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## STRATEGIC PATHS AND MEDIA MANAGEMENT – A PATH DEPENDENCY ANALYSIS OF THE GERMAN NEWSPAPER BRANCH OF HIGH QUALITY JOURNALISM

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### ABSTRACT

I examine the difficulties of incumbent firms have in acting and reacting to changing environments and in coping with new strategic challenges. The study focuses on the strategic development of media organizations in the market of national daily produced high quality newspapers in Germany. The analysis takes place at the branch level, and by using path dependency theory, explains the difficulties that newspaper companies face in strategic realignment. I introduce the concept of a strategic path and provide an analytical framework for analyzing strategic processes and their inner dynamics. By means of an explanatory case study design, comprising all incumbent players in the field, the analysis sheds light on how and why a specific strategic pattern has emerged and why it is still maintained in quality newspapers. The analysis reveals the different components of the strategic pattern, their self-reinforcing dynamic, and their complex interplay. The results indicate that strategic patterns explain much of the recent crisis and the difficulties that newspapers have in coping with continuing changes. Thus, the paper contributes to both a better understanding why daily produced quality journalism has to be considered a jeopardized product-market-concept and to better explore the emerging and self-reinforcing character of strategic processes. Insights of the study could also be helpful for discern and disentangle the core assets of a strategy from the problematic set of strategic assumptions they are embedded in.

JEL-Classification: M10.

Keywords: Media Management; Path Dependency; Strategic Choice; Strategic Paths; Strategic Process.

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### 1 INTRODUCTION

Many strategic and organizational studies focus on whether and how incumbent firms adapt to occurring environmental changes and cope with new challenges (e.g., Argyris (1985); Tushman, Newman, and Romanelli (1986); Miller (1990); Burgelman (2002a);

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Hannan, Plos, and Carroll (2004); Gilbert (2006); Benner, (2007)). Some of this research assumes different forms of rigidity inherent to organizations due to their “structural nature” (Hannan and Freeman (1984); Nelson and Winter (1982)), but most explains problematic strategic development by relying explicitly (or implicitly) on constructs of myopic managerial behavior. Such behaviors include resistance to change, threat rigidity, and cognitive limitations (Staw, Sandelands, and Dutton (1981); Piderit (2000); Miller (2002)). Thus, a lack of knowledge, adopting wrong or misleading competences or capabilities, and insufficient exploratory innovations are central to explaining insufficient response to environmental changes (Miller and Chen (1996); Leonard-Barton (1992); Burgelman (2002a); Collinson and Wilson (2006)).

Cohen and Levinthal (1990) have labeled the capability of an organization for acting on changing environments as “absorptive capacity”. The authors adopt a cognitive learning perspective on organizations by arguing that the ability to evaluate and utilize environmental knowledge is largely a function of the level of prior related knowledge. In other words, a firm’s responsiveness relies basically on its own historical development. Longitudinal studies on strategic development confirm that the required capacity for addressing inconsistent new contexts are strongly related to a firm’s past experiences (Miller and Toulouse (1998); Tushman and O’Reilly (1996); Christensen and Bower (1996)).

Conceptually, and in the most abstract sense, the ability of a firm to act and to react to changing environments depends on its ability to exert strategic decision making, and therefore to be endowed with strategic choice (Child (1997)). This ability also includes as a necessary precondition the awareness of these changes (Tripsas and Gavetti (2000)). The capacity to be aware of changes and the strategic ability to have choices and to be able to act deliberately on these changes both depend on the strategic practices (understood as a specific combination of routines and resources) adopted by a firm (Cohen et al. (1996); Barney (1997); Feldman and Pentland (2003); Gilbert (2005)). Therefore, the absorptive capacity of an organization is basically a function of its set of routines and resources. Given the fact that routine and resource development is a time-consuming process, especially for the intangible, informal and implicit side of organizations (Barney (1997); Hall (1991)), the adopted routines and resources in  $t_{n+1}$  are largely a function of the exploitation of the strategic choice in  $t_n$ . Consequently, the range of strategic choice and therefore a firm’s absorptive capacity is basically a function of its exploitation in the past. This insight raises the question of why some firms are likely to narrow down their absorptive capacity and their range of strategic choices while other firms do not.

