Table 8.2; again, see Appendix 3 for full survey).

**Table 8.2: Threat vs. Opportunity--Attributes from Literature**

<b>NEG: How does the online organization categorize the impact of the Internet of the parent company?</b>				
a. Mainly Positive	b. More Positive than Negative	c. An Even Mix of Positive and Negative	d. More Negative than Positive	e. Mainly Negative
<b>NOCTRL: Relative to external market forces, how much control does the online organization think it has?</b>				
a. Very High Control	b. High Control	c. Moderate Control	d. Low Control	e. Very Low Control
<b>LOSS: How does the online organization view the eventual financial implications of the Internet for the overall business?</b>				
a. In the end, this will be a gain for overall performance	b. Will lose in some areas, gain in others, but net/net a modest gain	c. The gains and losses will be a wash	d. Will gain in some areas, lose in others, but net/net a modest loss	e. In the end, this will be a loss for overall performance

Five other questions were added around framing. Because some of the managers interviewed in the field indicated that the Internet could possibly be considered both a threat and an opportunity, these were measured separately. Also, a question about the nature of the revenue generated--whether it was separate or competitive with print--was added. Two questions about cannibalization were also included (see Table 8.3 below).

**Table 8.3: Threat vs. Opportunity--Attributes from Field**

<b>OPP: How intense does the online organization view the opportunity created by the Internet for your parent company?</b>				
a. An extremely powerful opportunity	b. A powerful opportunity	c. A modest opportunity	d. Not an opportunity	e. Not sure yet
<b>THREAT: How intense does the online organization view the threat created by the Internet for your parent company?</b>				
a. An extremely powerful threat	b. A powerful threat	c. A modest threat	d. Not an threat	e. Not sure yet
<b>COMP: Consider the impact of online revenue on print revenue. How does the online organization view the online revenue?</b>				
a. Primarily to create new non-competitive, and separate revenue outside of print	b. More to create new non-competitive, and separate revenue outside of print	c. An even mix between creating new revenue and recapturing potential losses to print revenue from other online competitors	d. More to recapture potential losses to print revenue from other online competitors	e. Primarily to recapture potential losses to print revenue from other online competitors
<b>CNBL1: How concerned in the online organization about cannibalizing print revenue?</b>				
a. Extremely concerned	b. Concerned	c. Somewhat concerned	d. Not very concerned	e. Not concerned at all
<b>CNBL2: How has the concern over cannibalization changed in the last 2 to 3 years?</b>				
a. We are much more concerned today	b. We are more concerned today	c. Our views haven't changed considerably	d. We are somewhat less concerned today	e. We are much less concerned today

#### 8.4 CONSTRUCTING THE FRAMING COMPONENT

In order to capture the variation across the framing and structure variable into a single composite variable of the overall construct, the researcher employed a statistical tool called principal components analysis. The first step in understanding the framing questions was how they were related to each other. Thus, a simple correlation matrix was created using each of the framing variables (see Table 8.4). A few things emerge from the analysis of the correlation matrix. First, many of the variables seem to be significantly correlated, though the co-efficient factors are somewhat different across the

variables. The most tightly correlated set are around those variables that the literature predicted and their correlation is positive (NEG, NOCTRL, LOSS). The variables that tend to be negatively correlated with the majority of the set are those of threat and cannibalization. Thus, if someone viewed the Internet as a threat, they were likely not to see it as positive, in their control, or a gain to their organization. Note, however, that this was not true of the direct variable correlation of OPP and THREAT; however, the correlation is not significant. This may be the result some real substantive similarity. However, given the overwhelming correlation of both variables with the rest of the data, it may be showing a correlation caused from the measurement tool itself--recall from Tables 8.2 and 8.3 that threat and opportunity had similar scales that were different from the other variables. The least correlated variables relate to issues of cannibalization (CNBL1 and CNBL2), which only show significance with threat and opportunity. We will be mindful of this as we test Chronbach's Alpha and create the components.

**Table 8.4: Correlation Matrix for Framing Variables**

	NEG	NOCTRL	LOSS	OPP	THREAT	COMP	CNBL1	CNBL2
NEG	1.0000							
	0.0000							
NOCTRL	0.4202	1.0000						
	0.0002	0.0000						
LOSS	0.6024	0.3538	1.0000					
	0.0000	0.0029	0.0000					
OPP	0.2535	0.3484	0.1301	1.0000				
	0.0370	0.0036	0.2902	0.0000				
THREAT	-0.2186	-0.2677	-0.1762	0.0344	1.0000			
	0.0756	0.0285	0.1537	0.7824	0.0000			
COMP	0.2289	0.2010	0.2072	0.1295	-0.3057	1.0000		
	0.0548	0.0928	0.0876	0.2927	0.0119	0.0000		
CNBL1	-0.1851	-0.0767	-0.0789	-0.2244	-0.0863	-0.1104	1.0000	
	0.1222	0.5249	0.5192	0.0659	0.4873	0.3592	0.0000	
CNBL2	0.0003	-0.0572	0.0669	-0.1750	0.0792	-0.1221	0.3591	1.0000
	0.9980	0.6354	0.5847	0.1534	0.0792	0.3105	0.0021	0.0000

The next test that is conducted is to look at the Cronbach's Alpha (Cronbach 1951). This measure assesses the reliability of a summative rating across a number of attributional variables (Likert, 1932). The reliability of  $\alpha$  is the square of the correlation between the summative rating and the underlying factor. Because not all the questions are on the same scale, it is important that the variables were standardized in the calculation of alpha. To determine if all the items fit with the scale, we then generated individual alpha scores by sequentially removing each variable to see if the overall reliability would be substantially improved without that item in the summative rating (See Table 8.5).

**Table 8.5: Chronbach's Alpha for Framing Variables**

Item	Obs	Sign	item-test correlation	item-rest correlation	interitem correlation	alpha
NEG	72	+	0.6878	0.5244	0.1532	0.5588
NOCTRL	72	+	0.6406	0.4683	0.1622	0.5755
LOSS	69	+	0.5824	0.3929	0.1738	0.5956
OPP	68	+	0.5191	0.3186	0.1858	0.6150
THREAT	67	-	0.4493	0.2358	0.1996	0.6358
COMP	71	+	0.5430	0.3415	0.1825	0.6098
CNBL1	71	-	0.4581	0.2378	0.1990	0.6349
CNBL2	71	-	0.3981	0.1696	0.2101	0.6505
Test					0.1833	0.6423

Note that the number of observations varied slightly across questions, though not substantially. The additive scale is denoted at the bottom of the table as "test". Two results are worth noting specifically. The far right column is the given Cronbach's alpha for the test scale that consists of all but the item in that row. In other words, by removing that item, does the overall summative reliability increase or decrease? It is clear that removing NEG, NOCTRL, or LOSS would substantially weaken the overall reliability of the summative index. The only variable whose removal might improve the reliability would be CNBL2, though really not in a substantial way--0.64 to 0.65. Thus we decide



to consider all of the variables. The other point to note is that the overall Cronbach's alpha is 0.6423. Minimally acceptable reliability scores range from 0.60-0.70. Given the complexity and embedded nature of the construct being tested, this score is deemed acceptable.

Principal components analysis (PCA) grew out of the original work of Pearson (1901) and Hotelling (1933). The intent of PCA is to arrive at the "unit-length linear combinations of the variables with the greatest variance" (Stata Reference Manual, 1999, p. 457). In other words, find the composite that explains most of a related construct. The PCA tool generated a series of eight different components with eigenvalues and eigenvalue differences (see Table 8.6).

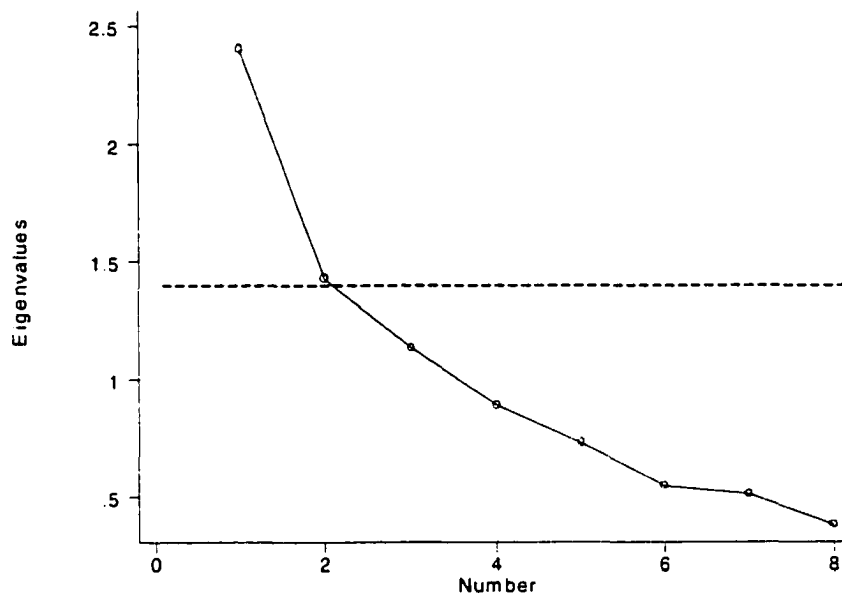
**Table 8.6: Principal Components for Framing Variables**

Component	Eigenvalue	Difference	Proportion	Cumulative
1	2.40127	0.97699	0.3002	0.3002
2	1.42428	0.29259	0.1780	0.4782
3	1.13169	0.24444	0.1415	0.6197
4	0.88725	0.16209	0.1109	0.7306
5	0.72516	0.18070	0.0906	0.8212
6	0.54447	0.03669	0.0681	0.8893
7	0.50778	0.12968	0.0635	0.9527
8	0.37810	.	0.0473	1.0000

The second column states the eigenvalue for each component and the third column states the difference in eigenvalues between each component. There are several ways to select the number of components to use in further analysis. The most simple is the "rule of one," which simply asks whether the eigenvalue is greater than one. Accordingly, components 1, 2, and 3 would be selected. However, a more accurate test is to look at the third column. If the difference between eigenvalues takes a sudden drop, this suggests

that subsequent eigenvalues are sampling noise. Thus, the only component that is taken is component 1. Plotting the eigenvalues in a skree test yields a similar result. Where there is a significant shift in the slope of the plot, all subsequent components are excluded (see Chart 8.1).

**Chart 8.1: Skree Test of Framing Components**



Thus, for the single component, we then look at its eigenvectors, which tell us how each variable is weighted in the component. The eigenvectors for component 1 are listed in Table 8.7.

**Table 8.7: Eigenvectors for Framing Component 1**

Variable	1	2	3	4	5	6
NEG	0.49781	0.16009	0.24790	-0.27474	-0.03135	-0.01303
NOCTRL	0.44893	0.10531	0.10984	0.44514	-0.27887	-0.15973
LOSS	0.43290	0.29237	0.25805	-0.38970	-0.01103	0.39369
OPP	0.31608	-0.31723	0.29299	0.61876	0.26804	0.05424
THREAT	-0.27478	-0.30862	0.60161	-0.11789	0.38138	0.30765
COMP	0.31820	0.00605	-0.53693	-0.04673	0.74319	0.06204
CNBL1	-0.23697	0.57993	-0.07985	0.41587	0.01238	0.61627
CNBL2	-0.17448	0.58785	0.34271	0.05114	0.38902	-0.58146

Looking at these weightings shows what was implied in the earlier correlation matrix of all of the framing variables (see Table 8.4). The most highly weighted variables were those identified in the literature--positive vs. negative (NEG), control vs. lack of control (NOCTRL), and gain vs. loss (LOSS). The score on opportunity, threat, and competitive revenue had slightly lower weightings. The cannibalization variables were weighted the least. Nevertheless, they were part of the component. Next we look at the direction of the weighting. Notice that threat and cannibalization are negative. To interpret the component requires examination of the predictor variables directly (refer back to Tables 8.2 and 8.3). To score high on Component 1, responses would have to be high on NEG, NOCTRL, LOSS, THREAT, and COMP while low on OPP (note: the scales of OPP and THREAT are different). In other words, you would have to see the Internet as negative, feel you had low control over its impact, that it would be a loss to your company's financial performance, be a low opportunity, a high threat, and be very concerned about cannibalization. The component thus becomes a measure of "threat framing" and will subsequently be referred to as TCOM for "Threat Component." To have a high threat framing you would need to score high on TCOM and to have a high opportunity framing you would need to score low on TCOM.

## **8.5 CONSTRUCTING THE STRUCTURE COMPONENT**

While conducting the fieldwork, structure was seen to be a multi-faceted variable (see Table 6.4). It was observed that key variables include: Stated Structure (STRUCT), GM Reporting Responsibility (GMRPT), Functional Reporting (FRPT), GM's Outside

Experience (GMEXP), Staff's Outside Experience (STAFFEXP), and Physical Location (LOC) -- (see Table 8.1 and Appendix 3).

Following the procedure used in Section 8.4, a simple correlation matrix was created using each of the structure variables. A few things emerge from the analysis of the correlation matrix. First, many of the variables show a correlation with extremely high significance. The strongest correlation is between STRUCT and GMREP with a correlation co-efficient of .71 at  $p < 0.000$ . This implies that sites that claimed to be separate tended to have general managers who reported to corporate vs. the newspaper. It is interesting to note that FRPT and STRUCT have a positive correlation co-efficient, but it is not significant. This would imply that there are some general managers who say they are separate, but whose functional site managers report back to the newspaper and not to the online general manager. As discovered in the fieldwork, this was an important distinction and thus a key variable to include in the component. GMEXP and STAFFEX appear to have the lowest correlation relative to the other variables within the matrix, though their inter-item correlation with each other is significant ( $-.47$  at  $p < 0.000$ ). We will be mindful of this as we test Chronbach's Alpha and create the components. This early difference may imply a separate construct in the category of structure that speaks more to outside experience than to organizational form (see Table 8.8).

**Table 8.8: Correlation Matrix for Structure Variables**

	STRUCT	GMREP	FREP	GMEXP	STAFFEXP	LOC
STRUCT	1.0000 0.0000					
GMREP	-0.7080 0.0000	1.0000 0.0000				
FREP	0.2946 0.0120	-0.3986 0.0005	1.0000 0.0000			
GMEXP	-0.1251 0.2950	0.1021 0.3935	-0.0172 0.8860	1.0000 0.0000		
STAFFEXP	0.2007 0.0933	-0.1713 0.1532	0.2181 0.0677	-0.4727 0.0000	1.0000 0.0000	
LOC	0.4861 0.0000	-0.4890 0.0000	0.3817 0.0009	-0.1634 0.1701	0.3450 0.0032	1.0000 0.0000

The next test that is conducted is to look at the Cronbach's Alpha. Again, all of the variables have been standardized in the calculation of alpha. To determine if all the items fit with the scale we then generated individual alpha scores by sequentially removing each variable to see if the overall reliability would be substantially improved without that item in the summative rating (see Table 8.9).

**Table 8.9: Chronbach's Alpha for Structure Variables**

Item	Obs	Sign	item-test correlation	item-rest correlation	interitem correlation	alpha
STRUCT	72	+	0.7237	0.5611	0.2758	0.6556
GMRPT	72	-	0.7371	0.5799	0.2702	0.6493
FRPT	72	+	0.5966	0.3896	0.3265	0.7079
GMEXP	72	-	0.4825	0.2505	0.3700	0.7460
STAFFEXP	71	+	0.6233	0.4223	0.3166	0.6984
LOC	72	+	0.7355	0.5776	0.2709	0.6500
Test					0.3050	0.7248

The additive scale is denoted at the bottom of the table as "test". The fourth column is the given Cronbach's alpha for the test scale that consists of all but that one item. Removing STRUCT, GMRPT, AND LOC would clearly weaken the overall reliability of the summative index. The only variable whose removal might improve the

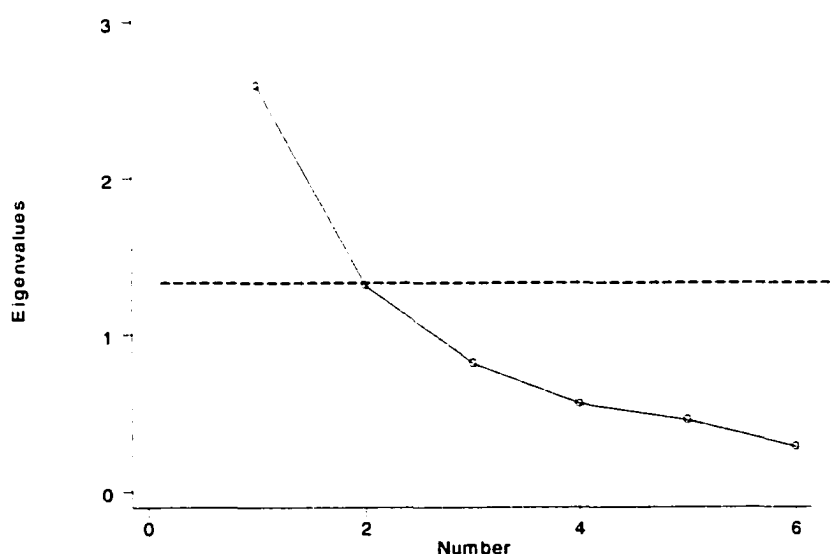
reliability would be GMEXP--0.72 to 0.75. However, we decide to consider all of the variables to capture the substantive impact of outside experience. The other point to note is that the overall Cronbach's alpha is 0.7248. This is well beyond the minimally acceptable reliability levels. The PCA tool retained six different components (see Table 8.10).

**Table 8.10: Principal Components for Structure Variables**

Component	Eigenvalue	Difference	Proportion	Cumulative
1	2.58674	1.27746	0.4311	0.4311
2	1.30927	0.49596	0.2182	0.6493
3	0.81331	0.25581	0.1356	0.7849
4	0.55750	0.10527	0.0929	0.8778
5	0.45223	0.17127	0.0754	0.9532
6	0.28096	.	0.0468	1.0000

Using the "rule of one," components 1 and 2 would be selected. However, the difference between eigenvalues takes a sudden drop between component 1 and 2 (see second column). Plotting the eigenvalues in a skree test yields a similar result (see Chart 8.2).

**Chart 8.2: Skree Test of Framing Components**



Thus, we select a single component, and start to examine its eigenvectors, which tell us how each variable is weighted in the component. The eigenvectors for component 1 are listed in Table 8.11.

**Table 8.11: Eigenvectors for Structure Component 1**

Variable	1	2	3	4	5	6
STRUCT	0.48616	0.23254	-0.44646	-0.10504	0.23289	0.66706
GMRPT	-0.49859	-0.28587	0.27880	0.26505	-0.07683	0.71820
FRPT	0.36324	0.19260	0.78147	-0.42086	-0.12257	0.16768
GMEXP	-0.21223	0.69726	0.22956	0.39424	0.50810	-0.05006
STAFEXP	0.33221	-0.58292	0.22360	0.20332	0.67092	-0.09147
LOC	0.47718	0.03372	0.09773	0.73812	-0.46534	-0.01543

The most highly weighted variables were those identified in the earlier correlation matrix (see Table 8.7)--stated structure, GM reporting, and physical location. The score on functional reporting and staff outside work experience was slightly lower. The variable for GM outside work experience was weighted the least, but nevertheless, is part of the component.<sup>176</sup> Next we look at the direction of the weighting. Notice that GMRPT and GMEXP are negative. To interpret the component requires some iteration with the predictor variables directly (see survey questions in Appendix 3). To score high on component 1 the general manager would have to state his or her structure as integrated, report to the newspaper (not corporate), have functional reports whose primary reporting lines went through the newspaper, have low outside experience at the GM and general

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<sup>176</sup> Note that component 2 has very strong weightings for work experience--both GM and Staff. Thus, this does appear as an indication that "outside experience" is a separate construct. Though this component did fail the other selection criteria stated earlier, the research did include it in subsequent regression analysis. However, it was not significant in any of the subsequently fitted regression models.

staff levels, and be co-located in the print organization. The component thus becomes a measure of “integrated structure” and will subsequently be referred to as ICOM for “Integrated Component.” To be integrated you would need to score high on ICOM and to be separated you would need to score low on ICOM.

## **8.6 SURVEY METHODOLOGY CONCLUSIONS**

Chapter 8 linked the small sample clinical fieldwork to the large sample survey methodology. Three sets of hypotheses were set forth. First, was that structure and framing would be related. Thus, it was anticipated that separated sites would have higher perceptions of opportunity and that integrated sites would have higher perceptions of threat. The second two sets of hypotheses asked how these two predictor variables, framing and structure, would predict performance. Performance was measured as innovation and market penetration. It was anticipated that sites with high opportunity framing would have higher innovation and market penetration. It was also anticipated that separated sites would have higher innovation and performance.

The clinical fieldwork also helped with the design of the survey. This came in understanding how innovation might be measured, what types of questions would capture issues around framing and structure, and how these might be asked in a careful and systematic way. Efforts were made to avoid introducing error by following survey design and execution protocol. This included creating pre-tests, pilots, and careful follow-up on the target response population. Of the 97 U.S. metro newspaper sites with greater than



100,000 average daily circulation, 72 of the online general managers responded to the web survey, yielding a 74 percent response rate.

Finally, using a tool called *principal components analysis* a single component was selected as a summative measure for both the framing and structure constructs. The framing component was called TCOM. To score high on TCOM, a general manager would have to describe his organization as viewing the Internet as a “threat.” To score low TCOM, the organization would have to view the Internet as an “opportunity.” The structure component was called ICOM. To score high on ICOM, a site would have to be highly integrated. To score low on ICOM, a site would have to be highly separated.

## CHAPTER 9: DESCRIPTIVE ANALYSIS

### 9.1 DESCRIPTION OF KEY VARIABLES

In an effort to describe and summarize the data, the variables were divided into discrete categories--Dependent, Control, and Predictor Variables.

#### **Dependent Variables**

The first category is for dependent variables--those variables we are trying to explain with the research. These are the performance variables of innovation and market penetration. Innovation (INNO) was measured as the percentage of available pages on a site that do not originate from the print newspaper. Given the theoretical argument that threat-induced action leads to a replication of the core business, this variable captures the ability of the new venture to move away from the core business. We also compared INNO to other proxies for innovation including questions about customization, database development, and chat, and found the INNO variable significantly correlated with many of these other variables. We selected the variable INNO because of its fit with the research question and its ability to measure whether a site simply replicated print content or built out new content onto its website (see Section 9.2). The variable for market penetration was IMPRES, which captured the number of unique page impressions for June 2000. We used the survey data because of its reach and accuracy. Survey data was the most effective way to obtain a measurement across all of the sites in the study. Leading third party measurement companies such as Media Metrix and Nielson Net Ratings cover less than 30-40 percent of the firms in the study. However, we did test the

correlation between the survey data and the overlapping sites tracked by Media Metrix. This test showed a statistically significant correlation ( $p < 0.01$ ) and a correlation coefficient of around .50. Thus, even though the data was provided from the companies directly, it can be validated by comparisons to other external measurement.