Similar to institutional approaches (DiMaggio and Powell (1983); Tolbert (1985)) Cohen and Levinthal (1990) refer to the environmental or contextual configurations of a firm to explain these phenomena (Todorova and Durisin (2007)). The authors assume that complex settings induce more learning opportunities and thus a higher level of the requisite variety (Cohen and Levinthal (1990); Ashby (1958)). However, understanding strategies from the perspective of choice requires an interactive understanding of the decision processes between a firm and its environment (Schreyögg (1984); Child (1997)) that finally determine a firm’s absorptive capacity in time.

It is about this conceptual problem of strategic and organization research that a sound understanding of path dependency processes comes to the fore. Most strategic and organizational studies refer to path dependency in a broader sense, equating path dependency with the fact that history matters. Thus, by explaining how and why history matters, a rigorous version of path dependent processes has much to offer for a better understanding of the inner dynamic of strategic processes. Hence, path dependency can be understood as a conceptual framework that explains emerging phenomena in a processual perspective. It does so by focusing on self-reinforcing mechanisms and shaping specific strategic practices (routines and resources), that finally lead to a strategic lock-in situation and thus to a lack of strategic responsiveness (Sydow, Schreyögg, and Koch (2005)). Such a theoretical approach could be considered a helpful device for understanding the range of strategic action and reaction of challenged incumbent firms.

The empirical part of this paper analyzes the strategic development in the branch of national daily produced high quality newspapers in Germany. The purpose of the study is to apply a strategic path analysis that will enable us to understand the strategic activities and the range of strategic choice and decision making. The idea is to explain these processes and their relative stability with an analytical framework of strategic paths.

## 2 PATH DEPENDENCY THEORY AND THE CONCEPT OF STRATEGIC PATHS

Since the inverted dictum “strategy follows structure” has entered strategic and organizational thought, it is all too clear that strategies are not built independently from the structural context in which they are embedded (Boschken (1990)). In this sense, the strategic process is both always context and also history related, so the range of strategic choice is always somehow restricted. The argument that history matters draws on this insight. Strategic processes in organizations do not evolve in an unconditioned way, but instead are cumulative, in the sense that former events and decisions have an impact on those that follow (Cohen and Levinthal (1990); Teece, Pisano, and Shuen (1997)). Such historically induced restrictions can obviously refer to different reasons.

The most obvious reason that history matters lies in a firm’s initial investments (Joskow (1987); Arrow (2004)), in the case that an original choice of solution cannot be revised without additional costs or without realizing losses (sunk costs). The more specific an investment is, the higher the risk of an only cost-intensive revision. Thus, history dependency is influenced by asset specificity due to occurring switching costs (Williamson (1985)). This coherence is not only true for tangible, but also for intangible, assets. The phenomena of imprinting refer to this very point, acknowledging the shaping forces of primary conditions (Doz (1996)), for instance that of a founder of an organization (Stinchcombe (1965); Boeker (1989); Marquis (2003)). Later on, it might be very difficult to change an already established behavioral pattern, because it is the accustomed way of doing things and has been internalized.

The structural properties of an organization are also an obvious source of how history is inscribed on organizations. It is widely accepted that organizations must rely on somehow

stable routines (Nelson and Winter (1982); Hannan, Plos, and Carroll (2004)) to reduce complexity and to build up the internal and external reliability that are necessary for a firm's survival in a complex and competitive environment. It is argued, however, that once a routine set is adopted, it would become difficult, if not impossible, for established firms to overcome it. Firms are considered structurally inert due to the (enforced) structural "decisions" taken in the past.