### **Control Variables**

There is also a set of control variables. It was anticipated that these variables might have an impact on performance and should therefore be considered in any modeling effort to predict outcomes. Because market size might impact both of the dependent variables, we included circulation as measured by the Audited Bureau of Circulation (1999). The number of full-time online employees and the site launch date were also considered based on the survey data from questions 26 and 27 respectively. These data captured in the survey were checked against interview data in four of the sites and were found to be accurate in those sites. We also considered the Internet penetration in the local market as measured by the city where the newspaper was located using data from Scarborough Research (1999). Data in 7 of the 72 markets were not covered by Scarborough Research and data imputation followed the mean substitution method discussed in Afifi and Clark (1996). Finally, data on corporate ownership were collected using public documents and NAA records. Dummy variables were used to distinguish public vs. private ownership.

## Dependent Variables

Finally, there are the independent or predictor variables. These are the composites of framing and structure discussed in Sections 8.5 and 8.6. All three categories and their variables are summarized in Table 9.1.

**Table 9.1: Categorization and Description of Variables**

Category	Name	Description	Source
Dependent Variables	INNO	The percentage of pages on a site that do not originate in print	Survey Question #37 (Inverted--Continuous)
	IMPRES	The number of unique page impressions for June 2000	Survey Question #30 (Continuous)
Control Variables	CIRC	Average Daily Circulation	Audited Bureau of Circulation (1999)--(Continuous)
	FTE	Number of Full-time Online Employees--November 2000	Survey Question #26 (Continuous)
	LAUNCH	The date the site was launched	Survey Question #27 (pull-down menu: 1993-2000)
	INET	Internet penetration in major metropolitan area	Scarborough Research (1999)--(Continuous)
	OWN	Public vs. Private Ownership	Company Reports, OneSource, NAA (Dummy)
Predictor Variables	TCOM	Management Framing of Threat (vs. Opportunity)	Principal Components Analysis of Questions #: 3,4,5,6,8,10,11, and 12--See 8.5
	ICOM	Measurement of Site Integration (vs. Separation)	Principal Components Analysis from Question #: 14, 16, 18, 22, 23, 24 (average)--See 8.6

Looking at the two outcome variables, the one feature that stands out the most is the considerable variation in performance. For example, while the average site had 31 percent "new" content on their site, the standard deviation was greater than 25. One site had 85 percent of its content new, while several others had no new content at all. In other words, 100 percent of the their pages came from the print product (see Table 9.2). Similarly, page impressions per month also showed considerable variance. The average site recorded 8.7 million pave impressions in the month of June 2000. However, the

standard deviation was over 7.2 million and the range went from under 1 million to 30 million. Most likely, the control variables will explain that variance, but this is still an unusually high range in performance.

**Table 9.2 Descriptive Statistics for Key Variables**

<b>Variable</b>	<b>No. Obs.</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>Minimum</b>	<b>Maximum</b>
INNO	70	31.4	25.4	0	85
IMPRES	59	8,747,889	7,225,334	775,276	3,000,000
CIRC	72	231,943	110,952	100,273	603,523
FTE	72	21.2	14.5	4	65
INET	72	42.8	5.46	31	56
OWN	72	1.4	0.49	1	2
LAUNCH	70	1996	1.11	1993	1999
TCOM	67	0.0	1.55	-3.28	4.78
ICOM	71	0.0	1.61	-3.81	2.84

Print circulation for the average newspaper in the study was around 232,000 per day. The range was constrained by the design of the survey with a floor at 100,000. The largest newspaper had average daily circulation of just over 600,000. Full-time online employees ranged across sites from 4 to 65 with an average of just over 21. The average launch date for the population was 1996, though there were some sites that launched as early as 1993 and as late as 1999. Internet penetration in the cities where the print paper was published averaged 43 percent, with a range of 31 to 56 percent. There were slightly more publicly owned papers than privately owned papers. The mean of both the framing and the structure component is set to zero as a result of standardization--both show considerable ranges and standard deviations.

We next examine the correlation matrix of the outcome variables, control variables, and predictor variables. We note that the outcome variables are correlated with each other. We also note that innovation is correlated with full-time online employees, framing, and structure. Similarly, market penetration is correlated with circulation, employees, launch date, and both predictor variables. Also, as considered previously, the predictor variables are correlated (See Table 9.3). The implications of these correlations on the formal hypotheses will be considered in the next chapter.

**Table 9.3: Correlation Matrix of Key Variables**

	INNO	IMPRES	CIRC	FTE	LAUNCH	INET	OWN	TCOM	ICOM
INNO	1.0000								
IMPRES	0.5005 0.0001	1.0000							
CIRC	0.1532 0.2054	0.7153 0.0000	1.0000						
FTE	0.3437 0.0036	0.6972 0.0000	0.6320 0.0000	1.0000					
LAUNCH	0.1014 0.4072	0.3359 0.0106	0.2932 0.0138	0.3405 0.0039	1.0000				
INET	-0.0226 0.8529	0.1854 0.1597	0.2089 0.0782	0.2710 0.0213	0.1782 0.1399	1.0000			
OWN	0.1234 0.3087	0.0924 0.4863	0.0061 0.9593	-0.0455 0.7045	-0.0523 0.6670	0.0148 0.9018	1.0000		
TCOM	-0.2988 0.0156	-0.3327 0.0122	-0.2973 0.0146	-0.1781 0.1493	0.2034 0.1041	-0.1705 0.1678	-0.0518 0.6773	1.0000	
ICOM	-0.5850 0.0000	-0.6058 0.0000	-0.3646 0.0018	-0.4607 0.0001	0.0215 0.8607	-0.1979 0.0980	-0.0627 0.6035	0.5023 0.0000	1.0000

## 9.2 DESCRIPTION OF INNOVATION VARIABLES

Before moving to comparisons across the predictor variable categories, it is also useful to expand somewhat on the outcome variable for innovation (INNO). The other innovation variables looked at in the survey generally fell across three categories: traditional content, new content, and alternative streams of revenue. Note that there was considerably more innovation around improving the traditional news content, less around discovering new forms of content, and extremely little innovation around creating alternative streams of revenue. For traditional news content, informants were asked how many times in a 24-hour period they rotated the stories on their home pages (HOMEPAGE). The average was just over 5 times a day, but the range was a 1 to 28 times a day. Also, sites averaged 7.5 unique content sections vs. what was in print (SECTION). Here a unique content section was defined as a section of thematically related and repeated articles. Also, in a typical week, sites averaged nearly 15 pieces of enhanced coverage of articles that had appeared in the print newspaper, including follow-up articles, background data, online databases, etc (ENHANCED)—see Table 9.4 and Appendix 3 for survey questions (some questions are open ended, some are Likert scale). These enhancements were not associated with the printed newspaper. Though the *average* response was reasonable, there was still a significant amount of *variation* in the innovation around traditional news content. Note however that much of this effort merely enhanced what was covered in print. This would indicate that if the media allowed you to “improve the performance” along traditional criteria, the innovation

would be less difficult to introduce. In other words, when the technology was more sustaining, the new innovation was more likely to be accepted.

Other innovation categories proved even more difficult to implement. One of the unique features of the Internet is that it created applications that were *not* traditionally valued in print media, but quite useful with the new product. Much of this related to the interactive nature of the Internet. Some sites did show progress in providing user-to-user interaction. The average site had more than 35 chat/discussion areas, though the range was an incredible 0-300 (CHAT). However, few sites had tapped the benefit of interactive media with its ability to create customized content. On average, less than 5 percent of users were taking advantage of customized features (CUSTOM). Many users of Internet content sites sought frequently updated information like stock quotes, traffic reports, weather, etc. Unfortunately, traffic reports were updated rather infrequently, just over three times per day (TRAFFIC--see survey for Likert scale). Weather reports were updated more frequently, on average eight times per day (WEATHER--see survey for Likert scale). Finally, the Internet offered an ability to access permanent, catalogued information. However, the average site had less than 10 permanent, searchable databases (DB). Again, the range was considerable, with the lowest at zero and highest at 44 (see Table 9.4).

The final category of innovation we considered in the survey was that of business model development. Internet content companies have an opportunity to create new streams of revenue that were not traditionally available to print companies. However,



most of the newspaper companies had surfaced very few alternative streams of revenue. Retail was the most common type of non-advertising revenue that did occur, though nearly 30 percent of the industry had no retail feature on their sites (RETAIL). This occurred despite the extreme abundance of local retail options and partnerships. For auctions, the average sites responded either, "Newspaper consortium auctions available, but not heavily promoted" or "Auction functionality not currently available" (AUCTION). Consumer direct marketing is also another common feature of many Internet content sites. At a very basic level, this involves the collection and distribution of e-mail. The average site owned about 33,000 e-mail addresses from site users (EMAIL). However, the range was notable, with more than 20 sites tracking no e-mail addresses at all, and a few sites that had collected several hundred thousand addresses. The creation of more sophisticated consumer direct marketing requires the collection of individual user demographic information, which allows advertisers to create customized campaigns. The ability to customize the delivery of ad content also commands considerably higher CPM rates. This demographic data can be collected through a number of different mechanisms, including user registration, voluntary e-mail registration, or contests. Across the entire industry, 47 percent of sites track no user demographic information at all. Those firms that did track demographic information stored data on barely 10 percent of their users (DEMO)—see Table 9.4.

**Table 9.4: Descriptive Statistics for Other Innovation Variables**

Variable	Obs	Mean	Std. Dev.	Min	Max
HOMEPAGE	70	5.43	6.54	1	28
SECTIONS	71	7.54	6.25	0	35
ENHANCED	71	14.90	24.26	0	125
CUSTOM	61	4.60	5.95	0	25
CHAT	72	35.40	52.67	0	300
TRAFFIC	71	3.77	1.60	1	5
WEATHER	72	2.19	1.33	1	5
DB	70	9.51	7.95	0	44
RETAIL	72	1.72	0.45	1	2
AUCTION	72	6.47	1.15	1	7
EMAIL	64	33458	75412	0	500000
DEMOS	64	7.80	16.49	0	100

Though these data represent additional detail into the types of innovation that were occurring in the industry, the variable INNO was selected for three reasons. First, it was highly correlated with most other proxies for innovation (see Table 9.5). However, and more importantly, the variable INNO was *designed* as a measure of overall replication as seen in the fieldwork. The variable itself is the inverse of the percent of content taken directly from print. Recall the reaction of the manager at the Press Company: “Remember that I had said to the CEO at the time that it made absolutely no sense to replicate the newspaper on the Internet. Then I saw the prototype and it was just that” (see Section 5.2). Finally, we use INNO as the outcome variable because it appears robust. When we went back to the field and re-tested this outcome in 5 different sites we never received scores that were more than 5 percentage points different. Thus, for the rest of the analysis, INNO will be the primary measure of innovation.<sup>177</sup>

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<sup>177</sup> Note: several different composites using the other innovation variables yield similar statistical results.

**Table 9.5: Correlation Matrix for Innovation Variables**

	HOMEPAGE	SECTIONS	ENHANCED	CUSTOM	CHAT	TRAFFIC	WEATHER	DB	RETAIL	AUCTION	EMAIL	DEMOS
HOMEPAGE	1.0000											
SECTIONS	0.3009 0.0120	1.0000										
ENHANCED	0.4362 0.0002	0.1200 0.3225	1.0000									
CUSTOM	0.1104 0.4009	0.2341 0.0694	0.3095 0.0152	1.0000								
CHAT	0.3924 0.0008	0.2643 0.0259	0.3843 0.0009	0.1554 0.2317	1.0000							
TRAFFIC	-0.2998 0.0123	-0.4657 0.0000	-0.2379 0.0473	-0.1159 0.3780	-0.1404 0.2429	1.0000						
WEATHER	-0.1456 0.2290	-0.1188 0.3238	-0.1351 0.2614	-0.0949 0.4668	-0.2435 0.0393	0.1471 0.2208	1.0000					
DB	0.5890 0.0000	0.2652 0.0276	0.4415 0.0001	0.3123 0.0151	0.4081 0.0005	-0.3380 0.0045	-0.2199 0.0674	1.0000				
RETAIL	-0.3341 0.0047	-0.3848 0.0009	-0.1602 0.1821	-0.1243 0.3397	-0.4043 0.0004	0.1968 0.1000	-0.0241 0.8409	-0.2841 0.0172	1.0000			
AUCTION	0.1313 0.2787	0.3279 0.0052	0.0682 0.5719	-0.0087 0.9471	0.2020 0.0887	-0.1060 0.3789	-0.2377 0.0444	0.1934 0.1087	-0.2051 0.0839	1.0000		
EMAIL	0.1934 0.1320	0.1558 0.2227	0.2430 0.0550	0.1647 0.2294	0.0149 0.9070	-0.3397 0.0065	-0.2241 0.0751	0.2808 0.0271	-0.0546 0.6682	0.0997 0.4330	1.0000	
DEMOS	0.5456 0.0000	0.2163 0.0886	0.2731 0.0303	0.3315 0.0118	0.2461 0.0499	-0.2341 0.0626	-0.1501 0.2364	0.4949 0.0000	-0.1445 0.2545	-0.0732 0.5654	0.2531 0.0552	1.0000

### **9.3 OPPORTUNITY VS. THREAT COMPARISONS**

Stepping back from the descriptive summaries, one of the major features across all of the data is the degree of variation across the sites. This is represented by high standard deviations and high ranges across many of the key questions, control, and outcome variables (see Tables 9.1 and 9.2). The two key predictor variables in the study had to do with the role of framing and structure in shaping the performance of incumbent response. The next two sections look at the initial comparisons of sites based on framing and structure, in that order.

Recall that the range of the framing variable (TCOM) went from the lowest site at -3.28 (high opportunity) to the highest 4.78 (high threat), with a mean at approximately zero (see Table 9.2). To make the comparison on framing, the data were divided at the mean of TCOM; everything below zero was categorized as opportunity framing and everything above zero was categorized as threat framing (see Section 9.4). Accordingly, there were 35 sites with managers who reported opportunity framing and 37 sites with managers who reported threat framing. The sites whose managers reported opportunity framing averaged higher innovation scores (36.4 percent new content) vs. sites whose managers reported threat framing (27.0 percent new content). Opportunity framed sites also had considerably higher web traffic on average with over 10 million unique page impressions per month vs. 7.3 million for threat framed sites. However, it is also important to note that opportunity framed sites had higher print circulation levels, on average 260,150 vs. just 205,262 for threat framed sites. These sites also invested more

in online employees on average with 23 employees vs. 19 in threat-framed sites. Both groups had average launch dates at approximately the same time in 1996. These data are summarized in Table 9.6.

**Table 9.6: Opportunity vs. Threat Descriptive Comparison**

<b>Variable</b>	<b>Opportunity Framed Site Mean</b>	<b>Threat Framed Site Mean</b>	<b>Total Population Mean</b>
Total number	35	37	72
Innovation (INNO)	36.4	27.0	31.4
Page Impressions (IMPRESS)	10,020,000	7,251,582	8,747,889
Circulation (CIRC)	260,150	205,262	231,943
Number of Online Employees (FTE)	23.4	19.2	21.25
Launch date (LAUNCH)	1996 <sup>178</sup>	1996	1996

While descriptive statistics are useful in comparing averages, they cannot provide clear insight into relationship and direction in complex data. Whether the differences in the two performance variables are the result of the differences in framing is not a conclusion that can yet be drawn. These differences could also be caused by an associated difference in circulation size or employee investment as noted by the higher values of both of those variables in opportunity-framed sites.

### 9.3 SEPARATED VS. INTEGRATED COMPARISONS

Understanding the role of structure (ICOM) was the other key question under consideration. Recall that the range ICOM went from the lowest site at  $-3.81$  (highly separate) to the highest  $2.84$  (highly integrated), with a mean at approximately zero (see Table 9.2). To make the comparison on structure, the data were divided at the mean of ICOM; everything below zero was categorized as separate structure and everything above zero was categorized as integrated structure (see Section 9.5). Accordingly, there were 33 separated sites and 39 integrated sites. The separated sites averaged higher innovation scores (44.0 percent new content) vs. integrated sites (21.0 percent new content). Separated sites also had considerably higher web traffic on average, with over 12.3 million unique page impressions per month vs. 6.2 million for integrated sites. However, just as with the framing variables, there were other important variables that might also influence the variance in performance. Separated sites had higher print circulation levels on average, at 256,176 vs. 214,075 for framed sites. These sites also invested more in online employees on average with 28 employees vs. 16 in integrated sites. Both sites had average launch dates at approximately the same time in 1996. These data are summarized in Table 9.7 below.

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<sup>178</sup> Note that this was based on a pull-down menu that provided responses from 1992-2000. The actual years were stated here for interpretive purposes.

**Table 9.7: Separated vs. Integrated Descriptive Comparison**

<b>Variable</b>	<b>Separated Site Mean</b>	<b>Integrated Site Mean</b>	<b>Total Population Mean</b>
Total number	32	40	72
Innovation (INNO)	44.0	21.5	31.4
Page Impressions (IMPRESS)	12,288,538	6,144,471	8,747,889
Circulation (CIRC)	256,176	212,558	231,943
Number of Online Employees (FTE)	28.1	15.8	21.3
Launch date (LAUNCH)	1996 <sup>179</sup>	1996	1996
Threat Framing (TCOM)	-0.86	0.580	0.0

Finally, it is useful to look at differences in framing across integrated and separated sites. Recall that the range of the framing variable (TCOM) across the entire response population went from the lowest site at  $-3.28$  (high opportunity) to the highest  $4.78$  (high threat), with a mean at approximately zero (see Table 9.2). However, there were notable differences between the separated and integrated sites. The mean for the separated sites was substantially lower ( $-0.86$ ) than the mean for the integrated sites ( $0.47$ )—recall that sites less than zero were categorized as opportunity framing and sites

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<sup>179</sup> Note that this was based on a pull-down menu that provided responses from 1992-2000. The actual years were stated here for interpretive purposes.

greater than zero as threat framing. There is some preliminary indication that structure and framing are associated. This will be examined more closely in the following chapter where we formally test the hypotheses.

Again, these data are useful summaries, but they cannot yet provide clear insight into relationship and direction in complex data. We cannot yet conclude that differences in performance are the results of differences in structure. These differences could also be caused by an associated difference in circulation size or employee investment as noted by the higher values of both of those variables in separated sites. We do know that the performance difference across the structure variables does appear to be larger than the performance difference across the framing variables.

#### **9.4 DESCRIPTIVE ANALYSIS CONCLUSIONS**

This chapter introduced several types of variables that will allow the analysis of the hypotheses presented in chapter 8. The two outcome variables were described: innovation (*INNO*) and market penetration (*IMPRES*). A number of control variables were also introduced, including print circulation (*CIRC*), the number of online employees (*FTE*), launch date (*LAUNCH*), local Internet penetration (*INET*), and ownership structure (*OWN*). Finally, we also reintroduced our predictor variables of framing (*TCOM*) and structure (*ICOM*), both components of several other variables as described in chapter 8. We then looked at descriptive summary comparisons along both of the



predictor variables sequentially. Opportunity framed sites appeared to have higher innovation and circulation levels than threat framed sites on average. Separated sites also had higher innovation and circulation levels than integrated sites on average. However in both cases, the over-performing category also had higher associated print circulation levels and more online employees. The descriptive statistics at this point only help us understand what the data looks like in aggregate. They do not yet allow us to conclude whether these tendencies are robust when controlling for the other variables or when considering both predictor variables simultaneously. Now that we understand the average tendencies in the data, we can begin to explore the complex relationships that do exist by using regression analysis. The following chapter will test the relationship of the predictor variables on the performance variables while controlling for the effects of circulation size, number of online employees, launch date, Internet penetration, and ownership structure.

## CHAPTER 10: TESTING HYPOTHESES

### 10.1 HYPOTHESIS 1: RELATIONSHIP BETWEEN FRAMING & STRUCTURE

Having described the data in some detail, we are now prepared to test the formal hypotheses from Chapter 8. The first hypothesis examines the correlation between structure and framing:

*H1: Managers in separated sites are more likely to engage in opportunity framing than managers in integrated sites.*

In testing Hypothesis 1, we do not use regression analysis, but rather a correlation test. This is because the field data implies that structure is a facilitating factor for framing, not a causal factor. Subsequent hypothesis testing uses regression analysis as the primary hypothesis testing mechanism.

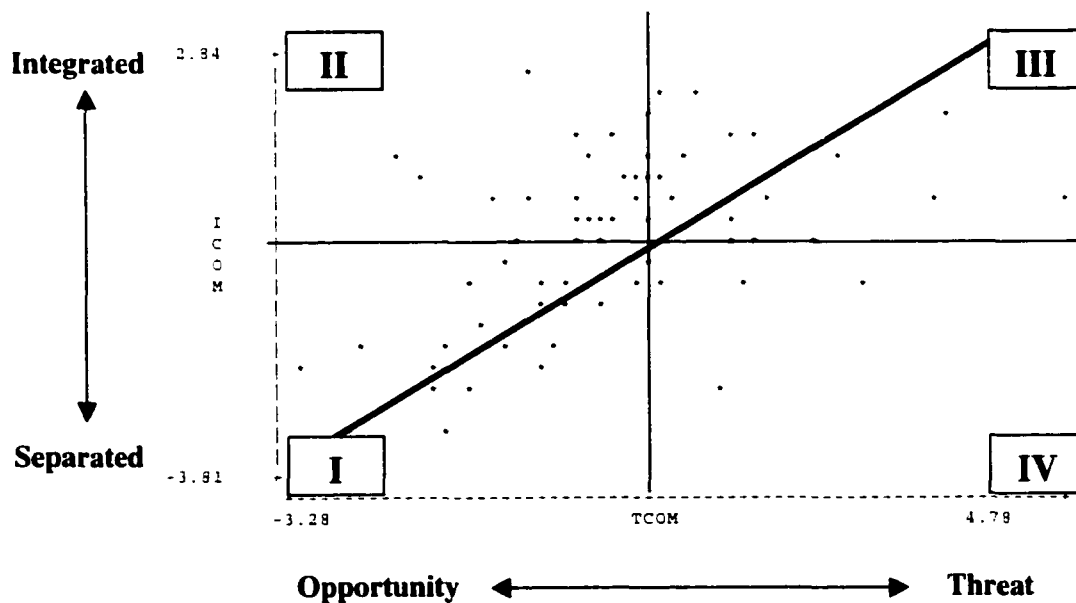
We start by running a simple correlation test. The correlation between the structure variable (ICOM) and the framing variable (TCOM) yields a co-efficient of 0.50 with a p-value less than 0.000. However, this only tests the simple relationship between the variables and does not consider the other complex relationships in the data. Accordingly, we also examine the partial correlation of structure and framing. This partials out the associated correlation of the other control variables--circulation size, online employees, launch date, local Internet penetration, and ownership structure. Again we find a significant correlation ( $p < 0.000$ ) and a correlation co-efficient of 0.45 (see Table 10.1).