Taking into account not only the routine set but also the resources of an organization and their interplay (Peteraf and Barney (2003)), many studies refer to the rigid character of competences and capabilities. Their authors argue that core competences and capabilities developed over time are especially endowed with the side effect of inertia (Schreyögg and Kliesch (2007)). Leonard-Barton (1992) emphasises this point by stating that the only difference between a core competence and a core rigidity is competitive advantage. Thus, rigidity is a latent side effect of success, one that leads to strategic simplicity which is accompanied by a lack of strategic responsiveness (Miller (1993)). In this sense, organizations may be triggered to concentrate more and more in a specific direction.

All these explanations refer to the fact that organizations, and hence strategic systems, are "historical machines" (Foerster (1984)) that are built on self-made structures and processes (Luhmann (1995)). These structures and processes probably cannot be revised later on and thus are themselves a restriction to strategic action and therefore restrain firms' absorptive capacity. Thus, strategic systems lose their ability to act strategically due to their own strategic actions in the past.

More recently, such phenomena of self-induced limitations of organizational and strategic choice have been linked to path dependency processes (Schreyögg, Sydow, and Koch (2003)). This approach originates in the historical studies of Paul David (1985; 1986). David explored the development of the QWERTY keyboard technology by demonstrating how an inferior, and hence inefficient, technological standard was established and why it is still maintained. Brian Arthur (1989a; 1994a) has formalized and simulated path dependent processes by attaching central importance to the inner dynamic of such processes and by creating a model of increasing returns and self-reinforcing mechanisms.

With regard to organizational studies and strategic decision-making, path dependency theory is a relatively young and still developing field of research (Schreyögg, Sydow, and Koch (2003)). Although the notion of path dependency as such enjoys great popularity and widespread application, a more substantiated and well-founded conceptualization of organizational path dependency is rare (Karim and Mitchell (2000)). Instead, to economic discourse and to rational choice theory (where the history matters argument provides a fundamental assault to basic premises and hence has provoked remarkable defensive routines from the neoclassical mainstream (Liebowitz and Margolis (1990); Liebowitz and Margolis (1994); Liebowitz and Margolis (1995); see also Regibeau (1995))), the idea of history dependency, at least in its broad sense, fits perfectly into almost all elaborated conceptualizations of strategic processes and rigidity (Burgelman (1983); Huff and Reger (1987); Noda and Bower (1996); Gilbert (2005)).

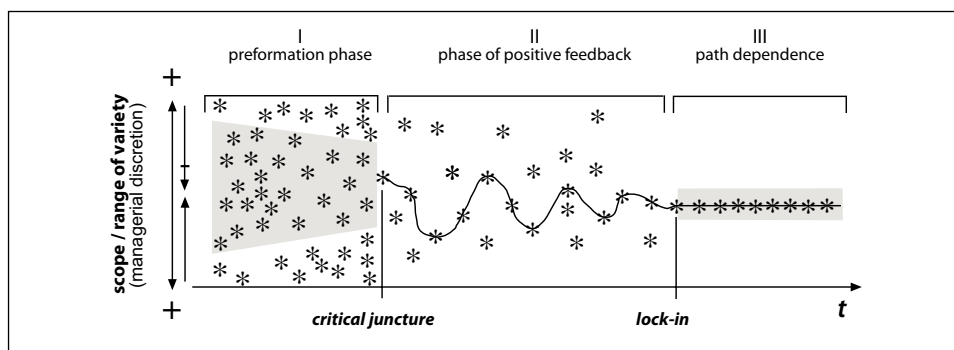
In a broader understanding (“history matters”), all the abovementioned explanations of organizational and strategic rigidity could be subsumed under the notion of path dependency. Whereas a more rigorous version of path dependency provides a crucial additional insight: it explains not only that, but *how* and *why* strategic systems get rigid and trapped by a loss of their absorptive capacity. This explanation stands at the core of the theory.

### 2.1 THE PROCESSUAL DYNAMIC OF PATH DEPENDENCY: A THREE-PHASE-MODEL

Path dependency is the possible outcome of a dynamic organizational process that is governed by one or more self-reinforcing mechanisms and which leads to a narrowing of the scope of variety and the range of managerial discretion (Sydow, Schreyögg, and Koch (2005)). Thus, path dependency describes a tapering process and a path represents a restriction of choice for a focal social decision system. This restriction is not ready-made at the beginning, as is the case for primary imprints or initial investments, because it is an emerging pattern, it is the result of an ongoing process. In this sense, strategies are understood primarily as processual phenomena, or – according to Mintzberg (1978) – as a pattern in a stream of decisions and events.

Mintzberg conceptualizes any strategy as a pattern, but path dependency theory focuses on the development of a special kind of pattern. Such a pattern must be considered *non-ergodic*, starting with flexibility and ending with *inflexibility*. Furthermore, the concrete pattern developed over time is *not predictable* at the beginning of the process and it can finally lead to an *inefficient situation* (Arthur (1989b); Arthur (1994b); David (2001); Pierson (2000)). Sydow et al. (2005) have reconceptualized this process in a 3-stage-model (see *Figure 1*).

**Figure 1: The constitution of an organizational path**



*Phase I, the preformation phase*, of the model is built on contingency, but history already matters in a broader sense of the early imprints or initial investments. These early decisions could also have a narrowing effect (indicated by the shadow). However, there always remains a considerable scope of choice.

*Phase II, the positive feedback phase*, begins with a critical juncture (Collier and Collier (1991)), meaning a decision and/or event that triggers a dynamic regime of self-reinforcement. A dominant solution begins to emerge little by little. This solution renders the whole process increasingly stable. Decisions are nevertheless still contingent and choices are still possible. At the heart of phase II different self-reinforcing effects are at work, inducing a process of positive feedback, such as (1) economies of scale and scope, (2) direct and indirect network externalities, (3) learning effects, (4) adaptive expectations, (5) coordination effects, and (6) complementarity effects (Arthur (1988); North (1990); Sydow, Schreyögg, and Koch (2005); Stieglitz and Heine (2007)).

The idea of self-reinforcing mechanisms implies positive feedback, and the existence of a self-reinforcing mechanism is a necessary precondition for what is defined afterwards as a path. But it also implies that agents (consciously or unconsciously) act upon these mechanisms, and by doing so they reinforce the path effects. The diminishing scope of variety and the limitations in choices are collateral effects of this process. Consequently, agents may “lose sight” of other data whilst adopting (or applying) a particular pattern of strategic action and reflection leading them in a more and more focused direction due to positive feedback.

With the transition to *Phase III, the path dependent phase*, the path gets locked in. Thus, the dominant pattern gains a more or less deterministic character (indicated by the shadow in Phase III).

## 2.2 LINKING PATH DEPENDENT AND STRATEGIC PROCESSES: THE EMERGENCE OF A PATH DEPENDENT STRATEGIC PATTERN

Strategy in its proper sense always implies having choices (Child (1972); Schreyögg (1984)). However, path dependency describes a process of a diminishing range of variety and thus the range of choices. Consequently, from a strategic point of view, the emergence of a path is always problematic, because it hinders a system from acting strategically. When a firm develops a strategic path, then the focal strategic system has lost its central property. On the other hand, and due to the effect of the self-reinforcing mechanisms, it is also (i.e., from another perspective) rational to follow the path, because the strategic pattern that has been developed gains increasing returns. Thus, at least initially, a strategic path implies both a successful strategic pattern and, as shadow costs of that pattern, a diminished scope of strategic choice.

To clarify this seeming contradiction, and as it is outlined in the introductory section of this paper, strategic systems can be conceptualized as having been given specific routines and the resources and the ability to deliberately manage these routines and resources. Thus, and to analyze and understand an emerging path of such a system, we must refer to the transformation of the routine and resource set of that system. To fully understand this idea, it is helpful to envision the path dependent process depicted in *Figure 1* as an iterative strategic decision-making process. The process ends with the full emergence of a stable strategic pattern, which is understood to be a combination of routines and resources that accompanies the (side-) effect of diminishing strategic choice. Thus, a strategic path can be thought of as:

- A specific strategic pattern developed over time (phase III),
- Constituted (phase II) and/or maintained (phase III) by positive feedback loops,
- originally triggered by small or bigger events and/or decisions (beginning of phase II),
- leading to a lack of strategic choice.