**Table 10.1: Partial Correlation of Structure with Framing and Control Variables**

Variable	Correlation Co-efficient	Significance
Framing (TCOM)	0.450	0.000
Circulation (CIRC)	0.029	0.828
# Online Employees (FTE)	-0.369	0.004
Launch Date (LAUNCH)	0.019	0.889
Internet Penetration (INET)	-0.187	0.157
Ownership (OWN)	0.537	0.537

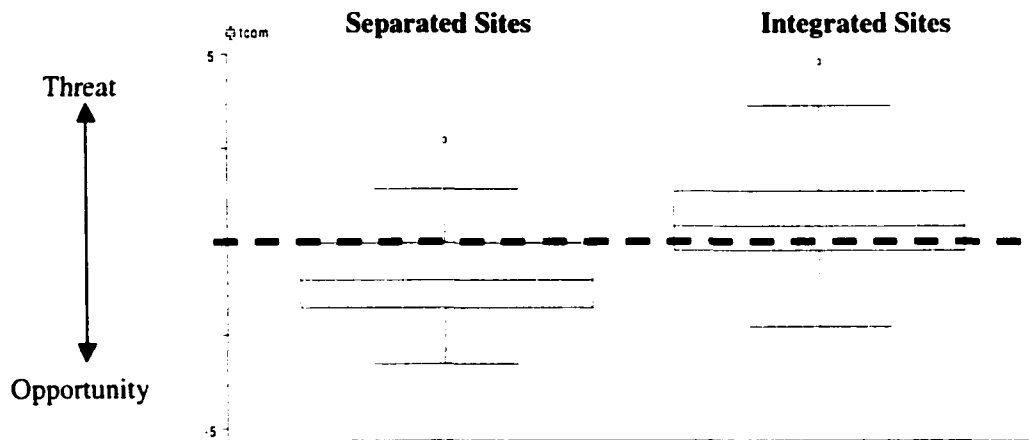
Thus, we can confirm Hypothesis #1 that integrated structure and threat framing are positively associated and significant. Again, we do not assume causality. Also, other findings emerge from an analysis of the correlation between structure and framing. To expand the analysis we plot the simple correlation (see Graph 10.1).

**Graph 10.1: Simple Correlation Plot of Structure and Framing**



Three implications emerge from the graph presented above. First is the visual confirmation of Hypothesis #1, that separate structure and opportunity framing are positively associated. However, we also note that there are data points in *all four quadrants of the graph*. Recall that in the eight primary field sites, organizations were either separated with opportunity framing (Quadrant I) or integrated with threat framing (Quadrant III). There are a noticeable number of integrated sites with opportunity framing (Quadrant II). This is not intuitive from the data presented in the clinical analysis. There are also several separated sites with threat framing (Quadrant IV).

We return to the descriptive comparisons. Even though separated site managers were more opportunity-oriented *on average*, there is still a notable amount of residual variation in the data. We can describe the data using a box plot. We draw a dashed line at  $TCOM = 0$ . Everything above the line is threat framing and everything below the line is opportunity framing (see Graph 10.2). This provides a visual confirmation that separated site managers tend to be opportunity framing and integrated site managers tend to be threat framing—more than 75 percent of separated site managers were opportunity framing and nearly 75 percent of integrated site managers were threat framing. However, we also observe that there are some separated site managers with higher threat framing than the average integrated site manager. Similarly, there are some integrated site managers with higher opportunity framing than the average separated site manager (see Graph 10.2).

**Graph 10.2: Box Plot of Framing Variable—Separated vs. Integrated Sites**

Why these differences? Chapter 11 will examine when management framing develops independent of structure by using additional clinical data. The immediate implication here is that even though there is a correlation between structure and framing, there is still some independent variation. In fact, the 0.45 partial correlation, though significant at the  $p < 0.000$  level, is not an overwhelmingly strong correlation coefficient. Thus, we also conclude that though these variables are related, the correlation is not so strong as to present fundamental violations associated with co-linearity (Afifi and Clark, 1996--Chapter 7, 9; Morrow-Howell, 1994).

## 10.2 HYPOTHESIS 2: FRAMING, STRUCTURE, AND INNOVATION

The next set of hypotheses relates to innovation. The fieldwork indicated that threat-induced action would lead to a lack of innovation--a tendency to rigidly replicate the product and processes of the core business. Thus, the measure of innovation we constructed is the percent of the site's content that was *not* replicated from the print

newspaper. Based on the field findings that separate sites with opportunity framing are more innovative than integrated sites with threat framing, a set of innovation hypotheses was presented for testing with the survey data:

*H2a: Newspaper websites whose managers perceive the new business as an opportunity will be more innovative than sites whose managers perceive the new business as a threat.*

*H2b: Newspaper websites that are structurally separated will be more innovative than sites that are structurally integrated.*

The constructs of framing and structure are tested as separate variables to isolate the independent effects of both. Though we note the existence of a correlation between the two predictor variables (as described by the field work and formally shown in Hypothesis #1), we continue to test them independently because the correlation co-efficient is not so strong as to create substantial problems with co-linearity (Afifi and Clark, 1996).

We first consider the effects of the control variables in predicting innovation. To fit a baseline model predicting innovation (INNO), we start by including circulation size (CIRC), number of online employees (FTE), site launch date (LAUNCH), and local Internet penetration (INET). This model is presented in Table 10.3 as model 1. The only variable that is significant is FTE ( $p < 0.01$ ). The adjusted  $R^2$  indicates that this explains less than 8 percent of the variation in innovation. We next include the control variable for corporate ownership in Model 2, which is not significant. In model 3, we introduce the framing variable. Here threat framing is shown to be negatively associated with innovation ( $p < 0.01$ ), controlling for circulation, employees, launch date, local Internet penetration, and ownership structure. This would suggest support for Hypothesis #2a.

The adjusted  $R^2$  indicates that this model explains nearly 18 percent of the variation in innovation. In model 4, we test the structure variable separately with the other control variables. Here integrated structure is shown to be negatively associated with innovation ( $p < 0.001$ ), controlling for circulation, employees, launch date, local Internet penetration, and ownership. This would suggest support for Hypothesis #2b. The adjusted  $R^2$  indicates that model 4 explains almost 31 percent of the variation in innovation. In model 5, we include both predictor variables simultaneously, recognizing that we are testing partially correlated variables. Despite this, both variables remain significant, but at different levels (see Table 10.2).<sup>180</sup> The framing variable is significant at  $p < 0.10$ , while the structure variable is significant at  $p < 0.01$ . Again this is further support for both hypotheses, though the evidence for the structure variable is stronger than the evidence for the framing variable. The adjusted  $R^2$  indicates that model 5 explains almost 37 percent of the variation in innovation. Note also that circulation and online employees are significant. In summary, there is evidence to support Hypothesis #2a and Hypothesis #2b, and we conclude that both management framing and organizational structure help predict innovation, though the evidence for structure is more robust (see Table 10.2).<sup>181</sup> In model 6, we tested for a possible interaction between the framing and structure variables and found no statistically significant interaction.

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<sup>180</sup> Note: We also tested for an interaction on the framing and structure variable, but it was not significant.

<sup>181</sup> Note that INNO, CIRC and FTE do not pass strict tests of normality. The final model was also fit using log linear transformations with skewness of zero for these three variables. The adjusted  $R^2$  and significance factors remained consistent with model 5.

**Table 10.2 Regression Analysis Predicting Innovation**

<b>Regression Models of Innovation</b>						
<b>Independent Variable</b>	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>	<b>Model 4</b>	<b>Model 5</b>	<b>Model 6</b>
<b>Circulation</b>	-0.00002	-0.00002	-0.00007 *	-.00005 ~	-0.00007 *	-0.00007 *
	-0.638	-0.692	-2.042	-1.820	-2.255	-2.282
<b># Online Employees</b>	0.741 **	0.769 **	0.709 **	0.453 ~	0.508 *	0.571 *
	2.749	2.857	2.828	1.866	2.105	2.335
<b>Site Launch Date</b>	0.129	0.245	4.261	2.886	4.200	3.832
	0.046	0.087	1.507	1.185	1.667	1.521
<b>Local Internet Penetration</b>	-0.538	-0.552	-0.539	-0.690	-0.735	-0.723
	-0.963	-0.991	-0.989	-1.378	-1.490	-1.473
<b>Public vs. Private Ownership</b>		7.570	1.494	5.461	4.470	2.887
		1.271	0.259	1.041	0.860	0.544
<b>Framing Variable (TCOM)</b>			-5.805 **		-3.410 ~	-3.864 ~
			-2.892		-1.693	-1.902
<b>Structure Variable (ICOM)</b>				-8.477 ***	-6.757 **	-5.149 *
				-4.199	-3.029	-2.030
<b>Interaction (TCOM*ICOM)</b>						1.538
						1.305
<b>Intercept</b>	43.298 ~	32.466	34.848	43.772 ~	43.694 ~	43.464 ~
	1.763	1.254	1.404	1.892	1.920	1.922
<b>R<sup>2</sup></b>	13.2%	15.3%	25.4%	37.2%	40.3%	42.2%
<b>Adjusted R<sup>2</sup></b>	7.7%	8.6%	17.5%	30.5%	32.7%	33.6%
<b>n=</b>	69	69	64	63	63	

~p<.10 \*p<.05 \*\*p<.01 \*\*\*p<.001

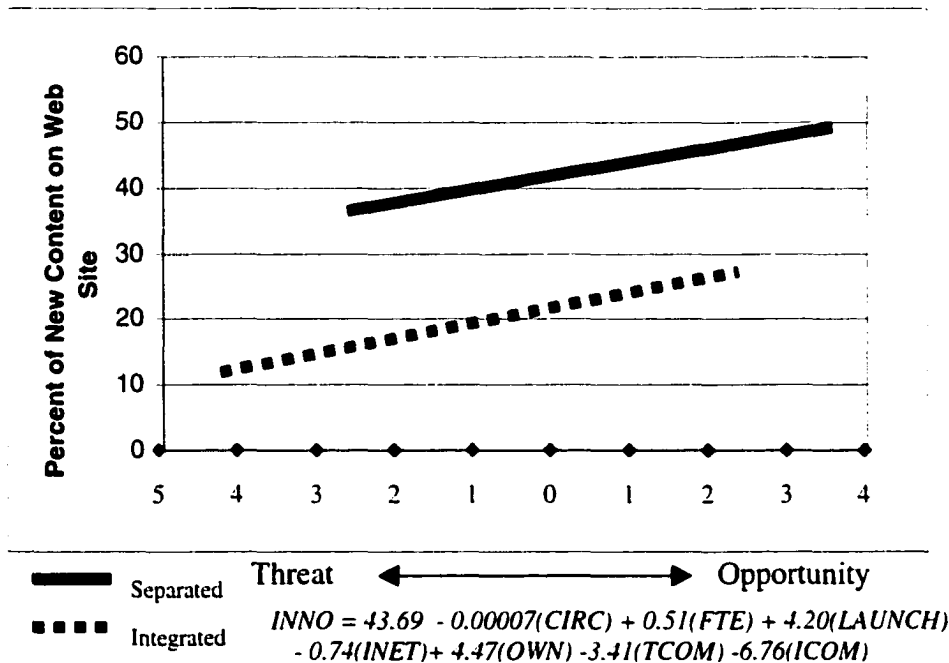


We interpret the final model using prototypical plots. Written formally, we use model 5, which includes all of the control variables. The model can be stated as:

$$INNO = 43.69 - 0.00007(CIRC) + 0.51(FTE) + 4.20(LAUNCH) - 0.74(INET) + 4.47(OWN) - 3.41(TCOM) - 6.76(ICOM)$$

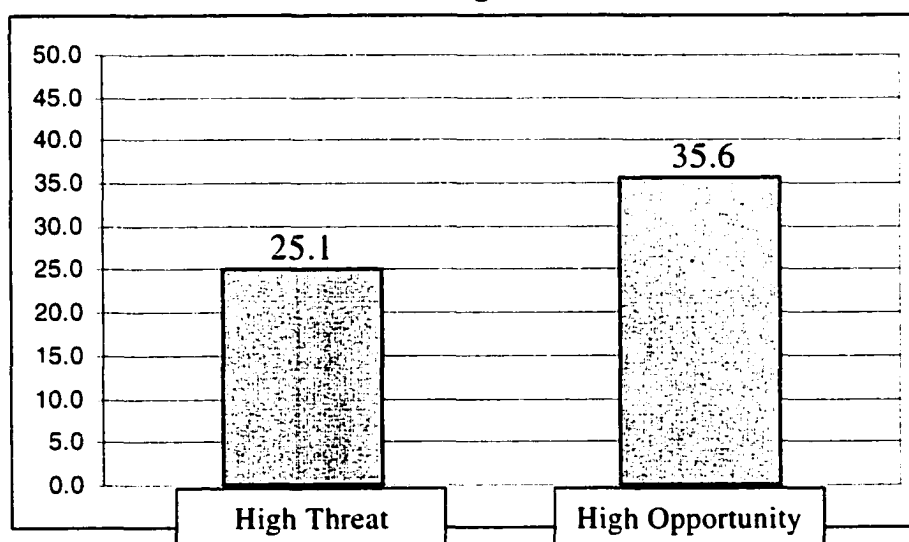
Since the underlying research question and hypotheses relate to the impact of framing and structure, we will set all other variables to their sample means. This allows us to plot the relationship of framing and structure on innovation, controlling for all other variables. We create two different outputs: one for separate structure and one for integrated structure. We do this by selecting points one standard deviation above and below the mean of both variables. The prototypical plots are then drawn to range using the points that are calculated from this analysis (see Graph 10.3 below or and Appendix 4a for detailed calculations).

**Graph 10.3: Relationship between Framing and Structure on Innovation**



Notice that the range for the framing variable is different across the integrated and separated sites. In both cases, the effect of opportunity framing is always positive. Also, separated sites are always more innovative than integrated sites. We can look at point comparisons to illustrate these differences further. For example, we can isolate the effect of framing by setting the structure variable to its mean and calculating differences in innovation. This allows us to compare sites where managers are highly threat framed to sites where managers are highly opportunity framed, controlling for all other variables. We use points one standard deviation above (high threat) and below (high opportunity) the mean of the framing variable. This allows us to show that even when controlling for all other variables, sites with managers who show high opportunity framing have 10.5 percentage points more new content than sites with managers who show high threat framing (see Table 10.3 for comparisons and Appendix 4a for detailed calculations).

**Table 10.3: Comparisons on High Threat vs. High Opportunity Framed Sites Controlling for Structure**

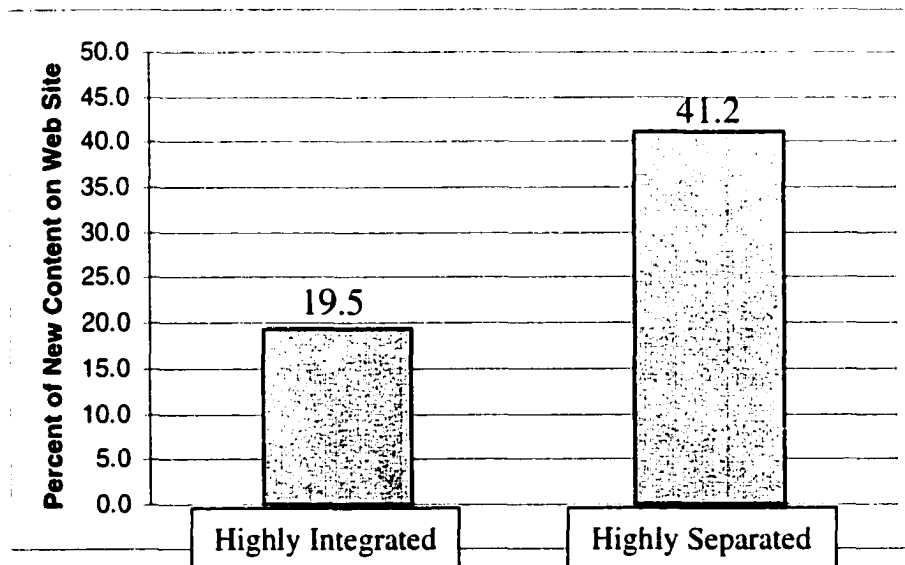


\*Based on model 5,  $INNO = 43.69 - 0.00007(CIRC) + 0.51(FTE) + 4.20(LAUNCH) - 0.74(INET) + 4.47(OWN) - 3.41(TCOM) - 6.76(ICOM)$

\*\*The structure and control variables are each set to their respective means. The framing variable is set to one standard deviation above (high threat) and one standard deviation below (high opportunity) the framing variable mean (TCOM).

We can conduct a very similar analysis for the effect of structure by setting the framing variable to its mean. This allows us to isolate and compare sites that are highly separated to sites that are highly integrated, controlling for all other variables. Again, we use points one standard deviation above (highly integrated) and one standard deviation below (highly separated) the mean of the structure variable. We conclude that highly separated sites average nearly 22 percentage points more new content than highly integrated sites (see Table 10.4 for comparisons and Appendix 4b for detailed calculations).

**Table 10.4: Comparisons on Highly Integrated vs. Highly Separated Sites Controlling for Framing**

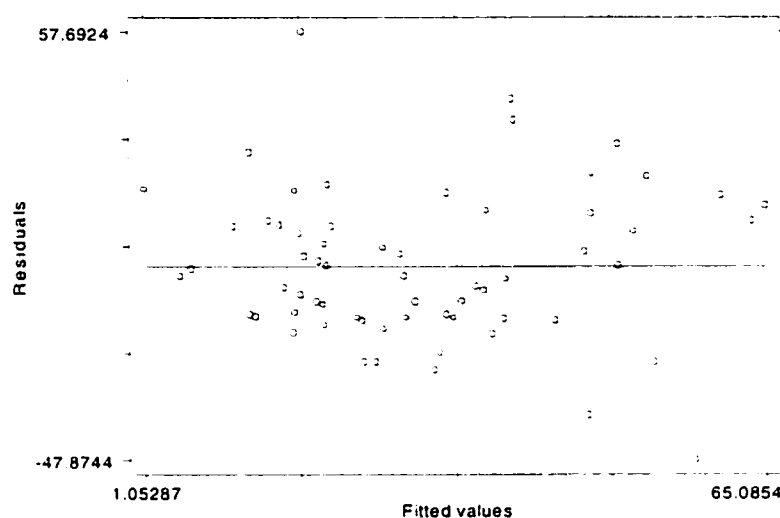


\*Based on model 5,  $INNO = 43.69 - 0.00007(CIRC) + 0.51(FTE) + 4.20(LAUNCH) - 0.74(INET) + 4.47(OWN) - 3.41(TCOM) - 6.76(ICOM)$

\*\*The framing and control variables are each set to their respective means. The structure variable is set one standard deviation above (highly integrated) and one standard deviation below (highly separated) the structure variable mean (ICOM)

Finally, we check the model for any possible violations of the key least-squares assumptions. We look specifically at general residual patterns and heteroscedasticity (increasing or decreasing variation in residuals). The plotted graph does not reveal any visible curvature or pattern in the residuals (see Graph 10.4).

**Graph 10.4: Plot of Residuals vs. Fitted Values for Final Model**



We can also test this more formally using *ovtest* which tests for patterns in the variables by looking at omitted variables and *hstest* which tests for heteroscedasticity. The omitted variable test shows that there are no abnormal patterns in the data. The test for heteroscedasticity shows a slight increase in variation in the data, but not at a level that is problematic. We conclude that model 5 is a well-fit model and that opportunity framing and separate structure are both positively associated with innovation.

### 10.3 HYPOTHESIS 3: FRAMING, STRUCTURE, & MARKET PENETRATION

Hypothesis #3a and #3b examine market penetration. The measure of market penetration is the number of unique page impressions in the month of June 2000 as reported from the survey response. The field data suggest that separate sites with opportunity framing gain broader acceptance with the emerging market. Accordingly, a set of innovation hypotheses was presented for testing with the survey data:

*H3a: Newspaper websites whose managers perceive the new business as an opportunity will have higher market penetration than sites whose managers perceive the new business as a threat.*

*H3b: Newspaper websites that are structurally separated will have higher market penetration than sites that are structurally integrated.*

The constructs of framing and structure are tested as separate variables to isolate the independent effects of both. Before we test the predictor variables, we must also consider other variables that might also influence the outcome for market penetration. Thus, our analysis of Hypothesis #3a and #3b introduces the control variables in a baseline model before including the predictor variables for hypothesis testing. To fit a baseline model predicting page impressions (IMPRES), we start by including circulation size (CIRC), number of online employees (FTE), site launch date (LAUNCH), and local Internet penetration (INET). This model is presented in Table 10.4 as model 1. Both CIRC and FTE are significant. The adjusted  $R^2$  indicates that this model explains over 57 percent of the variation in market penetration. We next include the control variable for corporate ownership in Model 2, which is not significant. In model 3, we introduce the framing

variable, which is not significant. This indicates an initial lack of evidence for Hypothesis #3a. We then test the structure variable separately with the other control variables in model 4. Integrated structure is shown to be significant and negatively associated with market penetration ( $p < 0.001$ ), controlling for circulation, employees, launch date, local Internet penetration, and ownership. This would suggest initial support for Hypothesis #3b. The adjusted  $R^2$  indicates that model 4 explains almost 72 percent of the variation (adjusted  $R^2$ ) in market penetration. In model 5, we include both predictor variables simultaneously. Here ICOM loses some significance (see Table 10.4). Accordingly, we look at the potential for an interaction between framing and structure. When we fit this in model 6, we see that the interaction is significant ( $p < 0.05$ ) and this final model explains almost 75 percent of the variation (adjusted  $R^2$ ) in market penetration. Circulation size and online employees are also significant. However, despite the significance of the interaction, neither of the main effects is significant. To interpret this we must look more closely at the differences between separated and integrated sites.<sup>182</sup>

The interaction indicates that the marginal effect of framing is different depending on structure. We first state model 6, which includes all of the control variables, the predictor variables, and the interaction term:

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<sup>182</sup> Note that IMPRES, CIRC and FTE do not pass strict tests of normality. The final model was also fit using log linear transformations with skewness of zero for these three variables. The adjusted  $R^2$  and significance factors remained consistent with model 6. Further, regression diagnostics for residual patterns showed no model violations for the un-transformed final model.

$$\begin{aligned} IMPRES = & -7,081,102 + 26.51(CIRC) + 156,861(FTE) + 622,171(LAUNCH) + \\ & 34,373(INET) + 714,652(OWN) - 591,132(TCOM) - 216,199(ICOM) \\ & + 545,641(TCOM*ICOM) \end{aligned}$$

To make comparisons on structure and framing, we set all control variables to their sample means. This allows us to plot the relationship of framing and structure on innovation, controlling for all other variables. We create two different outputs using prototypical plots: one for separate structure and one for integrated structure. We do this by selecting points one standard deviation above and below the mean of both variables. The data are then plotted to their respective variable ranges (see Graph 10.5 below and Appendix 4b for detailed calculations).