In this sense the process of path dependency refers to this possible flip side of a dynamic strategic process. Consequently, a firm must deal with a trade-off between maximizing (or at least maintaining) the scope of strategic choice (and hence the firm's absorptive capacity) and maximizing (or at least satisfying) those goals that are triggered by the self-reinforcing mechanisms. A strategic lock-in means that a system is not able to overcome the established strategic pattern, and so must follow the already established path by acting within it and reproducing the strategic pattern that is already in place. The strategic pattern reveals a "dominant logic" of strategic action and reflection (Bettis and Wong (2003)). This dominant logic does not mean that even a path dependent strategy at a certain point in time is the only destiny of an organization (Burgelman (2002b)). There are certainly ways out of this path trap (see also O'Driscoll, Carson, and Gilmore (2001)), but the first necessary step out of a strategic lock-in is to develop a better understanding of the dynamics standing behind such processes.

### 2.3 THE ANALYSIS OF STRATEGIC PATHS: AN ANALYTICAL FRAMEWORK

The analysis of a strategic path is retrospective in nature, because it tries to explain the present rigidity of a strategic system by referring to its historical development. Therefore, a path analysis starts with a path assumption, assuming that a concrete and observable form of rigidity related to a pattern is constituted by a path dependent process. For the concrete empirical analysis of such pattern-generating processes, I suggest a five-step procedure of analysis, each of which focuses on different aspects of the above presented understanding of strategic path.

The first step focuses on continuity and change of a) strategic practices and/or b) results of any *strategic activity* concerning the assumed strategic path. It is a necessary precondition of path dependency that we must be able to detect at least one time-consistent strategic issue that relies on constant practices and/or results.

The second step focuses on positive, negative, and neutral *elements of feedback* concerning the path assumption, and attempts to detect critical events related to them. It relates activities, events, and feedback in time sequences in order to explore reinforcing relations between them. It is the second necessary precondition of path dependency to find at least one positive feedback loop attributable to the path assumption and thus the strategic pattern related to it.

The third step focuses on relevant changes that might indicate a *rationality shift* for the focal strategic pattern. This step compares the organizational activities before and after the rationality shift in order to detect continuity and/or changes. The contra-factual maintenance of a specific pattern is (in combination with steps 1 and 2) a basic indicator for a path induced strategic lock-in.



The fourth step focuses on changes in the strategic activities with regard to the rationality shift and the path assumption. If these changes are *misleading and not successful*, then the focal system may not be able to overcome the present situation of a lock-in pattern. This step is (again, in combination with steps 1 and 2) the second basic indicator for a path induced strategic lock-in.

The fifth step focuses on the *form and degree of path dependency* by asking why and to what extent the focal system is not able to cope with a new situation and to overcome the present lock-in. Three mutual, but not exclusive, cases are possible:

- a) There are no other possible strategic activities (resource limitation).
- b) Management does not recognize other possible strategic activities.
- c) Management does not recognize the necessity for other possible strategic activities.

This final analytical step leads to the issue of path-breaking abilities and the remaining ability to overcome the path dependent pattern on the resource and/or the routine level of an organization.

The first four steps of the analytical framework focus basically on what a strategic system is actually doing, i.e., its strategic activities. However, the analysis of a strategic path must also adopt the inner perspective of the strategic agents in the field and their logic of strategic reasoning. Therefore, it is necessary to capture not only the strategic activities, but also the reflection on these strategic activities by the agents in the field.

Overall, the analysis can be subdivided into four different levels of analysis: *strategic activities* (“what a strategic system does/not does”), *strategic discourse* (what a strategic system says/does not say”), *strategic reflection* (“how a strategic system state a reason for what it does/says”) and *strategic basic assumptions* (“to what kind of strategic premises a strategic system refers”).