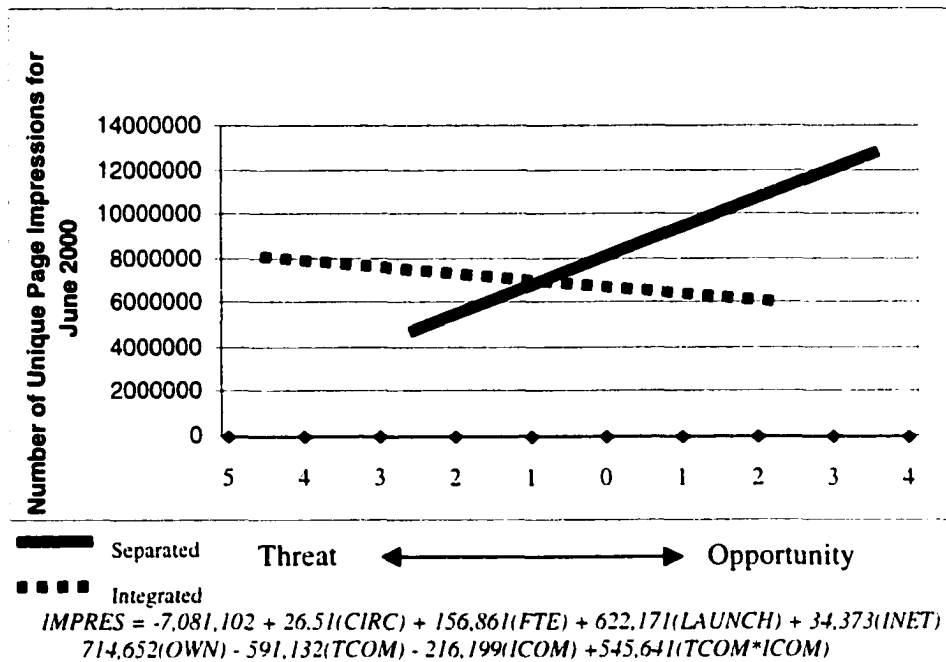
**Table 10.5 Regression Analysis Predicting Market Penetration**

<b>Regression Models of Market Penetration</b>						
<b>Independent Variable</b>	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>	<b>Model 4</b>	<b>Model 5</b>	<b>Model 6</b>
<b>Circulation</b>	27.657 ***	27.460 ***	26.827 ***	24.976 ***	26.583 ***	26.508 ***
	4.039	4.056	3.943	4.253	4.429	4.656
<b># of Online Employees</b>	186736 **	193365 ***	152522 **	145939 **	138089 **	156861 **
	3.366	3.515	2.931	2.813	2.782	3.289
<b>Site Launch Date</b>	214968	209715	748560	493451	712199	622171
	0.366	0.361	1.261	0.960	1.360	1.249
<b>Local Internet Penetration</b>	-23909	-19588	53962	-35906	40702	34373
	-0.208	-0.173	0.479	-0.365	0.401	0.356
<b>Public vs. Private Ownership</b>		1887517	871546	1880033 ~	1406757	714652
		1.495	0.707	1.702	1.283	0.663
<b>Framing Variable (TCOM)</b>			-578078		-391027	-591372
			-1.364		-0.959	-1.496
<b>Structure Variable (ICOM)</b>				-1224532 **	-759632 ~	-216199
				-3.116	-1.704	-0.453
<b>Interaction (TCOM*ICOM)</b>						545641 *
						2.452
<b>Intercept</b>	-1633043	-4577494	-7782433	-3552886	-7534738	-7081102
	-0.321	-0.847	-1.478	-0.744	-1.558	-1.542
<b>R<sup>2</sup></b>	60.3%	62.0%	67.7%	72.6%	75.4%	78.4%
<b>Adjusted R<sup>2</sup></b>	57.3%	58.3%	63.6%	69.3%	71.6%	74.5%
<b>n=</b>	57	57	54	56	53	53

~p<.10 \*p<.05 \*\*p<.01 \*\*\*p<.001

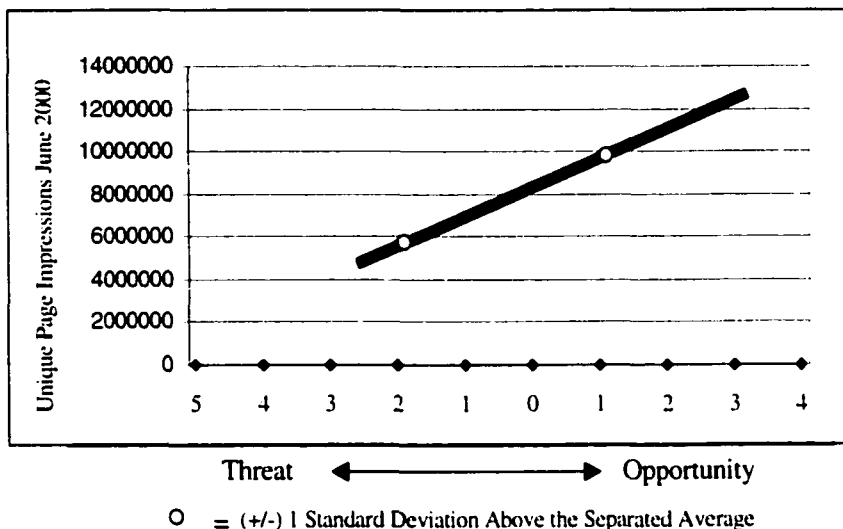


**Graph 10.5: Relationship between Framing and Structure on Innovation**

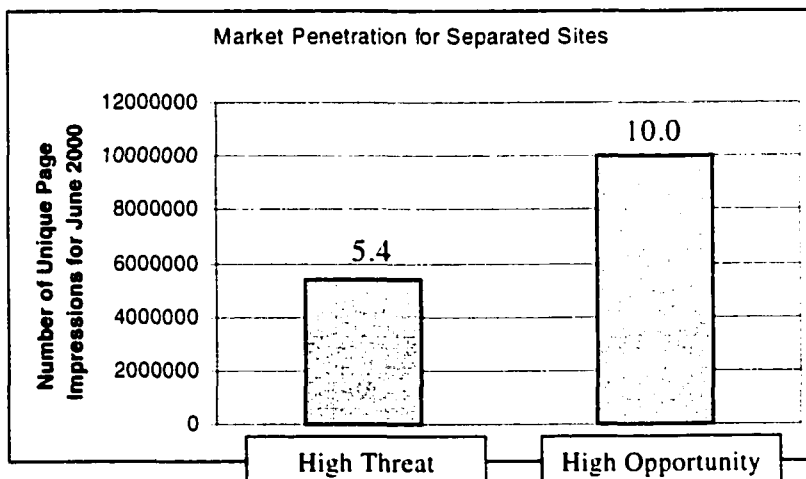


Again, the range for the framing variable is different across separated and integrated sites. The clear insight from this analysis is that the marginal effect of management framing on market penetration is different depending on structure. In the separated sites, the effect of opportunity framing is strongly positive. In integrated sites, the effect is slightly negative. We can also look at point comparisons to illustrate these differences. We first look at separated sites. Taking points one standard deviation above (high threat) and one standard deviation below (high opportunity) the framing variable mean, we can graph differences in market penetration. We conclude that in separated sites, the sites with managers who are highly opportunity framed average 4.6 million page impressions per month more than the sites with managers who are highly threat framed (see Graph 10.6 and Table 10.6 for comparisons and Appendix 4b for detailed calculations).

**Graph 10.6: Separated Sites: Threat vs. Opportunity Framing on Performance**



**Table 10.6: Separated Sites: Threat vs. Opportunity Framing on Performance**



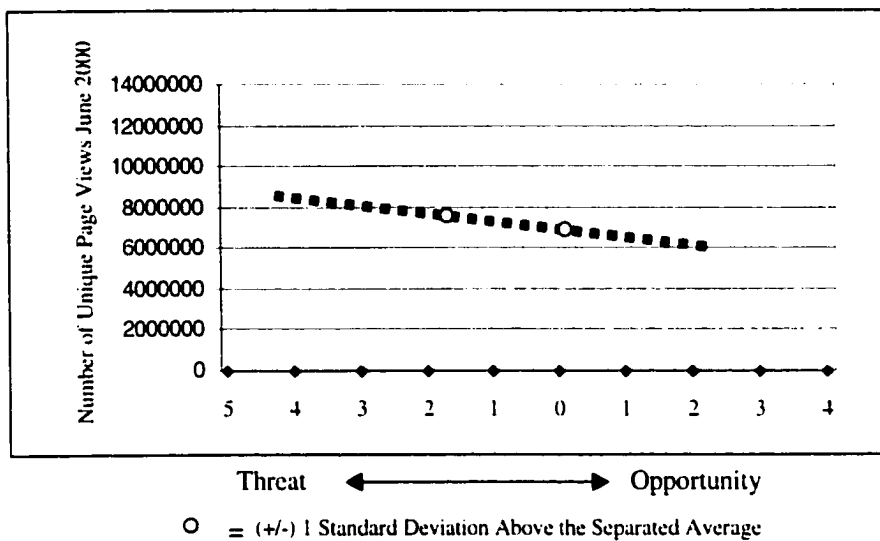
$$IMPRES = -7,081,102 + 26.51(CIRC) + 156,861(FTE) + 622,171(LAUNCH) + 34,373(INET) + 714,652(OWN) - 591,132(TCOM) - 216,199(ICOM) + 545,641(TCOM*ICOM)$$

The difference of 4.6 million page impressions per month is an 84 percent associated increase for high opportunity framed sites. In an industry where advertising is such an important source of revenue, the gap in sellable inventory is tremendous.

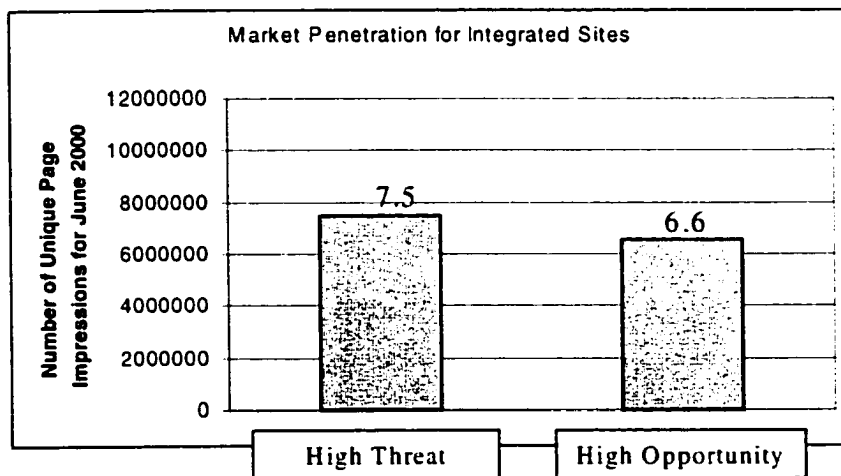
In the integrated sites, the effect of opportunity framing is different. For example, we can make a similar comparison of sites one standard deviation above (high threat) and

one standard deviation below (high opportunity) the framing variable mean. Integrated sites with highly threat-oriented managers will have 7.5 million page views per month on average. Integrated sites with highly opportunity-oriented managers will generate only 6.6 million page views per month (see Graph 10.7 and Table 10.7 for comparison and Appendix 4b for detailed calculations).

**Graph 10.7: Integrated Sites: Threat vs. Opportunity Framing on Performance**



**Table 10.7: Market Penetration Differences in Separated Sites: Threat vs. Opportunity Framing**

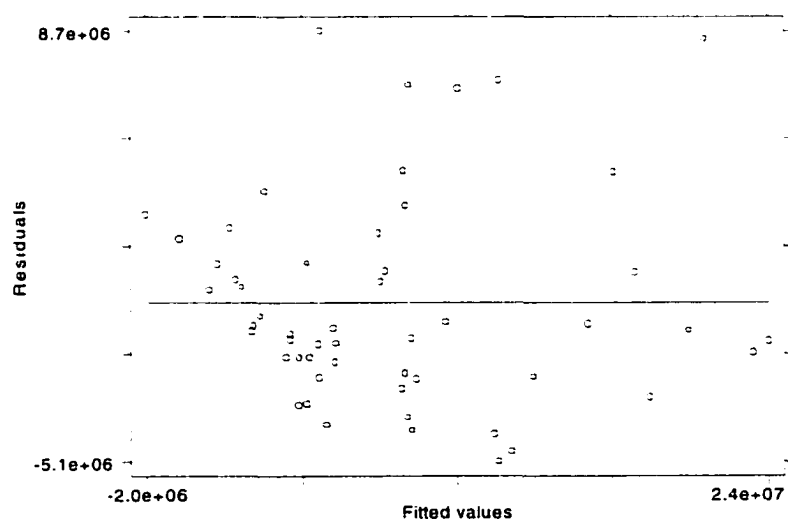


$$IMPRES = -7,081,102 + 26.51(CIRC) + 156,861(FTE) + 622,171(LAUNCH) + 34,373(INET) + 714,652(OWN) - 591,132(TCOM) - 216,199(ICOM) + 545,641(TCOM*ICOM)$$

In the integrated sites, the differences in market penetration for high threat vs. high opportunity are not as strong as the difference in separated sites. Sites with high threat oriented managers averaged 0.9 million unique impressions more than sites with high opportunity. That opportunity framing would be negatively associated with market penetration in integrated sites is not intuitive from the primary clinical data. This exception in the form of an interaction between framing and structure will be considered carefully in the following chapter.

Finally, we check the model for any possible violations of the key least-squares assumptions required for regression analysis. We will be looking specifically at general residual patterns and heteroscedasticity (increasing or decreasing variation in residuals). We first look at this visually, by examining a plot of the residuals from the final model. Examining the plotted graph does not reveal any visible curvature or pattern in the residuals (see Graph 10.8).

**Graph 10.8: Plot of Residuals vs. Fitted Values**



However, we can also test this more formally using *ovtest* which tests for patterns in the variables by looking at omitted variables and *hstest* which tests for heteroscedasticity. The omitted variable test shows that there are no abnormal patterns in the data. The test for heteroscedasticity shows there is a slight increase in variation in the data, but not at a level that is problematic. We conclude that model 6 is a well-fit model in predicting market penetration.

#### **10.4 HYPOTHESIS TESTING CONCLUSIONS**

In this chapter we formally tested three sets of hypotheses. Hypothesis #1 predicted that framing and structure are correlated. Stated specifically, separate structure is positively associated with opportunity framing and integrated structure is positively associated with threat framing. Both simple and partial correlation tests confirmed Hypothesis #1. However, we also showed that there was still some notable variation in the data: some separated site managers showed threat framing and some integrated site managers showed opportunity framing. Understanding why and when these variables move independently will be examined in next chapter.

Hypothesis #2a and #2b related to innovation. Innovation was measured as the percent of the website not replicated directly from the print newspaper. Hypothesis #2a predicted sites with opportunity framed managers to have higher innovation levels than sites with threat-framed managers. Hypothesis #2b predicted separated sites to have higher innovation levels than integrated sites. We found evidence confirming both.

Using regression analysis, we fit a model controlling for the circulation size, number of online employees, launch date, local Internet penetration, and ownership structure. Having controlled for those variables, the framing variable was shown to be significant at  $p < 0.10$  and the structure variable at  $p < 0.01$ . Though the evidence for Hypothesis #2b was more robust, we accepted the evidence for the framing variable given the challenges of measuring an attribution term as complex as threat and opportunity framing. We concluded that the impact of opportunity framing is positive and significant even when we control for the positive effects of structure. Thus, opportunity framed sites are more innovative on average, controlling for *all* other variable effects.

Hypothesis #3a and #3b related to market penetration. Market penetration was measured as the number of unique page impressions per month. Hypothesis #3a predicted that sites with opportunity-framed managers would have higher market penetration than sites with threat-framed managers. Hypothesis #3b predicted separated sites would have higher market penetration than integrated sites. We found that the result actually depends on an interaction between framing and structure. In separated sites, the effect of opportunity framing was strongly positive on average. In integrated sites, the effect of opportunity framing was slightly negative on average. Thus, the impact of opportunity framing depended on structure.

Considering the data from the primary field analysis, the statistical findings appear robust. We have captured a complex organizational phenomenon, measured it with a notable level of reliability, and shown its incidence to be fairly robust across a large population of organizations. Managers that are more focused on the threat

implications of the new business are more likely to replicate their core product. This rigid response to threat induced action is consistent with threat rigidity theory as described by Dutton and Jackson (1987). It also provides broader evidence that the same framing and motivation required to build impetus and commitment in resource allocation for a disruptive technology (Bower, 1970; Christensen and Bower, 1996) create a set of rigidities in the actual management of the new product. Separate structure creates powerful mechanisms to help relax the tendency to replicate the core business. However, beyond structure, framing also matters. Even when controlling for structure and other market variables, opportunity framed sites were more innovative than threat framed sites on average. The following chapter examines in more detail how and when management framing moves independent of organizational structure. Specifically, we ask why some separated sites remain threat focused and why some integrated sites become opportunity focused. One final question we will also consider is the interaction of framing and structure on market penetration. Specifically, why the positive effects of framing on innovation are only seen in separated sites.

## CHAPTER 11: UNDERSTANDING THE EXCEPTIONS

### 11.1 WHEN FRAMING AND STRUCTURE MOVE INDEPENDENTLY

The general tendency in the data shows that managers in separated sites engage more in opportunity framing than managers in integrated sites (Hypothesis #1). The theoretical explanation for this comes from our analysis of the clinical data. Three activities that result from threat framing are 1) a *willingness to commit substantial resources* (Kahneman and Tversky; 1984; Staw and Ross, 1989; Mittal and Ross, 1998), 2) *contraction of authority* (Staw, Sandelands, and Dutton, 1981; Herman, 1963), and 3) *focus on existing resources* (Mittal and Ross, 1998, Hartman and Nelson, 1996). Separating a new business from the parent organization can structurally help reduce the effects of some of these rigidity-producing activities. For example, separating structure can give the new business the autonomy to act independently from the desire for functional managers in the core organization to assume authority over the functional responsibilities of the new venture. Recall that the president of *The Expositor A* website explained that “because [the print] organization was so worried about defending the print classifieds business, that group held onto the online business.”<sup>183</sup> The tendency to want to control the new business in the face of threat prevents experimentation and innovation in response. Threat-induced response causes managers to focus on their existing resources and not on the new and different features of the emerging venture. Separating

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<sup>183</sup> Interview, The Original President of *The Expositor A*, (5/2/00).



the organization can help free the new venture from obligations and concerns for the existing resource base. Again, the online president of The Beacon Company's new media division described, "Now that we are separate, we *own the opportunity* in a way we never did when we were still in the newspaper [italics added]."<sup>184</sup>

The statistical data showed that the theoretical argument and clinical case examples could be validated with some rigor in a larger sample of organizations. And yet, there are some cases where framing and structure move independently. The incidence of these exceptions was described in the previous chapter. Why do some managers fail to frame the Internet as an opportunity even though they appear to have the stated structural benefits of being separated? Similarly, why do other managers, despite the structural pressures associated with being integrated, manage to frame the Internet as an opportunity?

The answer to the first question appears to be related to the role of the integrator in shaping the way other managers think about their responsibilities. Recall from the clinical analysis that separated sites had managers who framed the Internet as an opportunity. In these cases, there was also an integrator who managed the needs of the new organization and the pressures of the core organization. If this individual understood the potential opportunity of the new business, he could encourage that thinking to develop and grow in the new venture, while keeping pressure on the core organization to fund and commit resources. Thus, the effective integrator emphasizes opportunity for

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<sup>184</sup> Interview, New Head of New Media, The Beacon Company, (6/19/00).

growth (Dutton, 1992) to the new venture and the threat elements of cannibalization and potential loss (Mittal and Ross, 1998) to the core organization. Recall the statement of the director of new media at *The Beacon A*, “Yeah, I didn't focus people on the threat, especially those managing the new business. Where I did emphasize the threat was in working with the print folks to get them off their butts and in arguing for resources.”<sup>185</sup>

The integrator also played an important role in signaling to the new organization its ability to make independent decisions without concern for the core business. At the Press Company, the integrator role was filled by both the CEO of the print organization and the head of the Internet organization. The head of sales described her interaction with the CEO: “He told us, ‘You really own the digital rights, so free yourself from any chains that bind you from the newspaper--shake them loose.’”<sup>186</sup> The chairman at The Beacon Company also described this: “I think that if the people in the Internet business don't feel that there are any restrictions on basically what they can do, that they're not going to be held back, then we're going to have a better business. They can take the best of the newspaper, but they'll have to pay for it. And they'll chip away at the newspaper. The newspaper can't do anything about it.”<sup>187</sup>

Note that the integrator creates autonomy and context, but does not dictate or drive strategy. Rather, he creates an environment where strategy can develop

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<sup>185</sup> Interview, Publisher and Original Head of New Media, The Beacon Company, (3/14/00).

<sup>186</sup> Interview, The Head of Sales, The Press Company Internet Group, (4/3/00).

<sup>187</sup> Interview, Chairman and CEO, The Beacon Company, (3/14/00)

autonomously in an emergent process (Mitzberg and Waters, 1985; Burgelman, 1983). Because several key individuals often played the role of integrating between the two organizations, there was sometimes subdivision of role responsibility. For example, the more senior individual often provided the venture credibility and protection, while another manager focused on helping the new venture see the potential of what could be done.

Variation in the commitment and perspective of the integrator helps explain some of the variation in framing within the separated site category. Where organizations lacked this integrating function, we might expect a decreased ability for the venture management to frame the Internet as an opportunity, despite the structural benefits of being separate. Since the primary field sites did not provide an example of this type of framing/structure exception, we examined the statistical data for cases where separated sites continued to have strong threat framing. Follow-on interviews were then conducted with one firm where this pattern was common. We will call this firm The Union Company.

There were four sites owned by The Union Company in the survey data. These sites were associated with large metro newspapers, had been given high numbers of online employees, and were separated from their newspapers (see Table 11.1). However, the average innovation score for The Union sites was only 21.3 vs. 44.0 for the other separated sites. This lower score comes despite higher circulation and employee investment levels (see Table 11.1). Part of the explanation is that The Union sites were not as separated as some in their category (-0.922 vs. -1.48). Nevertheless, The Union

sites were even less innovative than the average integrated sites. The feature that stands out across the four sites is that, despite being separate, the managers of these sites were still extremely threat-oriented. In fact, The Union managers perceived a bigger threat to their core organizations than did the average *integrated* site (see Table 11.1).

**Table 11.1 Comparing *The Union Sites* to Other Sites**

Comparison Category	The Union Sites Average	Separated Average	Integrated Average
Circulation	259,695	256,156	212,558
Number of Employees	33.4	28.1	15.8
Structure	-0.922	-1.48	1.22
<b>Innovation</b>	<b>21.3</b>	<b>44.0</b>	<b>21.5</b>
<b>Framing</b>	<b>0.737</b>	<b>-0.859</b>	<b>0.580</b>

In conducting further interviews and observations at The Union Company, we discovered that the President of Union Interactive had played a very different role than the integrators at the Beacon Company or the Press Company. True, he was a person with high credibility. Prior to assuming the Internet responsibility, he had been Vice President of Strategy for the company and had run or managed operations in two key newspaper markets. However, unlike the integrators at the two companies in the primary field research, this manager was very much focused and consumed with the negative implications for the Internet on the core print markets. He commissioned multiple studies on cannibalization trends and readership overlap, including quarterly comparisons for changes. His analysis and concerns were shared through group-wide e-mail to each online general manager and their local print publisher counterparts. We received several strategic planning documents from the company, all of which included large sections

discussing ways to “defend the core newspaper franchise.”<sup>188</sup> Considering whether to use a local city name for each of the companies sites vs. the local newspaper names, the president of Union Interactive described his concern: “Our local papers have strong local brands. Our brands mean something God damn it! We don’t want to create something that might hurt that brand, but something that will protect it.”<sup>189</sup> And unlike the Beacon and the Press company sites, the strategy development process was much more deliberate (Mitzberg and Waters, 1985). As we examined several e-mails to the online general managers, there was much more of a stated company-wide strategy on issues such as branding, how to work with the newspaper, technology strategy, etc. Rather than allowing the local market managers to “figure it out,” and avoiding “mak[ing] decisions for [them],”<sup>190</sup> Union corporate management was much more dictating in how it allowed strategy to develop locally. Thus, the fears and concerns so active in the core organization actually served to perpetuate threat framing, rather than de-couple it from the core organization, due to the dominance of that framing in a person who could have protected the new organization. Though only a single case, the absence of a true integrator in the frame de-coupling process likely explains why some sites, even when separated, might not capture the benefits of relaxing authority (Staw, Sandelands, and Dutton, 1981; Herman, 1963) and releasing obligation to existing resources (Mittal and

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<sup>188</sup> Archival document, “UI Update--1999,” by President of Union Interactive.

<sup>189</sup> Interview, President of Union Interactive, (2/05/01).

<sup>190</sup> Interview, The Head of Sales, The Press Company Internet Group, (4/3/00)

Ross, 1998; Stevenson and Jarillo, 1990) that otherwise might accompany structural separation.

There were also integrated sites whose managers were able to view the Internet as an opportunity. Why were these managers able to perceive an opportunity in an organization that was likely to contract its functional authority around the new business and over-emphasize the need to defend an existing set of resources? We looked at some of these sites directly and noticed one common tendency across each of their online managers--outside work experience. We then fit several models predicting framing (see Table 11.2). Two things stand out from the analysis. First, the ability to change framing seems to take time. Even when we controlled for structure, launch date was a significant predictor of framing (see Model 1 and 2). Second, when we then controlled for launch date and structure, managers with greater outside experience saw the Internet more as an opportunity than managers with less outside experience. Thus, there were managers even in integrated sites who had opportunity orientations based largely on their experience outside of the context of the newspaper business.

We identified two of these managers and conducted interviews in an effort to understand why they viewed the Internet as an opportunity. In both cases, the managers were hired to launch the new business. One came from another industry all together. The other was hired from within the company, but had previously been assigned to work on corporate projects and new business development. He had also spent time outside of the newspaper business. Because both had less of a historical and emotional attachment to the local print business, and were hired from outside specifically for online,

**Table 11.2 Regression Analysis Predicting Framing (TCOM)**

<b>Regression Models for Framing Outcome</b>			
<b>Independent Variable</b>	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>
<b>Circulation</b>	0.0000005 *	0.0000005 *	0.0000005 *
	-2.424	-2.222	-2.516
<b># of Online Employees</b>	-0.006	0.0164	0.023
	-0.340	1.040	0.154
<b>Site Launch Date</b>	0.495 **	0.380 *	0.310 ~
	2.884	2.400	1.975
<b>Local Internet Penetration</b>	-0.039	-0.010	-0.026
	-1.133	-0.306	-0.800
<b>Public vs. Private Ownership</b>	-0.234	-0.261	-.275
	-0.628	-0.769	-0.835
<b>Structure Variable (ICOM)</b>		0.499 ***	0.434 **
		3.805	3.312
<b>GM Outside Experience</b>			-0.067 *
			-2.138
<b>Intercept</b>	1.318	-0.213	1.043
	0.834	-0.143	0.669
<b>R<sup>2</sup></b>	22.0%	37.2%	42.0%
<b>Adjusted R<sup>2</sup></b>	15.4%	30.6%	34.7%
<b>n=</b>	65	64	64
<b>~p&lt;.10 *p&lt;.05 **p&lt;.01 ***p&lt;.001</b>			

they expressed a strong sense of opportunity about the potential for the Internet business. The manager at one company explained, "I initially felt like this was a great opportunity to become a part of what was really the future for content creation and distribution."<sup>191</sup> Thus, despite being subject to a set of structural pressures that might have reinforced a threat perspective, the outside experience of these managers allowed them some separation and an ability to see the new opportunity that existed outside of defending the print business.

One other conclusion from the analysis summarized in Table 11.2 is that context is very hard to change. Learning to turn away from the print business and focus on the new opportunity was a function of time, separate structure, and outside experience. That it would take so much to change the context is itself a compelling argument for the power of context in shaping the strategic process itself.

## **11.2 EXPLAINING THE INTERACTION ON MARKET PENETRATION**

What is also apparent from the interviews with these managers with outside experience is the disconnect between their individual perspectives and the organizations within which they were required to work. Though the outside hires saw the Internet as the future of local content, they worked within organizations where others worried how that future would impact the existing set of resources in the current business. When we compare organizations that are integrated with those that are separated, we see a very

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<sup>191</sup> Interview, Online General Manager, *The Local News* (3/19/01).

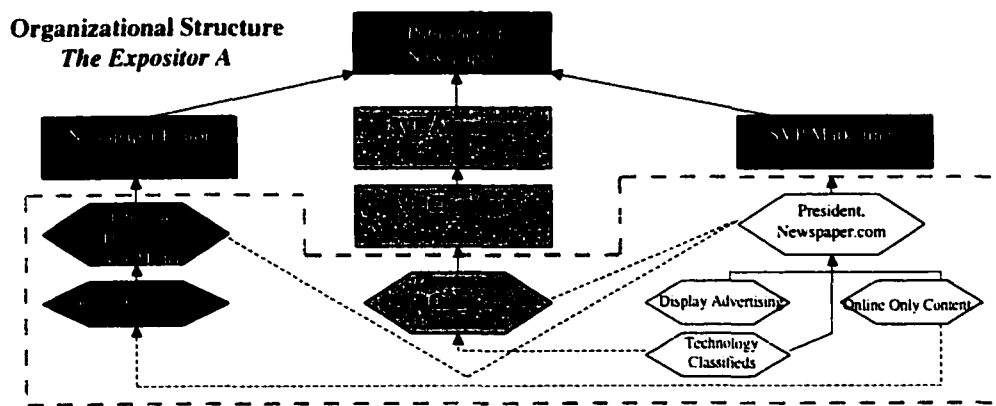


different set of work and accountability processes. For example, integrated sites often had online functional managers who reported to their print functional counterparts, e.g. the online sales manager reporting to the head of sales in the print organization, the online content editor reporting to the newspaper editor, etc. In more extreme cases, the same person might be responsible for both. A conversation with the president of the *The Expositor A* website reveals some of these challenges.

“Our organization operates in structural chaos. We basically have three different heads for online. We have an editorial director of new media who reports to the editor of the newspaper, a director of online classifieds who reports to the SVP of Advertising, and a president, myself, who reports to the SVP of Marketing for the newspaper--but I have two classified categories under me as well as display advertising. Each of us has different directions we are taking the brand and the business with different agendas because of where we sit and who we report to.”<sup>192</sup>

Figure 11.1 diagrams some of the dual reporting and organizational complexity associated with an integrated organization.

**Figure 11.1: Organizational Complexity in an Integrated Site**



<sup>192</sup> Interview, The Early President of *The Expositor A*, (5/2/00).

Notice the degree of reporting overlap and complexity associated with launching the new business. Further, each area was located in different parts of the building or in different buildings all together. Again, the president of *The Expositor A* website describes, “Functional reporting relationships are extremely time-consuming. It’s not just that the groups think like the newspaper. It takes a lot longer to make collective decisions and take collective strategic action.”<sup>193</sup>

This statement provides the basis for two important insights. First is the notion that the structural context is persistent. Even with a new challenge and new business, if the same structure exists, we are likely to see very little change in the initial response of managers. This finding is very consistent with the research of Noda and Bower (1996) that suggests that even with location and time changes, the structural context is extremely resilient in shaping the strategic context (see also Burgelman, 1983). In light of an unchanged structural context, managers could only view the Internet as it impacted their existing resources. Relative to the existing resources of the firm, the Internet was then clearly viewed as a threat. This made it very difficult to change the strategic context from anything other than defending the core business and its related resources. In fact, as the data in Section 11.1 suggests, even in separated sites, failure to bring in outside people was associated with sustained threat framing (see Table 11.2). Thus, to really change the strategic context required not only a change in structure, but also the inclusion of outside managers to help reframe the very motivation of the business itself.

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<sup>193</sup> Ibid.

The second insight from the statement of the president at *The Expositor A* relates to decision-making--recall the comment that "it takes a lot longer to make collective decisions and take collective strategic action." When a new venture is integrated into the core organization through a complex set of reporting and work relationships, decision-making can be cumbersome and unresponsive. This is especially true if there is a motivational disconnect between the integrated organization and the general manager in-charge of the new business. For example, even if the organizational response is rigid, it may be more effective at taking collective action when everyone working on that response is motivated by a shared sense of threat to the existing business. In integrated sites, an online general manager who is focused on the threat of the Internet may be more effective at marshalling response and focus than a general manager who views the business as a separate independent growth opportunity. The idea that conflict is likely to slow the decision-making process is compatible with a large body of research in the decision-making literature. For example, Mintzberg, Raisinghani, and Theoret (1976) found that disagreement and conflict created interruptions that slowed the decision-making process in the 25 major decisions they studied. In a study by Hickson, et al. (1986), opposition from powerful factions constrained decision-making efficiency.

This points to one possible explanation for the interaction of framing and structure on market penetration. Recall that in predicting innovation, there was no interaction between structure and framing--the effect of opportunity framing was always positive, whether a site was integrated or separated. However, when predicting market penetration, the effect of opportunity framing was different depending on structure. In

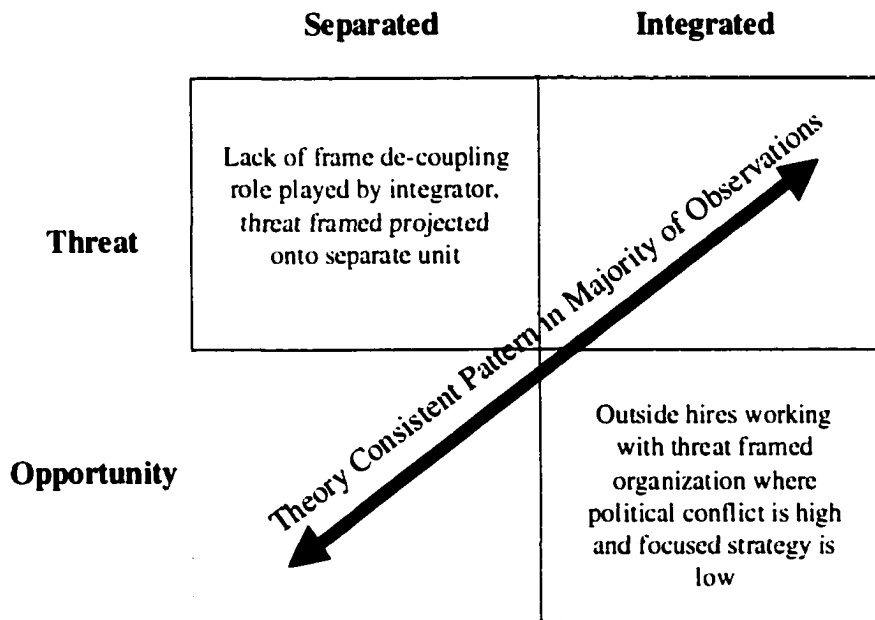
separated sites it was positive, while in integrated sites it was negative (see Graph 10.5). The impact of organizational politics may help explain this difference. For example, an integrated site with a threat motivated general manager may be more likely to generate organization response, focused promotion, and accelerated decision-making around a shared perception of purpose. The product itself may be rigid, but it is then given concerted, focused attention and promotion. The threat-framed manager in an integrated site never outperforms the opportunity-framed manager in a *separated* site on market penetration (see Graph 10.5). However, a threat framed manager in an integrated site does slightly outperform the opportunity framed manager in an *integrated* site, largely because the former can develop a coherent program of strategic action while the latter is likely to experience chaos. The fact that the managers who were more opportunity focused were also outsiders to the print organization may also suggest possible challenges in working with an integrated organization whose motivation to commit to the Internet may be very different. One manager described his frustration in working with the print organization to the point that his preference was to develop content independent of having to work with the print staff.<sup>194</sup> This likely helped the site be more innovative, but did little to build the collective vision about the overall business. It may well be that the market benefits of being innovative with new content can be outweighed by organizational conflict around message and promotion.

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<sup>194</sup> Interview, Online General Manager, *The Local News* (3/19/01).

The analysis of the exceptions explained in the above sections is summarized below. In the upper left-hand quadrant we see capture the first exception: separated sites with threat-oriented managers tended to lack an integrator and the context de-coupling process did not occur despite the structural separation. The lower right-hand quadrant presents the second exception. Here opportunity framed managers are hired to work within a threat-oriented organization and fail to navigate the political process of developing a concerted, focussed strategy.

**Figure 11.2: Analysis of Counter-hypothesized Observations**



**11.3 CONCLUSIONS FROM THE EXCEPTIONS**

It has been said that in examining the exception, we can better understand the rule. This chapter was an attempt to understand some of the exceptions in the statistical data. It is hoped that their elucidation has helped us better understand how structure and

framing actually interact to drive behavior and outcomes. Our statistical analysis revealed that separated sites usually have online general managers who frame the Internet as an opportunity. Similarly, integrated sites usually have online general managers that frame the Internet as a threat. And yet, in both cases there are exceptions. One explanation why separated sites can have threat-oriented managers relates to a gap in the role and function of the integrative manager. Whether the person running the venture can manage to exploit the opportunity appears strongly influenced by the integrator's role in facilitating the frame de-coupling process. This often implies protecting the new venture from the pressures and sentiments of the core organization. This can be done with structural isolation, but also by blocking the pressures in the core organization from the new venture. If the integrator fails to screen or block the desires of the core organization to assume authority around the existing resources, the new venture team is unlikely to capture benefits of frame de-coupling otherwise associated with structural separation. Further, if the integrator not only fails to protect, but actually projects threat framing directly into the new organization, it becomes very difficult for the venture management to avoid considering their actions as defense. We saw this happen at The Union Company, where the role played by the integrator was not to de-couple, but rather to project threat framing into the new business. This was very different than the roles played by the integrators at The Beacon Company and The Press Company.

In the case where integrated managers viewed the Internet as an opportunity, we have seen that these managers either came from outside the organization or had significant time away from the print business. Their ability to see an opportunity

stemmed largely out of their prior distance from the obligations associated with managing the existing print resources.

This discovery helped us understand why there might be an interaction between framing and structure on market performance. In predicting innovation, there was no interaction effect--the influence of opportunity framing was always positive whether the site was integrated or separated. However, when predicting market penetration, the effect of opportunity framing was positive in separated sites, but negative in integrated sites. The explanation suggested for this difference seems to be related to organizational politics. Opportunity framed managers in integrated sites face two notable challenges in working with the core organization. First, they are very often motivated by a different set of considerations than the core organization that is primarily focused on the threat of the Internet. The clashing motives can lead to conflict and an inability to make quick and collective decisions. Second, part of their ability to see the Internet as an opportunity stems from the fact that they have outside experience. Unfortunately, being an outsider may also contribute to an inability to gain collective agreement and action.

Finally, an important extension of our analysis is sharper insight into the role and persistence of the structural context and its impact on strategic context. Structural context appears incredibly resilient (Noda and Bower, 1996; Bower, 1970). Even in separated sites, failure to bring in outside people was associated with high threat orientation. If the structural context is left unchanged, managers can only view the Internet as it impacts the resources under their control. Relative to these existing resources, the new business is clearly seen as a threat. Thus, persistence of structural

context also limits a manager's ability to change the strategic context. Rather than focus on the independent opportunity, structural pressures drive the strategic context to emphasize defense.





**SECTION IV. SUMMARY AND CONCLUSIONS**

**CHAPTERS 12-REFERENCES**

**CHAPTER 12: CONCLUSIONS**

**APPENDICES**

**REFERENCES**



## CHAPTER 12: SUMMARY AND CONCLUSIONS

*"Over all, the newspaper industry's involvement with the Internet has been one where it had a lot to lose and it's been trying not to lose it, as opposed to starting from scratch and having a lot to win."*

Steve Yelvington, Manager of Site Development, Morris Communications<sup>195</sup>

This chapter will summarize the findings of the research and outline implications for both theory and practice. The discussion is divided into four sections: 1) summary of findings, 2) implications for the literature, 3) implications for future research, and 4) implications for management.

### 12.1 SUMMARY OF FINDINGS

The research identified a response phenomenon: absent threat, response to disruptive opportunities is inadequate; but with threat, the fully funded response is maladaptive. We have examined theories of resource allocation and threat rigidity to understand the phenomenon. In resource allocation, if managers in the definition process frame the disruptive venture as an opportunity, the new business appears inferior to other opportunities under consideration. Consequently, the business fails to receive impetus and organizational commitment (Bower, 1970; Bower and Christensen, 1996). Alternatively, if managers frame the disruptive business as a threat, impetus and

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<sup>195</sup> Steve Yelvington, qtd. in Barringer, F. (2001). "Rethinking Internet News As a Business Proposition." *The New York Times*, January 22, 2001, C:1.

commitment are forthcoming. However, this same threat-induced action creates rigidities that preclude change (Dutton and Jackson, 1987).

The newspaper industry was selected as a setting to conduct the research for two reasons. First, the issues around response to the Internet fit well with the research questions. Second, the number of newspaper companies allowed us to control for industry effects while still making comparisons across a large number of firms.

The research methodology employed a blend of detailed longitudinal process research with large sample survey analysis. The process research was conducted over the course of approximately 15 months. Several propositions were taken into the field for testing, but the analysis was also responsive to inductive discovery. The process data were then complemented with larger statistical analysis from a survey of the top 100 metro newspaper sites in the United States. By blending these two research approaches, the study was able to combine the benefits of the depth associated with process analysis and the rigor associated with larger sample statistical confirmation.

We will summarize five important findings that emerged from the research. These include: 1) the benefits of threat framing, 2) the costs of threat framing, 3) structure and frame de-coupling, 4) the role of the integrator, and 5) the persistence of context.

### **The Benefits of Threat Framing**

Threat-motivated response evokes deep commitment. Using longitudinal data, we were able to demonstrate this heightened commitment by comparing periods when threat motivation was low with periods when threat motivation was high. In an environment

absent threat, many managers rejected proposals for the Internet outright. In other cases, sites were launched, but financial and especially organizational commitment were not provided. Considerations based on the independent business merits of the new venture repeatedly caused managers to allocate time and attention away from the new business.

Despite the initial rejection, fear of eventual cannibalization and print displacement grew to dominate management considerations. This heightened sense of threat was associated with an increase in commitment, the pace of which varied by company setting. By 1998-1999, most firms were doubling, sometimes tripling their expenditures online. Print managers who were previously unwilling to commit time and attention to the Internet became increasingly assertive in dedicating their energies to the new venture. Unlike previous research on disruptive technology where established firms had failed to commit significant financial and organizational resources (Christensen, 1997; Christensen and Bower, 1996), widespread perception of threat in the newspaper industry generated deep, sustained response.

### **The Costs of Threat Framing**

Unfortunately, the response to perceived threat was ineffective. The very motivation that induced commitment also created a set of rigid response mechanisms that precluded change (Dutton and Jackson, 1987). Three activities were associated with the threat-motivated response: 1) aggressive, single staged financial commitment, 2) contraction of authority by functional print managers, and 3) a focus on defending the existing resources rather than finding the new market. As described above, fear of a displacement of print by digital media created a willingness to expand investment to the

Internet. However, these investments were expanded with very little formal effort to change and adjust strategy. As losses mounted, rather than reflection and adjustment, managers reactively committed even more resources to the new ventures. Functional operating managers assumed decision-making authority and focused their attention to managing the impact on print, rather than identifying the unique attributes associated with the Internet itself. Instead of capitalizing on the new product's interactive attributes, most of the sites in the clinical data simply replicated the print newspaper on the web. This was also evident in the larger survey of markets. As late as June 2000, data from the survey analysis showed that the average website in the top 100 U.S. metro market re-purposed nearly 70 percent of their site content from the print newspaper. Other forms of rigidity existed around business model and sales and marketing efforts.

### **Structure and Frame De-coupling**

Not all sites continued to replicate the newspaper. In the clinical data, we saw the processes of threat rigidity relax in four of the sites: *The Beacon A*, *The Beacon B*, *The Press A*, and *The Press B*. Each of these sites eventually separated their Internet ventures and actively re-framed the Internet as a separate opportunity from the newspaper. Separation created a formal mechanism that helped relax pressures associated with threat-induced commitment. By separating, functional managers in the print organization had less control over the decision-making and the online managers had greater freedom from the obligations to the print business. This made it easier to focus on the unique attributes associated with the Internet. Managers in separated sites became more focused on the

independent opportunity of the new venture, rather than on defending the existing print resources.

Separate structure and a renewed emphasis on the opportunity resulted in notable differences in the level of content innovation across the separated sites versus the integrated sites. Though initially rigid in the type of product created, separated sites eventually developed strong local portals, focused heavily on the interactive, community, and utility features of the Internet. In the clinical sample, the average amount of new content posted on separated sites was nearly double that of the integrated sites. In the survey data, we could more formally compare performance differences across a larger number of sites, controlling for other influencing factors. Using regression analysis, we fit a model predicting innovation that controlled for the effects of print circulation, number of online employees, site launch date, local Internet penetration, and company ownership status. Using this baseline model we then included variables that measured framing and structure. Both management framing and organizational structure were significant predictors of innovation, even when including the control variables described above. On average, opportunity framing and separate structure were both associated with higher levels of innovation.

### **The Integrator Manages the Context**

Separate structure is hardly a managerial panacea. In fact, opportunity framing, though correlated with separate structure, also has a significant amount of independent variance. Much of this variance is related to the role of the integrator. In all four of the separated sites in the primary fieldwork, there was an integrator who played an active



role in managing the frame de-coupling process. These integrators screened the management of the new venture from a sense of concern or obligation to the print resources. Meanwhile, they kept a strong sense of threat active in the core organization to sustain the financial commitment to the new venture. In effect, the integrator allowed competing contexts to simultaneously co-exist across the two organizations. This was demonstrated with the revelatory case of *The Beacon A*. In the early stages of the venture, the structural context was focused on sustaining the print newspaper business. In such a constrained environment, it was difficult to develop a strategy that was anything but defensive. In this sense, the structural context constrained the strategic context. When the structural context at *The Beacon A* was changed to isolate the venture from the obligations and considerations of the exiting business, experimentation and learning could focus on the independent market attributes of the Internet. The process developed much more of a bottoms-up pattern from definition to commitment (Bower, 1970) and did not require top-down involvement to gain impetus. In this sense, strategy could develop emergently in the new organization (Mintzberg and Waters, 1985; Burgelman, 1983). Initial resource deployment required deliberate process, but effective learning required emergent strategy formulation. The integrator could facilitate sustained resource commitment from the core, while maintaining a context where strategy could develop autonomously in the new venture.

The absence of an effective integrator limited the ability of managers even in separated ventures to recognize the opportunity. At The Union Company, sites were separated and given significant financial and human resources. However, managers

continued to view the Internet as a threat to the print business. The one senior executive who might have protected the separate group from defensive considerations instead actually projected threat perception into the new venture. Thus, despite separated structure, the online general managers continued to see the Internet as a threat and considerations remained focussed on defending the print franchise.

### **The Persistence of Context**

The final finding mentioned here involves the resilience and persistence of context. In the revelatory case of *The Beacon A*, despite a strong venture sponsor, early financial resources, and arguably a very insightful first strategic definition, the structural context of the firm would not allow organizational commitment as long as the venture was defined as an opportunity. Threat eventually motivated organizational and financial commitment, but the product did not develop as originally conceived until the late 1990s. There were nearly seven to eight years of either under-commitment or response rigidity until the product evolved as originally intended. Even then, context within the *print* organization remained largely intact.

We also found statistical evidence that the context of the organization is difficult to change. Not only does context transformation require separate incentives, controls, and physical location, it also requires separate people and extended time. When we fit a model predicting whether managers saw the Internet as a threat or an opportunity to the newspaper company, managers with significant outside experience were much more likely to see the opportunity. This was true even when we controlled for other variables, including structure. Time also had a significant impact. Sites that had been launched and

separated longer were more likely to see the opportunity. This persistence would suggest that the importance and responsibility of managing the context is one of the most significant challenges of senior management.

## **12.2 IMPLICATIONS FOR THE LITERATURE**

The findings from the current study present contributions to two specific streams of research: cognitive framing / threat rigidity and resource allocation / disruptive technology. Perhaps the greatest insights have come from identifying the intersection of these two previously unconnected fields. The resource allocation literature suggests that without threat motivation, commitment to disruptive technology is not forthcoming. The cognitive framing and threat rigidity literatures suggest that threat-induced response evokes strong behavioral rigidities. Understanding the behavior of threatened response would have been very difficult absent the knowledge of either stream of research. But as the study developed, additional insights emerged that provide their own contribution to both sets of literature.

### **Cognitive Framing / Threat Rigidity Literature**

Three contributions are made to the decision framing literature: 1) measurement replication, 2) contextually embedded measurement, and 3) insight into frame manipulation.

- **Measurement Replication.** The first contribution to the cognitive framing and threat rigidity literatures is that of measurement replication. Using principle

components analysis, we were able to replicate the validity of threat as a construct by measuring attributes of *negativity*, *loss*, and *lack of control*. Similar measurement replication was demonstrated with the opportunity-framing construct. These framing constructs were then also shown to be associated with behavior that is theoretically consistent with the theory of threat rigidity (Dutton and Jackson, 1987; Staw, Sandelands, and Dutton, 1981).

- **Contextually Embedded Measurement.** The second contribution to the cognitive framing literature is more important. Threat rigidity is shown to be active in its embedded context. Previous studies have examined the phenomenon by conducting contrived experiments that remove the phenomenon from its embedded organizational context (Jackson and Dutton, 1988; Mittal and Ross, 1998; Kahneman and Tversky, 1979). Instances when the phenomenon has been studied in context tend to be single case studies (Staw and Ross, 1993). However, the current research was able to take the complex organizational phenomenon, measure it with a notable level of reliability, and show its incidence to be fairly robust across a large population of organizations. The author knows of no other study that has examined threat rigidity in such a way.
- **Insight into Frame Manipulation.** Previous research both at the individual level (Kahneman and Tversky, 1984) and organizational level (Fredrickson,

1985; Papadakis, et. al, 1999) has noted that different frames evoke different behavior. These researchers suggest that managers should use frame manipulation to produce a desired behavioral outcomes. Unfortunately, there are two problems that make frame manipulation very difficult. First, different behaviors are sometimes required simultaneously. In the current research, threat motivates sustained commitment of resources, but those resources must then be deployed around a separate opportunity. Second, initial framing tends to bias future information in conformance with the original frame. Thus, manipulating frames ignores the persistence of framing once labeled. We found that separate structure and an active integrator can help firms simultaneously consider competing frames. In this sense, both threat and opportunity framing can co-exist, but in very different contexts.

### **Resource Allocation / Disruptive Technology Literature**

The research also adds insight into the process of resource allocation commitments and disruptive technology. These include: 1) implications for firm sustainability, 2) the persistence of context, and 3) extensions beyond resource allocation.

- **Implications for Firm Sustainability.** Perhaps the most important contribution of this research is how it expands the considerations of firm sustainability in the face of threatened response. Cognitive framing and organizational process interact to determine the shape of strategic commitment. The identification of the strategic paradox of disruptive

response has implications for the sustainability and life of the firm. If the very cognitive frame required to fund a disruptive technology then becomes a source of dysfunctional response, a frame de-coupling mechanism becomes essential. Understanding what these mechanisms are and how they work presents tremendous insight into the challenge of firm sustainability in the face of threatened response.

- **The Persistence of Context.** As mentioned earlier, context is extremely resilient. Factors that eventually helped the context to change included separating structure, active contextual management by a strategic integrator, time, and the hiring of outside managers. The research provides expanded insight regarding these levers of context management. Different contexts can be developed simultaneously through the coordination of a strategic integrator and a separated environment.
- **Beyond Resource Allocation.** Previous research suggests that the challenge of disruptive technology is fundamentally a resource allocation problem. Established firms are seen as unable to sustain financial and organizational resources when a venture fails to meet the expectations associated with traditional resource allocation considerations (Christensen and Bower, 1997). However, in the current research all of the field sites obtained considerable resources; it was how they used those resources that differentiated their response. In the statistical analysis we even control for the number of online

employees committed to a venture and still see tremendous variation in the level of innovation across companies. As one manager summarized previously, "It's not that they [print] were pulling resource from us. It's that the company overall wasn't an Internet company."<sup>196</sup>

### 12.3 IMPLICATIONS FOR FUTURE RESEARCH

Two areas future research are discussed in this section. The first examines ways to extend the current study. The second looks at emerging issues that need further exploration.

#### Extending the Current Study

- **Content Analysis of Public Documents.** The current research employed a blend of both longitudinal process research with large sample statistical analysis. The *incidence* of a phenomenon--that threat creates rigidity--as presented in the clinical data was clearly replicable with the statistical data. However, the *process* of response itself could only be captured using longitudinal methods. The survey examines only one level of management at one point in time. Thus, we rely on the longitudinal process research to map the *process* of response over time. Some of the data collected in the clinical sites were subject to the risk of retrospective bias, particularly the interviews. Where possible these interviews were triangulated with archival documents

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<sup>196</sup> Interview, CEO, The Press Company Internet Group, (4/3/00).

and public records. Nevertheless, future research might look at the incidence of threat by examining public documents using content analysis tools (Abrahamson, 1991; 1996). The attributes described by Jackson and Dutton (1988) and confirmed in this study using principle components analysis could be used to identify threat and opportunity in the public statements of managers across the industry over time. This would prevent retrospective bias and still create a picture of the process and development of threat perception over time.

- **Cross-industry Comparative Case Studies.** We must also consider the issue of external validity. The current data create a clear argument for separation, but there are also case examples in other industries where separation has failed and integration has worked. In the current research, there were clearly disruptive elements with the Internet for the newspaper industry. However, the *same* technology may be in one instance disruptive and in another sustaining, depending on how it interacts with the firm resource allocation process. For example, within the Internet environment, the current analysis might be more applicable in digital photography, electronic greeting cards, and distance learning, where strong disruptive characteristics exist. The current analysis might be less applicable in other settings such as discount brokerages and office supplies, where the Internet was really just another distribution channel. Further cross-industry studies on structural relationships should be conducted.



### **Emerging Issues for Future Research**

Several other issues emerge out of the current research that call for future examination. We will discuss two: 1) staging structural forms and 2) issues around corporate growth and diversification.

- **Staging Structural Forms.** The data in the current research present a compelling argument for separating a disruptive venture from the core organization. Separated sites are much more innovative and have much higher market penetration than integrated sites. The argument for separation is that it provides the autonomy required to look beyond one's existing resources and discover the new and independent opportunity. However, many sites in the study, including those who eventually separated, anticipated potential points of leverage between print and online. The argument was that there were economies of scale in content development and sales and marketing. However, as we examined how a disruptive technology develops, we saw that what the emerging market valued in the Internet product was initially very different than what was being produced in the print organization. Similarly, the initial advertising customer overlap was extremely low. Thus, despite the inherent appeal to leverage the print and online organizations, there was very little to actually share. The question still unanswered is whether the market and customer disconnect is a static reality, or whether it will change as the disruptive technology matures and moves up-market. In

this sense, there may be future value in re-integrating the disruptive venture with the core organization. Future questions to examine might include: What are the potential benefits of eventual reintegration? What areas of the organization offer the greatest potential synergy with the parent organization? When does that become an option? How does reintegration develop? Does separating too far preclude future options to integrate? Though it is still early, these questions should be examined further as the newspaper industry and the Internet evolve.

- **Corporate Growth and Diversification.** The second area for future research is related to corporate growth and diversification. In the current research, one of the major challenges for the established players was that their focus on existing resources blinded them from finding the unique attributes of the emerging opportunity. We noted previously that this focus on existing resources was in direct contradiction to Stevenson and Jarillo's definition of entrepreneurship as pursuing "opportunity, regardless of resources currently controlled" (1990, p. 23). There are important reasons to focus on one's existing resources. In fact, the whole theory of corporate diversification suggests that diversification should relate to a firm's existing resources (Rumelt, 1974, 1982; Montgomery, 1982; Pitts and Hopkins, 1982; Palepu, 1985; Varadarajan and Ramanujam, 1987). Yet this imposes a significant limitation on the entrepreneurial behavior of the firm. There is an apparent

conflict between the corporate diversification literature and the entrepreneurship literature.

In the specific case of disruptive technology, we presented an argument where the sustainability of the firm actually depends on the successful launch of a business that must initially grow from an unrelated space in the company's established market. The existing resources are not initially leveragable assets, but rather significant early initial liabilities. As mentioned above, customer relationships, product expectations, and business management systems all fundamentally limit the growth of a new and independent business. Future research might consider what is implied by related resources and when it is important to look beyond one's existing resource base in venture creation. This suggests a broader theory of innovation that needs further development.

## **12.4 IMPLICATIONS FOR MANAGEMENT**

In this section we will look at the implications of the current research for the practice of management. Specifically we will consider the importance of two critical activities that have implications for effective managerial response: 1) seeing opportunities and 2) managing context.

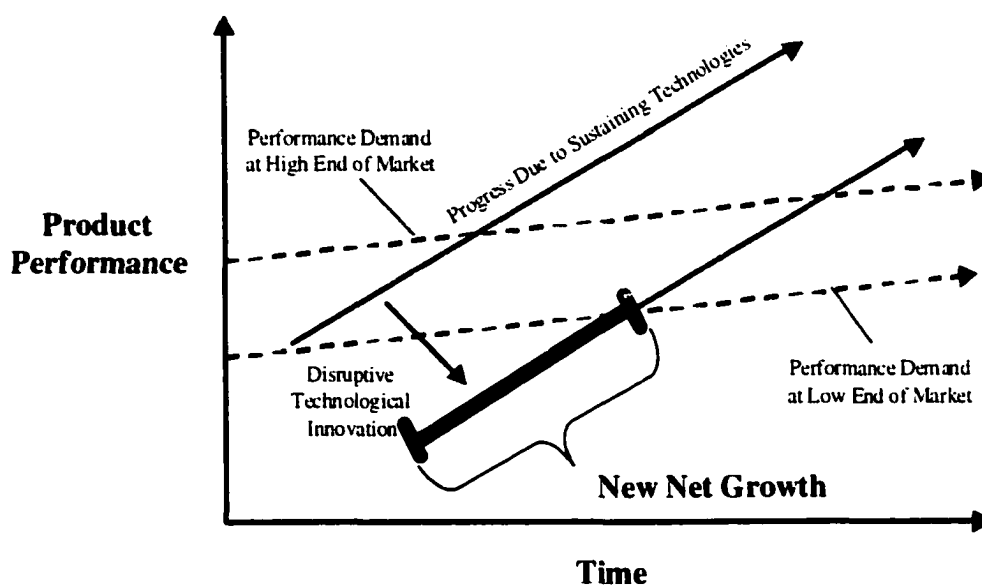
### **Seeing Opportunities**

So much of the research presented in this dissertation has focused on how the perception of threat acted as the catalyst to motivate established firms to finally respond

to disruptive technologies. The irony is that disruption creates powerful growth opportunities. Two things need to be considered in order to recognize these opportunities: 1) the established market declines, but does not disappear and 2) disruption creates net growth.

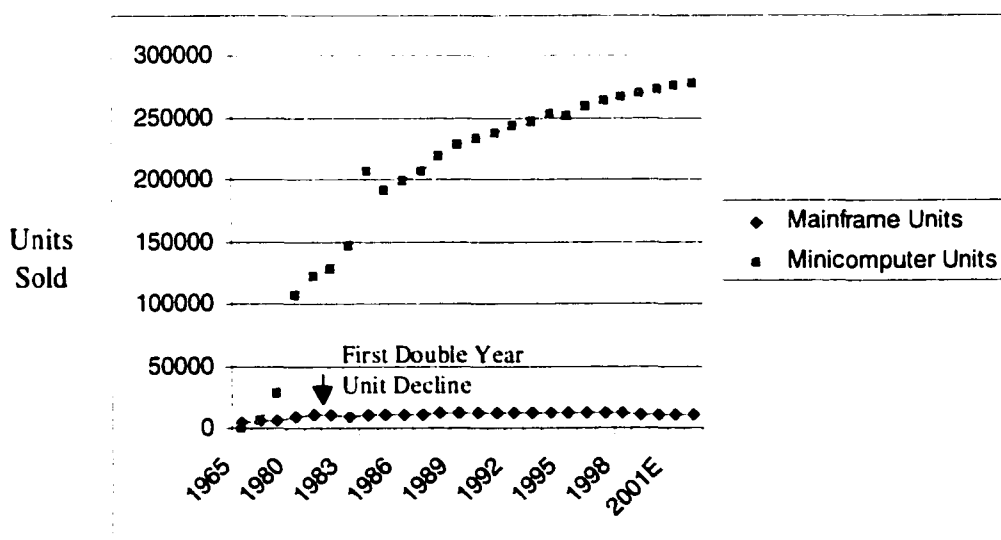
- The Established Market Declines, but Does Not Disappear.** In many cases, disruption doesn't completely destroy an established business; it just sends the old business into a long period of slow decline. In fact, because disruptive technologies start in markets that are not served by the established firms, the early growth of disruptive technology is almost entirely new. As long as the performance trajectory is underneath that valued by the mainstream market, the new applications created by disruptive technology create almost 100 percent new net growth (see Figure 12.1).

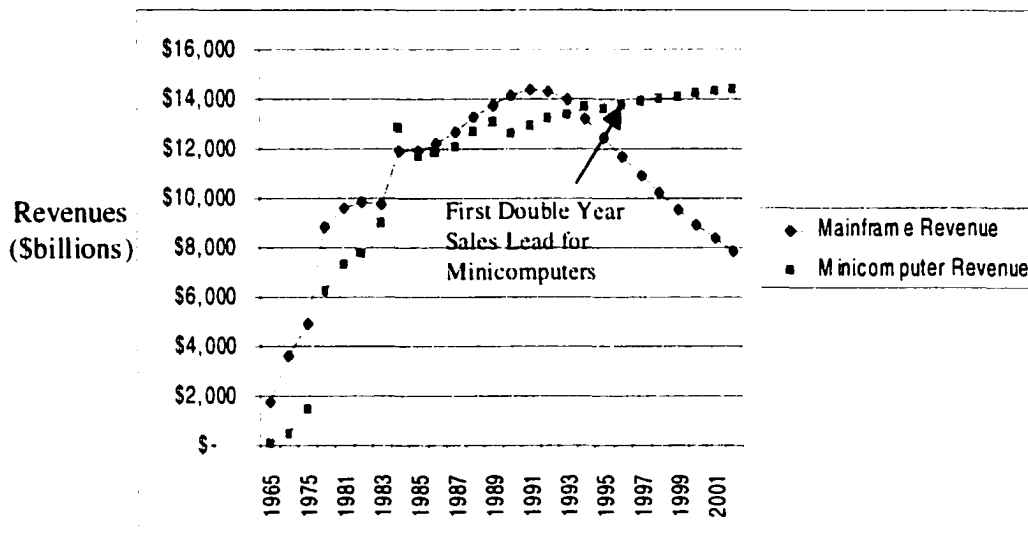
**Figure 12.1: Disruptive Technologies Initially Create New Net Growth**



It is only when the technology reaches the minimally acceptable requirements of the established market that it starts to displace the old business. Even then, the established business is likely to continue as an ongoing entity for sometime after disruption starts to occur. Mainframes are a good example (Christensen, 1997). Even though the mainframe computer business was disrupted by the minicomputer business, the process of decline in the mainframe market was very slow and prolonged. Despite the launch of the minicomputer in the 1960, minicomputer sales did not exceed mainframe computer sales until the early 1990s. And despite the fact that unit decline for mainframes started in the early 1980s, mainframe computer revenues did not fall until 1992. It is not that the minicomputer completely destroyed the mainframe market--in 2000, the mainframe computer market was still a multi-billion dollar business--it is just that disruption eventually took all of the growth out of the mainframe business (see Graph 12.1 and 12.2).

**Graph 12.1: Unit Sales of Mainframe and Minicomputers<sup>197</sup>**



**Graph 12.2: Dollar Revenues of Mainframe and Minicomputers**

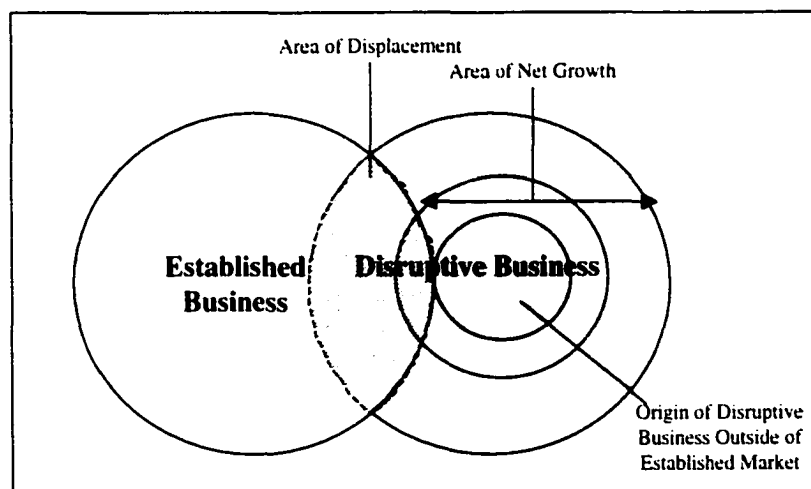
The newspaper industry shows similar signs that the Internet created new net growth in its early development. In 2000, the Internet advertising market had grown to 8 billion dollars with greater than 70 percent year over year growth. Meanwhile, advertising revenues in the newspaper industry actually *grew* by 5 percent on a base of 46 billion dollars.<sup>198</sup>

- **Disruption Creates Net Growth.** The implication of the analysis described above is that disruption creates net growth. In the mainframe computer example, the aggregation of both the minicomputer and mainframe computer market as late as 1999 was more than 150 percent the peak size of the mainframe market. Likewise

<sup>197</sup> Source: ITI, Industry Statistics Programs; U.S. Microcomputer Statistics Committee Forecast, Data Analysis Group.

with the newspaper industry, Internet advertising has mostly created growth that has not yet created serious displacement of print advertising revenues. That does not mean that decline will not follow, but it does imply that the aggregate size of the combined businesses will create net growth for the overall industry. This is largely because disruptive technology creates new uses and applications that did not previously exist. The irony is that as incumbents consider disruption, they inevitably feel threatened because they consider only the impact on their existing resources. In reality, they are poised on the brink of a tremendous growth opportunity. As the new industry grows, it will compete with the established business, but the majority of its growth will come through the creation of new applications that never were previously possible in print. Figure 12.2 captures this.

**Figure 12.2: Disruption Creates Net Growth**



<sup>198</sup> Industry Standard (2001). "Finding a Future in Digital Ads." Industry Standard,

Many managers in the newspaper industry overwhelmingly emphasized the area of displacement in the way they managed the new business. Threat to these *existing resources* caused them to focus on the loss to the established core rather than finding net growth opportunities created by the Internet. This caused these managers to miss the growth that was expanding all around them. As one manager described, "Over all, the newspaper industry's involvement with the Internet has been one where it had a lot to lose and it's been trying not to lose it, as opposed to starting from scratch and having a lot to win."<sup>199</sup>

### **Managing Context**

Recognition of a disruptive opportunity does little if managers are forced to respond in a constrained context. This final section outlines four key activities that help the general manager shape context: 1) develop an active integrator, 2) capture outside perspective, 3) consider acquisitions as platforms for growth, and 4) keep the core context separate from the disruptive context.

- **Develop an Active Integrator.** As we looked at *The Beacon A* and other separated units in the primary research sites, we saw that in each case there

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March 19, 2001, p. 45. Also, compare NAA estimates at <http://www.naa.org/info/facts00/09.html>

<sup>199</sup> Steve Yelvington, qtd. in Barringer, F. (2001). "Rethinking Internet News As a Business Proposition." *The New York Times*, January 22, 2001, C:1.



was an active integrator helping shape and build the new structural and strategic context. These managers served as mediators between the new venture and the core organization. Where and when the venture needed access to the parent, the integrator facilitated the interaction. However, when the core organization tried to focus considerations around defending the existing business, the integrator interceded, protecting the independent context. This role was critical in the development of the company's ability to simultaneously manage two competing contexts.

Note that there is greater power in developing the context of strategy than in crafting the content of strategy. Despite early attention to the content of strategy at *The Beacon A*, the publisher could not realize his intended strategy until he changed the organizational context. At *The Press A*, the integrator did not have a deep understanding of the content of strategy, but he created a context where effective strategy could emerge autonomously at the operating levels of the new business. Getting the context right enables the content of strategy to develop on its own.

- **Cultivate Outside Perspectives.** In setting up the context of the new venture it is very important to cultivate and include perspectives that are not part of the core business. *The Press B* did this effectively by hiring an outside manager to write the initial business plan. *The Press A* brought in a new media executive to run the Internet business. The Beacon Company also

brought in a manager from outside the newspaper industry to run its new media division. The importance of outside experience was evident in statistical data as well. Even when we controlled for structure and time, managers with significant outside experience were more likely to see the Internet as an opportunity than managers with little outside experience.

- **Consider Acquisitions as Platforms for Growth.** Everything we have learned about the context of the firms shows that it is extremely difficult to change, particularly when the core business is still viable. Our research showed that new context creation required separating structure, bringing in outside managers, the passage of time, and an active integrating manager. Even then, the process was difficult. One strategy managers might consider is outside acquisition. Acquire a new entity that is growing in the disruptive market and then provide it with access to the resources of the core company as it grows. This creates a platform of growth where a separate context can be built without the challenges of simultaneously fighting the old context of the core organization.
- **Keep the Core Separate from the Disruptive Context.** Much has been said about separating the disruptive venture from the core organization. Considerable data have been presented that show how this helps develop an environment conducive to the development of the new venture. However, we can also argue that separation is a benefit to the core organization. The

contexts in both the core and new disruptive environment are complex, embedded, and often self-reinforcing systems. Not only does structural integration hinder innovation and growth in the new venture, it is likely to create a drain on the company in its established markets. Recall that the mainframe computer business was a profitable, even growing business for sometime after the initial entrance of minicomputers. A similar argument could be made for Kodak, the case mentioned in the introduction of this dissertation. As digital film emerges, Kodak still faces powerful pressures in its core chemical film business from competitors such as Fuji Film and Konica. Trying to force the core organization to manage disruptive technology, while many demands remain in the chemical film business is likely to distract Kodak from competing in its established markets. Finally, this has implications in the operations intensive newspaper business. Focusing print managers' energy on a business that is initially outside of the contextual considerations of the core organization takes away needed attention from the daily focus of the print business. Thus, integration not only hurts the new venture, it distracts the core organization. Separate contexts need to be created and maintained in both settings.

### **Closing Comments**

In conclusion, the research presented in this dissertation identified a powerful response phenomenon: absent threat, response to disruptive opportunities is inadequate;

but with threat, the fully funded response is maladaptive. Coping mechanisms included separating structure, actively managing context through a strategic integrator, and focusing energy on the independent features and attributes of the new business. A substantial amount of data was collected from the newspaper industry to support these findings, but the implications extend to incumbent response to disruption in many other settings. Understanding the sources of the response paradox and the coping mechanisms described above has long-term implications for the sustainability and growth of the firm. Future research is required, but it is hoped that the findings and implications presented have made a contribution both to the theory and practice of management.



## **APPENDICES**

**APPENDIX 1: ONLINE CONSORTIUMS AND CLASSIFIEDS COMPARISONS**

**APPENDIX 2: SURVEY POPULATION--SITES AND GENERAL MANAGERS**

**APPENDIX 3: FULL SURVEY**

**APPENDIX 4: DETAILED CALCULATIONS FOR PROTOTYPICAL PLOTS**



## APPENDIX 1: ONLINE CONSORTIUMS AND CLASSIFIEDS COMPARISONS

### Exhibit 1: Classified Ventures Participating Companies

Newspaper Company	% Ownership	# of Daily U.S. Newspapers	Total Daily Circulation
Central Newspapers	3.0%	6	1,279,044
Gannett (a)	16.9	69	8,241,526
Knight-Ridder	16.9	33	6,132,384
McClatchy	2.5	11	1,843,077
New York Times Co.	10.0	4	2,649,769
Times Mirror	16.9	7	3,050,271
Tribune Co.	16.9	4	1,923,467
Washington Post Co.	16.9	2	1,102,329
Non investors	0.0	1	523,324
<b>Total</b>	<b>100.0%</b>	<b>137</b>	<b>26,745,191</b>

(a) Includes national circulation of 2.2 million from The USA Today.



Vertical Market Segment	New and used Automobiles	Apartment Rentals	New Home Construction	Resale Residential Real Estate	General Merchandise Auctions
Launch Date	July 1988	January 1997	August 1998	July 1999	November 1997
Listings	150,000	900,000	47,000	NA	40,000
Monthly Page Views	30	12	1.8	NA	5.3
Monthly Revenues (000s)	250	295	38	NA	22

### Exhibit 2: AdOne Participating Companies

Newspaper Company	# of Titles	Total Circulation
Advance Publications/ Newhouse	23	3,559,258
Lee Enterprises	110	3,129,014
Hearst Corporations	20	2,518,528
Media News Group	53	1,971,326
E.W. Scripps Company	30	1,522,773
Donrey Media Group	17	389,295
A.H. Belo	7	1,284,190
Journal Register	124	1,806,766
Media General	24	947,889
Morris Communications	29	800,372
Pulitzer Inc.	21	890,309
<b>Nonaffiliated (1)</b>	<b>278</b>	<b>1,301,933</b>

Total (2) 736 20,121,653

(1) Nonaffiliated titles include New York Daily News, Los Angeles Daily News, San Francisco Chronicle, a few independent newspapers, and many other classified publications.

(2) Total titles include 280 daily publications (16.6 million circulation), and 456 weekly titles (5.3 million circulation).



### Exhibit 11: Classifieds Penetration Online

Figure 1: Employment Sites on the Web--December 1999

Employment Site	Number of Listings	Total Unique Visitors	Average usage Days per Visitor
Monster.com	264,227	2,757	2.4
Headhunter.net	140,360	1,668	1.5
<b>Careerpath.com</b>	318,111	891	1.7
Hotjobs.com	N/A	654	1.9
Careerosaic.com	N/A	607	1.6
Careerbuilder.com	N/A	471	1.2
Jobs.com	N/A	468	1.2
Dice.com	164,053	286	2.0
Joboptions.com	N/A	271	1.5
Myjobsearch.com	N/A	263	1.4
Jobsearch.org	1.4 million	255	1.8
Classifieds2000.com	308,712	1,211	2.0

Newspaper Consortium in Bold

Source: Media Metrix, DLJ

Figure 2: Automobile Listings on the Web--December 1999

Employment Site	Total Unique Visitors	Average Usage Days per Visitor
Carpoint.com	1,537	1.8
Edmunds.com	1,093	1.7
<b>Cars.com</b>	1,059	1.6
Autoweb.com	743	1.3
Autobytel.com	619	1.3
Carprices.com	688	1.2
Carsdirect.com	523	1.2
Traderonline.com	426	1.5

Newspaper Consortium in Bold

Source: Media Metrix

**Appendix 2**  
**Survey Population**  
**97 Online General Managers in Largest U.S. Metro Sites**

<b>Newspaper</b>	<b>Circulation Corporation</b>	<b>Web Site Address</b>	<b>Contact FName</b>	<b>Contact LName</b>	<b>Telephone</b>	<b>E-Mail Address</b>
Daily Press	721256 INDEPENDENT	http://www.mostnewyork.com	John	Lewin	(212) 210-2100	jlewin@edit.nydailynews.com
Chicago Tribune	653554 Tribune Publishing Company	http://www.chicagotribune.com	Digby	Solomon	(312) 222-3388	dsolomon@tribune.com
The Philadelphia Inquirer/Daily News Newsday	603523 Knight Ridder 568914 Times Mirror Company	http://www.philly.com http://www.newsday.com	John Peter	McQuiggan Benglesdorf	(215) 854-5005 (631) 843-2728	john.mcquiggan@staff.philly.com pbengels@newsday.com
Houston Chronicle	549101 The Hearst Corporation	http://www.chron.com	Kathleen	McQueary	(713) 220-7030	kathleen.mcqueary@chron.com
Chicago Sun-Times	484379 The Chicago Sun-Times Co	http://www.suntimes.com	Jack	Barry	(312) 321-3072	jbarry@suntimes.com
San Francisco Chronicle	484218 Chronicle Publishing Company	http://www.sfgate.com/chronicle	John	Coate	(415) 447-6306	tex@sfgate.com
The Dallas Morning News	481032 Belo	http://www.dallasnews.com	Gerry	Barker	(214) 997-4036	gerry@dallasnews.com
The Arizona Republic	437118 Central Newspapers Inc	http://www.azcentral.com	David	Gianelli	(602) 444-8396	leon.levitt@pni.com
New York Post	436226 News America Publishing Inc	http://www.nypostonline.com	Jill	Johnson	(212) 930-8223	jt@nypost.com
The Star-Ledger	406010 Metro-Suburbia Inc	http://www.nj.com/ledger.html	David	Trucillo	(973) 877-4161	tuccillo@nj.com
Atlanta Journal/Constitution	405545 Cox Newspapers Inc	http://www.accessatlanta.com/partners/ajc	George	Degolian	(404) 582-7075	george.degolian@cimedia.com
Star Tribune	387412 The McClatchy Company	http://www.startribune.com	Nick	Rogoski	(612) 673-7749	nickrogo@startribune.com
Detroit Free Press	384624 Knight Ridder	http://www.freep.com	David	Blomquist	(313) 223-4288	blomquist@freepress.com
The Plain Dealer	383586 Metro-Suburbia Inc	http://www.cleveland.com	Eliza	Snow	(216) 999-4786	eliza@cleveland.com
The San Diego Union-Tribune	375598 Copley Newspapers	http://www.uniontrib.com	Jim	Drummond	(619) 718-5250	jim.drummond@uniontrib.com
The Orange County Register	356520 Freedom Communications Inc	http://www.ocregister.com	Greg	Hearst	(714) 565-6755	greg@myoc.net
The Oregonian	342454 Metro-Suburbia Inc	http://www.oregonlive.com	John	Calvert	(503) 221-8140	jcalvert@oregonlive.com
St Petersburg Times	342189 The Poynter Institute	http://www.sptimes.com	Ron	Dupont	727-893-8628	rdupont@tampabay.com
The Denver Post	337372 MediaNews Group Inc	http://www.denverpost.com	Eric	Grilly	(303) 820-1591	egrilly@denverpost.com
St Louis Post-Dispatch	313594 Pulitzer Inc	http://www.postnet.com	Collette	Hogan	(314) 552-1522	chogan@postnet.com
The Baltimore Sun	312826 Times Mirror Company	http://www.sunspot.net	Mireille	Grangenois	(410) 464-0428	mgrangenois@sunspot.net
Denver Rocky Mountain News	302953 The E W Scripps Company	http://insideDenver.com	Jack	McElroy	(303) 892-2441	mcelroy@rockymountainnews.com
San Jose Mercury News	290811 Knight Ridder	http://www.mercurycenter.com	Teresa	Fulton	(408) 920-5494	tfulton@sjmercury.com
Milwaukee Journal Sentinel	288173 Journal Communications Inc	http://www.packerplus.com, jsonline.com	Pat	Stiegman	(414) 225-5012	stiegman@jsonline.com
The Sacramento Bee	281471 The McClatchy Company	http://www.sacbee.com	Ed	Canale	(916) 321-1796	ecanale@sacbee.com
Boston Herald	277106 INDEPENDENT	http://www.bostonherald.com	Bill	Weber	(617) 619-6571	bweber@bostonherald.com
The Kansas City Star	276349 Knight Ridder	http://www.kcstar.com	Stan	Austin	(816) 234-4824	saustin@kcstar.com
The Buffalo News	262085 INDEPENDENT	http://www.buffalonews.com	Laura	Mongeon	(716) 849-3412	lmongeon@buffalo.com
The Times-Picayune	260552 Metro-Suburbia Inc	http://www.nolalive.com	Art	Bell	(504) 826-3170	abell@nola.com
The Orlando Sentinel	258037 Tribune Publishing Company	http://www.orlandosentinel.com	Julie	Anderson	(407) 418-5983	janderson@tribune.com
Sun-Sentinel	257118 Tribune Publishing Company	http://www.sun-sentinel.com	Gary	Farnsworth	(954) 459-2245	gfarnsworth@tribune.com
The Detroit News	246638 Gannett Company Inc	http://www.detnews.com	Nancy	Malitz	(313) 222-2283	nmalitz@detnews.com
The Columbus Dispatch	246095 INDEPENDENT	http://www.cd.columbus.oh.us	Pam	Coffman	(614) 461-5222	pcoffman@dispatch.com
Pittsburgh Post-Gazette	243024 Blade Communications Inc	http://www.post-gazette.com	Deborah	Alward	(412) 263-1908	alward@post-gazette.com
Tampa Tribune	240990 Media General Inc	http://www.tampatrib.com	Kirk	Read	(813) 259-8353	kread@tboweb.com
The Charlotte Observer	239016 Knight Ridder	http://www.charlotte.com	Dave	Enna	(704) 358-5179	denna@charlotteobserver.com
Fort Worth Star-Telegram	229701 Knight Ridder	http://www.star-telegram.com	John	McPhail	(817) 390-7140	jmcpfail@star-telegram.com
The Courier-Journal	228185 Gannett Company Inc	http://www.courier-journal.com	Ric	Manning	(502) 582-4240	ricman@courier-journal.com
The Seattle Times	227162 Seattle Times Company	http://www.seattletimes.com	Nancy	Bruner	(206) 464-3815	nbruner@seattletimes.com
Omaha World-Herald	225761 Omaha World-Herald Co	http://www.omaha.com/OWH	Mike	Geppert	(402) 898-2050	mgeppert@omaha.com
The Indianapolis Star	224372 Central Newspapers Inc	http://www.starnews.com	Bob	Jonason	(317) 444-8197	bjonason@starnews.com
San Antonio Express-News	216232 INDEPENDENT	http://www.expressnews.com	David	Barnett	(210) 250-2927	dbarnett@mysanantonio.com
The Hartford Courant	210800 Times Mirror Company	http://www.ctnow.com	Chris	Morrill	(860) 241-3606	morrill@courant.com
Richmond Times-Dispatch	209690 Media General Inc	http://www.timesdispatch.com	Gary	Burns	(804) 649-6967	gburns@timesdispatch.com
The Daily Oklahoman	204376 INDEPENDENT	http://www.oklahoman.com	Kelly	Dyer	(405) 475-3979	kellyd@connectok.com
Daily News	201669 MediaNews Group Inc	http://www.dailynewslosangeles.com	John	Zappe	(818) 713-3759	jzappe@dailynews.com

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**Appendix 2  
Survey Population  
97 Online General Managers in Largest U.S. Metro Sites**

The Virginian-Pilot	200696 Landmark Communications Inc	<a href="http://www.pilotonline.com">http://www.pilotonline.com</a>	Michael	Alston	(757) 446-2080	alston@norfolk.infi.net
St Paul Pioneer Press	200275 Knight Ridder	<a href="http://www.pioneerplanet.com">http://www.pioneerplanet.com</a>	Mike	Peluso	(612) 228-5404	mpeluso@knightridder.com
Seattle Post-Intelligencer	197921 The Hearst Corporation	<a href="http://seattlep-i.com">http://seattlep-i.com</a>	Lee	Rozen	(206) 448-8307	lrozen@seattle-pi.com
The Cincinnati Enquirer	194328 Gannett Company Inc	<a href="http://enquirer.com/today">http://enquirer.com/today</a>	James	Jackson	(513) 768-6000	james@cincinnati.com
Austin American-Statesman	178643 Cox Newspapers Inc	<a href="http://www.austin360.com/statesman/editions/to">http://www.austin360.com/statesman/editions/to</a>	Kevin	Stephens	(512) 445-3550	kevin.stephens@cimedia.com
Democrat & Chronicle	176762 Gannett Company Inc	<a href="http://www.RochesterDandC.com">http://www.RochesterDandC.com</a>	Julie	May	(716) 258-9746	jmay@democratandchronicle.com
The Florida Times-Union	176346 Morris Communications Corp	<a href="http://jacksonville.com">http://jacksonville.com</a>	Carl	Cannon	(904) 359-4151	pubcc@tu.infi.net
The Commercial Appeal	174938 The E W Scripps Company	<a href="http://www.gomemphis.com">http://www.gomemphis.com</a>	James	Denley	(901) 529-2569	denley@gomemphis.com
The Palm Beach Post	174171 Cox Newspapers Inc	<a href="http://www.gopbi.com/partners/pbpost/epaper/ec">http://www.gopbi.com/partners/pbpost/epaper/ec</a>	Dan	Shorter	(561) 820-4462	dshorter@cimedia.com
Arkansas Democrat-Gazette	170766 Wehco Media	<a href="http://www.ardemgaz.com">http://www.ardemgaz.com</a>	Toby	Simmons	(501) 399-3603	tsimmons@ardemgaz.com
Providence Journal	170292 Belo	<a href="http://www.projo.com">http://www.projo.com</a>	Shannon	Dunnigan	(401) 277-7795	sdunniga@projo.com
The Des Moines Register	164912 Gannett Company Inc	<a href="http://www.dmregister.com">http://www.dmregister.com</a>	Tom	Cooper	(515) 284-8218	tcooper@dmreg.com
Press-Enterprise, The	162551 BELO	<a href="http://www.press-enterprise.com/services/html/tt">http://www.press-enterprise.com/services/html/tt</a>	Paul	McAffee	(909) 684-1200	pmcafee@pe.com
Tulsa World	162186 INDEPENDENT	<a href="http://www.tulsaworld.com">http://www.tulsaworld.com</a>	Mike	Kimbrell	(918) 581-8344	tulsaworld@mail.webtek.com
Dayton Daily News	159072 Cox Newspapers Inc	<a href="http://www.activedayton.com/partners/ddn">http://www.activedayton.com/partners/ddn</a>	Tim	Darcy	(512) 445-3550	tim.darcy@cimedia.com
Las Vegas Review-Journal	158441 Donrey Media Group	<a href="http://www.lvrj.com">http://www.lvrj.com</a>	Al	Gibes	(702) 383-0478	gibes@lasvegas.com
Asbury Park Press	156821 Gannett Company Inc	<a href="http://www.injersey.com/app">http://www.injersey.com/app</a>	Jim	Easley	(732) 922-4600	jeasley@app.com
The News & Observer	153408 The McClatchy Company	<a href="http://www.news-observer.com/">http://www.news-observer.com/</a>	Mark	Choate	(919) 836-5719	mchoate@nando.com
The Fresno Bee	152718 The McClatchy Company	<a href="http://www.fresnobee.com">http://www.fresnobee.com</a>	Ken	Riddick	(559) 441-6041	kriddick@fresnobee.com
The Journal News	151695 Gannett Company Inc	<a href="http://www.nyjournalnews.com">http://www.nyjournalnews.com</a>	Michael	Manness	(302) 324-2577	mmaness@delawareonline.com
The Birmingham News	150346 Metro-Suburbia Inc	<a href="http://www.al.com/birmingham">http://www.al.com/birmingham</a>	Victor	Hanson	(256) 325-2411	cindy@al.com
The Post-Standard/Syracuse Herald-	149584 Metro-Suburbia Inc	<a href="http://www.syracuse.com">http://www.syracuse.com</a>	Mathew	Sardini	(315) 470-2270	msardini@syracusemail.com
The Tennessean	146914 Gannett Company Inc	<a href="http://www.tennessean.com">http://www.tennessean.com</a>	Pam	Brown	(615) 664-2241	pbrown@tennessean.com
The Record	146089 Macromedia Inc	<a href="http://www.bergen.com">http://www.bergen.com</a>	Lisa	Crouch	(201) 646-4293	crouch@bergen.com
The Blade	145800 Blade Communications Inc	<a href="http://www.toledoblade.com">http://www.toledoblade.com</a>	Mark	Woodruff	(419) 724-6279	mwoodruff@toledoblade.com
Akron Beacon Journal	145055 Knight Ridder	<a href="http://www.ohio.com/bj">http://www.ohio.com/bj</a>	Michael	Needs	(330) 253-9524	mneeds@thebeaconjournal.com
The Grand Rapids Press	138907 Booth Newspapers Inc	<a href="http://gr.mlive.com">http://gr.mlive.com</a>	Mark	Harptschein	(734) 997-7083	mark@mlive.com
Deseret News	135018 INDEPENDENT	<a href="http://www.desnews.com">http://www.desnews.com</a>	Dave	Schneider	(801) 237-2100	daves@desnews.com
Daily Herald	132090 Paddock Publications Inc	<a href="http://www.dailyherald.com">http://www.dailyherald.com</a>	Richard	Battin	(847) 427-4623	rbattin@dailyherald.com
The Salt Lake Tribune	129836 Kearns-Tribune Corporation	<a href="http://www.sltrib.com">http://www.sltrib.com</a>	Tony	Semerad	(801) 237-2088	tsemerad@sltrib.com
The Morning Call	128581 Times Mirror Company	<a href="http://www.mcall.com">http://www.mcall.com</a>	Elaine	Hall	(610) 778-2228	elaine.hall@mcall.com
The News Tribune	128498 The McClatchy Company	<a href="http://www.tribnet.com">http://www.tribnet.com</a>	Gary	Smith	(253) 552-7087	gary.smith@tribnet.com
The News Journal	123869 Gannett Company Inc	<a href="http://www.delawareonline.com">http://www.delawareonline.com</a>	Mertle	Jones	(914) 696-8588	mjones@thejournalnews.gannett.com
The State	121699 Knight Ridder	<a href="http://www.thestate.com">http://www.thestate.com</a>	Scott	Johnson	(803) 771-8619	ssjohnson@thestate.com
The Spokesman-Review	116391 INDEPENDENT	<a href="http://www.spokane.net">http://www.spokane.net</a>	Gina	Boysu	(509) 744-5612	ginab@spokesman.com
The Knoxville News-Sentinel	115264 The E W Scripps Company	<a href="http://www.knoxnews.com">http://www.knoxnews.com</a>	Jack	Lail	865-342-6801	lail@knews.com
Greensborough News and Record	115211 Landmark Communications Inc	<a href="http://www.newsandrecord.com/">http://www.newsandrecord.com/</a>	Tom	Corrigan	1-800-553-6880	tcorrigan@thedepot.com
Albuquerque Journal	113694 INDEPENDENT	<a href="http://www.abqjournal.com">http://www.abqjournal.com</a>	Don	Freedman	(505) 823-3874	donni@abqjournal.com
Lexington Herald-Leader	112139 Knight Ridder	<a href="http://www.kentuckyconnect.com/heraldleader/in">http://www.kentuckyconnect.com/heraldleader/in</a>	Mary	Epple-Ekhoff	(859) 225-7575	maryee@kentucky.com
Worcester Telegram & Gazette	108769 The New York Times Co	<a href="http://www.telegram.com">http://www.telegram.com</a>	Thomas	Cole	(508) 793-9160	tcole@telegram.com
The Post and Courier	108637 Evening Post Publishing Co	<a href="http://www.charleston.net">http://www.charleston.net</a>	Alai	Seim	(803) 937-5536	seima@postandcourier.com
Sarasota Herald-Tribune	108271 New York Times Regional Nspr (	<a href="http://www.newscoast.com">http://www.newscoast.com</a>	Wayne	Fatheree	(941) 953-7755	newscoast@home.com
The Capital Times/Wisconsin State J	107597 INDEPENDENT	<a href="http://www.madison.com">http://www.madison.com</a>	Paul	Fanlund	(608) 252-6115	planlund@madison.com
The Clarion-Ledger	104375 Gannett Company Inc	<a href="http://www.clarionledger.com">http://www.clarionledger.com</a>	Judy	Foster	(601) 961-7131	jfoster@jackson.gannett.com
Press-Telegram	104078 MediaNews Group Inc	<a href="http://www.ptconnect.com">http://www.ptconnect.com</a>	John	Zappe	(818) 713-3759	jzappe@dailynews.com
The Honolulu Advertiser	102236 Gannett Company Inc	<a href="http://www.thehonoluluadvertiser.com">http://www.thehonoluluadvertiser.com</a>	Sandee	Oshiro	(808) 525-8078	soshiro@honolulu.gannett.com
The Roanoke Times	102173 Landmark Communications Inc	<a href="http://www.roanoke.com/roaimes/index.html">http://www.roanoke.com/roaimes/index.html</a>	Paul	Clarin	(540) 981-3269	pclarin@roanoke.infi.net
The Washington Times	101169 News World Communications Inc	<a href="http://www.washtimes.com">http://www.washtimes.com</a>	Steven	Sweet	(202) 636-4910	steven.sweet@washtimes.com
New Haven Register	100273 Journal Register Company	<a href="http://www.ctcentral.com/jrc-html/papers/localne">http://www.ctcentral.com/jrc-html/papers/localne</a>	Kim	Ryan	(203) 789-5611	kpryan@ctcentral.com
The Augusta Chronicle	100173 Morris Communications Corp	<a href="http://www.augustachronicle.com">http://www.augustachronicle.com</a>	Julian	Miller	(706) 823-3390	jmill@groupz.net



## Appendix 3: Complete Internet Survey

### Harvard Newspaper Internet Survey

Hello, Clark Gilbert.

*Your name will be recorded with your responses and visible by the poll's authors.*

*This poll's results will not be available to respondents online.*

**Thank you for participating in the Newspaper Internet Study being conducted by Clark Gilbert at the Harvard Business School with the support of the Newspaper Association of America. Please fill out all of the questions provided in the survey. We will need your name and company, but all information will be kept CONFIDENTAL.**

**Note that there are some questions concerning site operations to which you may not immediately know the answer. Rather than estimating, please feel free to ask the appropriate technical or operations staff. Similarly, you may consult other records and documents if necessary.**

**Only those who participate in the poll will be given access to the aggregate level findings and comparisons. There are 56 questions and the survey should take approximately 45-60 minutes to complete.**

#### QUESTION 1:

Please enter your name and position.



*Text Limit: 100 characters (approximately 2.0 lines)*

#### QUESTION 2:

Please enter the name of your newspaper organization.



*Text Limit: 100 characters (approximately 2.0 lines)*

*Please select the single response to each question that is most accurate given your perspective and knowledge of your organization.*

#### **Questions 3-13 relate to your views of the impact of the internet in general**

#### QUESTION 3:

How does the online organization categorize the impact of the internet on the parent company's overall outlook?

- Mainly Positive    
  More Positive than Negative    
  An Even Mix of Positive and Negative    
  More Negative than Positive    
  Mainly Negative

#### QUESTION 4:

Relative to external market forces, how much control does the online organization think it has over its future?

- Very High Control    
  High Control    
  Moderate Control    
  Low Control    
  Very Low Control

How does the online organization view the eventual financial implications of the internet for the parent company's overall business?

#### QUESTION 5:

- In the end, this will be a gain for overall performance
  Will lose in some areas, gain in others but net/net a modest gain
  The gains and losses will be a wash
  Will gain in some areas, lose in others, but net/net a modest loss
  In the end, this will be a loss for overall performance

**QUESTION 6:**

How intense does the online organization view the **opportunity** created by the internet for your parent company's overall outlook?

- An extremely powerful opportunity
  A powerful opportunity
  A modest opportunity
  Not an opportunity
  Not sure yet

**QUESTION 7:**

Has the online organization's view changed as the internet has developed over the last two to three years?

- There is a much bigger opportunity than initially thought
  There is a somewhat bigger opportunity than initially thought
  There has been no significant change in viewpoint
  There is a somewhat smaller opportunity than initially thought
  There is a much smaller opportunity than initially thought

**QUESTION 8:**

How intense does the online organization view the **threat** created by the internet for your parent company's overall outlook?

- An extremely powerful threat
  A powerful threat
  A modest threat
  Not a threat
  Not sure yet

**QUESTION 9:**

Has the online organization's view changed as the internet has developed over the last two to three years?

- There is a much bigger threat than initially thought
  There is a somewhat bigger threat than initially thought
  There has been no significant change in viewpoint
  There is a somewhat smaller threat than initially thought
  There is a much smaller threat than initially thought

**QUESTION 10:**

Consider the impact of online revenue on print revenue. How does the online organization view the revenue it generates?

- Primarily to create new, non-competitive, and separate revenue outside of print
  More to create new, non-competitive and separate revenue outside of print
  An even mix between creating new revenue and recapturing potential losses to print revenue from other online competitors
  More to recapture potential losses to print revenue from other online competitors
  Primarily to recapture potential losses to print revenue from other online competitors

**QUESTION 11:**

How concerned is the online organization about cannibalizing print revenue?

- Extremely concerned
  Concerned
  Somewhat concerned
  Not very concerned
  Not at all concerned

**QUESTION 12:**

How has the concern over cannibalization changed in the last 2 to 3 years?

- We are much more concerned today
- We are somewhat more concerned today
- Our views haven't changed considerably
- We are somewhat less concerned today
- We are much less concerned today

**QUESTION 13:**

How different does the online organization view the internet vs. the traditional newspaper business?

- Very different, and unique relative to print, a totally new business
- Different and unique relative to print
- Somewhat different and unique
- Not different or unique, except in that it creates a new channel
- Not really different or unique at all

Questions 14-26 relate to your organization's structure.

**QUESTION 14:**

Are you set up as a separate divisional unit from the newspaper? Select one:

**QUESTION 15:**

If you are separate, when did your unit become separate from the newspaper? Select one:

**QUESTION 16:**

Is your **primary** reporting responsibility at the newspaper or at the corporate level? Select one:

**QUESTION 17:**

When a decision is made for online that might not be in the immediate interest of print, what is your position?

- Focus on what is best for online, even at the cost of print
- Emphasize online, but recognizing the need to help print when possible
- Balance the needs of both online and print
- Emphasize print, but recognizing the need to grow the online where possible
- Focus on what is best for print, even at the cost of online

Fill in the table below with the single most appropriate response for each function of your organization.

**QUESTION 18:**

For each of the following, is the online manager **primarily** responsible to you or to the print functional head? (Select only one per row)

	To Online GM	To Newspaper Functional Head
Classifieds	<input type="radio"/>	<input type="radio"/>
Newsroom content	<input type="radio"/>	<input type="radio"/>
Other content	<input type="radio"/>	<input type="radio"/>
Advertising Sales	<input type="radio"/>	<input type="radio"/>
Marketing	<input type="radio"/>	<input type="radio"/>

**QUESTION 19:**

How have you structured your online classified selling process?

- Separate, online only
- Both separate channel and print channel used, but emphasis on separate channel
- Both separate channel and print channel used, with equal empasis to both
- Both separate channel and print channel used, but emphasis on print channel
- Online sold only through print channel, but separately priced
- Online sold only through print channel, but bundled--no separate price

**QUESTION 20:**

How have you structured your general advertising selling process?

- Separate, online only
- Both separate channel and print channel used, but emphasis on separate channel
- Both separate channel and print channel used, with equal empasis on both
- Both separate channel and print channel used, but emphasis on print channel
- Online sold only through print channel, but separately priced
- Online sold only through print channel, but bundled--no separate price

**QUESTION 21:**

How many years experience did you have **inside** the print newspaper business **prior** to coming to the online organization? (Enter number of years)

*Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.*

**QUESTION 22:**

How many years of experience did you have **outside** the print newspaper business **prior** to coming to the online organization? (Enter number of years--Note: "outside" implies full-time employment other than in the newspaper industry)

*Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.*

**QUESTION 23:**

Looking at the direct reports to the Online GM, how significant is their full-time experience from **outside** of the print newspaper business **prior** to coming to your online organization?

- All of the senior management team has significant experience outside of print
- Most of the senior management team has significant experience outside of print
- Many of the senior management team has significant experience outside of print
- A few of the senior management team has significant experience outside of print
- None of the senior management team has significant experience outside of print

**QUESTION 24:**

**Relative to the print location,** indicate the physical setup of each of the following online functions. (Select only one per row)

	Separate building > 1 mile from print offices	Separate building within a mile from print offices	Separate building, next to print offices	Separate floor within same building	Same floor as print staff
Online Management	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Online Classifieds	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Online Newsroom Content	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other Online Content	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Online Advertising Sales	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Online Marketing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**QUESTION 25:**

What was the total number of employees at your online site **one year** after launching the site? (Enter number of FTE) \_\_\_\_\_

*Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.*

**QUESTION 26:**

What is the total number of your online employees today? (Enter number of FTE) \_\_\_\_\_

*Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.*

**Questions 27-31 relate to general site statistics.**

**QUESTION 27:**

When did you launch the site?

**QUESTION 28:**

What was the primary url of your site at launch? (Enter name of url emphasized in your marketing)

\_\_\_\_\_

**QUESTION 29:**

What is the primary url now? (Enter name of url emphasized in your marketing)

\_\_\_\_\_

**QUESTION 30:**

What were your total page impressions for June 2000? (This should include all sites related to your newspaper--city.com, newspaper.com, etc., and all impressions that carry some form of your url, including both self and 3rd party hosted) \_\_\_\_\_

*Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.*

**QUESTION 31:**

How many unique visitors did you have for June 2000? (This should include all sites related to your newspaper--city.com, newspaper.com, etc., and all impressions that carry some form of your url, including both self and 3rd party hosted) \_\_\_\_\_

*Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.*

**Questions 32-39 relate to the news content on your site**

**QUESTION 32:**

How often are the stories on your home page systematically rotated during the **typical 24 hour day**? (Enter number--Consult staff if necessary) \_\_\_\_\_



*Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.*

**QUESTION 33:**

Do you allow your reporters/staff to scoop the print newspaper?

- Any story can be scooped
  Stories can be scooped most of the time
  Stories can be scooped, with general limitations, e.g. not when the print has an exclusive over other media
  Stories can occasionally be scooped
  No story can be scooped

**QUESTION 34:**

In the **previous week**, rank the following communication tools by their incidence of use in a typical news story. (Select only one per row--Consult staff in necessary)

	Almost always use	Use quite often	Sometimes use	Occasionally use	Rarely or never use
Enhanced text (web links)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Photo gallery	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Audio feeds	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Video feeds	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Polls	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Chat/Discussion Boards	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**QUESTION 35:**

How many **content sections** on the site do you run that are unique to the internet medium (vs. print)? Note: In this case, a content section implies a unique area with repeated and related articles, e.g., digital news, entertainment section, that is not in print. (Enter number) \_\_\_\_\_

*Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.*

**QUESTION 36:**

In that **last week**, how often did you run **enhanced coverage** of feature articles from the print newspaper? Note: In this case, enhanced coverage implies follow-up articles, background data, online databases, and other related web analysis that is **not in print**. (Enter number--Consult staff if necessary) \_\_\_\_\_

*Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.*

**QUESTION 37:**

What percent of the pages on your primary site come **mostly** from the print newspaper. (Enter number without "%" symbol--Consult staff if necessary) \_\_\_\_\_

*Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.*

**QUESTION 38:**

Do you have customizable news features on your site. (Select only one per row--Consult staff if necessary)

	Highly customizable	Moderately Customizable	Slightly customizable	Customizable formats planned	No customization currently planned
Personalized homepage	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Push e-mail	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**QUESTION 39:**

What percent of your users use some customizable feature? (Enter number without "%" symbol--Consult staff if necessary)

*Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.*

**Questions 40-45 relate to new forms of content, including: interactive, community, and utility options**

**QUESTION 40:**

How many thematic chat rooms/discussion boards are available on your site? (Enter number--Consult staff in necessary)

*Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.*

**QUESTION 41:**

Enter the number of other user areas for posting information, e.g. little league scores, PTA meetings, online communities, interest groups, etc.? (Enter number--Consult staff if necessary) \_\_\_\_\_

*Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.*

**QUESTION 42:**

How often are traffic reports updated on a **typical day**? (Enter number of times per day--Consult staff if necessary)

- A.  >12 times per day
- B.  8-12 times per day
- C.  4-7 times per day
- D.  1-3 times daily
- E.  We don't currently provide traffic information

**QUESTION 43:**

How often are weather reports updated on a **typical day**? (Enter number of times per day--Consult staff if necessary)

- A.  >12 times daily
- B.  8-12 times daily
- C.  4-7 times daily
- D.  2-3 times daily
- E.  We do not currently provide weather information on a regular basis

**QUESTION 44:**

Do you have unique classified vertical content (information like auto reviews, job searching tips, etc.)?

- We both develop our own separate content as well as use other external information that is relevant to the classified verticals
- We create our own separate content for the content verticals
- We use other external information that is relevant to the content verticals
- We provide that which is available through our classified consortium sponsor
- We currently do not provide unique classified vertical content

**QUESTION 45:**

How many **permanent and searchable** databases do you provide on your site (local commute times, school ratings, restaurant ratings, television reviews, movie listings, personal data storage, etc.)? (Enter number--Consult staff if necessary) \_\_\_\_\_

*Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.*

**Questions 46-55 relate to alternative streams of income, including: auctions, e-commerce, and the use of demographic data**

**QUESTION 46:**

Which statement best describes the emphasis of auctions on your site?

- Unique local auctions heavily promoted (self-populated, but may include technology partner)
- Online auctions with third-party (like ebay or Yahoo) heavily promoted
- Newspaper consortium auctions heavily promoted (self-populated)
- Unique local auctions not heavily promoted (self-populated, but may include technology partner)
- Online auctions with third-party (like ebay or Yahoo) not heavily promoted
- Newspaper consortium auctions not heavily promoted
- Auction functionality not currently available

**QUESTION 47:**

Do you have any sort of a retail marketplace/shopping area on your site? (Please explain)

- No
- Yes (Explain)

\_\_\_\_\_

**QUESTION 48:**

Do you have other e-commerce options for your readers? (Please explain)

- No
- Yes (Explain)

\_\_\_\_\_

**QUESTION 49:**

How many e-mail addresses from your user base have you recorded? \_\_\_\_\_

*Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.*

**QUESTION 50:**

Do you track online user demographic data? (Select ALL choices that apply)

- Age
- Sex
- Income
- Geography
- No Demographic Data Currently Tracked
- Other

\_\_\_\_\_

**QUESTION 51:**

On what percentage of your users do you have demographic data? (Enter number without "%" symbol--Consult staff if necessary)

\_\_\_\_\_

*Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.*

**QUESTION 52:**

How do you gather this data (Select ALL choices that apply)

- Universal registration
- Contest driven registration
- Area access required registration (e.g. archives)
- Other services that require registration (e.g., push e-mail, personal e-mail, web site hosting)
- Data not currently gathered

**QUESTION 53:**

Do you track/profile online viewing habits of **individual users**? (Select ALL that apply)

- Track number of page views per individual user
- Track average time on site per individual user
- Track and profile thematic patterns at the individual level (sports junkie, weather watcher, etc.)
- Track web browsing habits of individuals as they leave the site
- Do not track patterns at the individual user level

**QUESTION 54:**

Do you dynamically serve advertising based on **individual user** demographics? (Select ALL that apply)

- Advertising can be served to targeted AGE demographics
- Advertising can be served to targeted GENDER demographics
- Advertising can be served to targeted INCOME demographics
- Advertising can be served to targeted GEOGRAPHY demographics
- Advertising can NOT be served on an individual demographic level

**QUESTION 55:**

Do you track advertising effectiveness? (Select only one per column)

	Currently tracked	Not currently tracked
Click-through rates	<input type="radio"/>	<input type="radio"/>
Comparative effectiveness across sources (banner, sponsorship, etc.)	<input type="radio"/>	<input type="radio"/>
Comparative effectiveness across content areas	<input type="radio"/>	<input type="radio"/>
Comparative effectiveness across demographic categories	<input type="radio"/>	<input type="radio"/>

**Thank you. We will be providing the results to all participants within the next six months.**

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**Appendix 4a: Detailed Calculations for Prototypical Plot of Model 5 Predicting Innovation**

Model 5 for Innovation (See Table 10.2):  
 $INNO = 43.69 - 0.00007(CIRC) + 0.51(FTE) + 4.20(LAUNCH) - 0.74(INET)$   
 $+ 4.47(OWN) - 3.41(TCOM) - 6.76(ICOM)$

Model =	Constant	CIRC	FTE	LAUNCH	INET	OWN	TCOM	ICOM
Coefficient	43.694	-0.0000677	0.508	4.200	-0.735	4.470	-3.410	-6.757
Mean		231943.8	21.231	4.000	42.833	1.403		
Threat							1.550	
Opportunity							-1.550	
Integrated								1.608
Separated								-1.608

		Constant	CIRC	FTE	LAUNCH	INET	OWN	TCOM	ICOM	Score
Average	Model =	43.69	-15.70	10.78	16.80	-31.49	6.27			
Threat, Integrated		43.69	-15.70	10.78	16.80	-31.49	6.27	-5.28	-10.87	14.20
Threat, Separate		43.69	-15.70	10.78	16.80	-31.49	6.27	-5.28	10.87	35.94
Opportunity Integrated		43.69	-15.70	10.78	16.80	-31.49	6.27	5.28	-10.87	24.77
Opportunity Separate		43.69	-15.70	10.78	16.80	-31.49	6.27	5.28	10.87	46.50

<b>Threat, Separated</b>	<b>Opportunity, Separated</b>
35.9	46.5
14.2	24.8
<b>Threat Integrated</b>	<b>Opportunity, Integrated</b>

21.7

21.7

Effect of Structure

10.6      Effect of  
 10.6      Framing

**Appendix 4b: Detailed Calculations for Prototypical Plot of Model 6 Predicting Market Penetration**

Model 6 for Market Penetration (See Table 10.5):

$$IMPRES = -7,081,102 + 26.51(CIRC) + 156,861(FTE) + 622,171(LAUNCH) + 34,373(INET) + 714,652(OWN) - 591,132(TCOM) - 216,199(ICOM) + 545,641(TCOM*ICOM)$$

Model =	Constant	CIRC	FTE	LAUNCH	INET	OWN	TCOM	ICOM	TCOM*ICOM
Coefficient	-7081102	26.51	156861	622171	34373	714652	-591372	-216199	545641
Mean		231943.8	21.23056	4.000	42.833	1.403			
Threat							1.550		
Opportunity							-1.550		
Integrated								1.608	
Separated								-1.608	

		Constant	CIRC	FTE	LAUNCH	INET	OWN	TCOM	ICOM	TCOM*ICOM	Score
Average	Model =	-7081102	6148366	3330247	2488684	1472310	1002498				
Threat, Integrated		-7081102	6148366	3330247	2488684	1472310	1002498	-916392	-347720	1359890	7456781
Threat, Separated		-7081102	6148366	3330247	2488684	1472310	1002498	-916392	347720	-1359890	5432441
Opportunity, Integrated		-7081102	6148366	3330247	2488684	1472310	1002498	916392	-347720	-1359890	6569786
Opportunity, Separated		-7081102	6148366	3330247	2488684	1472310	1002498	916392	347720	1359890	9985005

<b>Threat, Separated</b>	<b>Opportunity, Separated</b>
<b>5432441</b>	<b>9985005</b>
<b>7456781</b>	<b>6569786</b>
<b>Threat Integrated</b>	<b>Opportunity, Integrated</b>

→ 4552564 Effect of Opportunity Framng in Separated Sites  
 → -886995 Effect of Opportunity Framng in Integrated Sites



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