Classifying the data in five steps and on four different levels provides the framework for a systematic interpretation process. By using this process we can explore the driving forces of the strategic path determining the strategic patterns of the players in the field.

### 3 THE CASE OF THE BRANCH OF NATIONAL DAILY PRODUCED HIGH QUALITY NEWSPAPERS IN GERMANY

#### 3.1 SAMPLE SELECTION AND INTRODUCING CASE DESCRIPTION

For different reasons, the media industry offers an ideal, albeit underdeveloped, field for strategic *process* research (see Gilbert (2005) for the most prominent exception). In many countries the media are subject to deep, radical changing processes. In Germany, starting with the privatization of television in the early 1980s, with the digitization of products and production processes and the emergence of the Internet, the competitive situation has changed, and is still changing profoundly, the market structures and the world of information producing



and consuming. Although there is no doubt that these issues that influence the media industry indicate relevant changes, there is no clear idea of their impact on an organizational and strategic level. Therefore, the key question at this moment for media management is how media organizations should cope with these developments (Picard (2004)).

This uncertain and highly ambiguous strategic situation is most evident in the media section of newspapers. High-quality newspapers are in an especially paradoxical situation: on the one hand they still receive the highest estimation as an indispensable flagship of modern democratic society (Habermas (2007)), but on the other hand they are confronted with changes that are reshaping the landscape of quality journalism profoundly and not least of all, are questioning their economic legitimacy. In this vein, for some observers of the industry, the verdict seems to have already been given: "Who killed the newspapers?" asked the *Economist* in Summer 2006 (August, 24). Others are more chary, bemoaning only the vanishing newspapers (Meyer (2004)).

This study focuses at a branch level on the strategic paths in the German market of high-quality newspapers comprising the »Frankfurter Allgemeine Zeitung (FAZ)«, the »Frankfurter Rundschau (FR)«, the »Süddeutsche Zeitung (SZ)«, »die tageszeitung (taz)« and »Die Welt«. Given that all the newspapers have quite different strategic and organizational aspects (such as political profile, owner structure, internal structure etc.), a comparative analysis seems a promising approach for a better understanding of the strategic crisis they are all stuck in.

This crisis was triggered originally by the economic breakdown that began in 2001, and which had severe impacts on the advertisement business of the newspapers. This breakdown was not only considered an external shock, but also an indicator for structural problems of the whole newspaper branch, which began to comprehend the slow but continuous decline of readership and the evident difficulties of facing the challenges of the so-called "new media". Briefly, these changes constitute a complex strategic situation that is so far open ended. The further development of the branch depends to a great extent on the strategic decisions the players take today, and these decisions in turn depend on the absorptive capacity and the range of strategic choice still available.

In this study, I compare the selected newspapers by focusing not only on their organizational levels, but also on their institutional branch level. Therefore, although the study is based on a multiple case study, to analyze the institutional setting in which all these different organizations are embedded, it is conceptualized as a single case (the branch).

### 3.2 METHODS: QUALITATIVE STUDY

The study looks back on the development of the branch over the period 1999 to 2006 and identifies a strategic pattern that has developed in a path dependent way. Research on organizational paths requires a longitudinal perspective and an analysis of sequences of events and actions in and among organizations (e.g., time chronologies, simple and complex time series, etc.) (Yin (2003)). Only by examining these temporal processes can

we identify and explicate the working of the fundamental social mechanism(s) underlying the construction of organizational paths. Consequently, path dependency research is always process research (Pettigrew (1995)).

Thus, if we want to understand how and why strategic systems restrict or even lose their capacity to responding to environmental changes, a qualitative approach is definitely most appropriate. Further, because we have to deal with a process perspective and the attempt to grasp the inner logic of strategic reasoning, an interpretative approach is also indispensable. What is needed is a form of "thick description" (Geertz (1973)) of the development of the field by gathering qualitative data offering information of how and why strategic decisions are taken, or not taken, and how they are explained, or not explained, by the players in the field. For that reason the case study method is the most appropriate method, because it allows us to detect complex causal relations in specific contexts (Bennett and Elman (2006)).

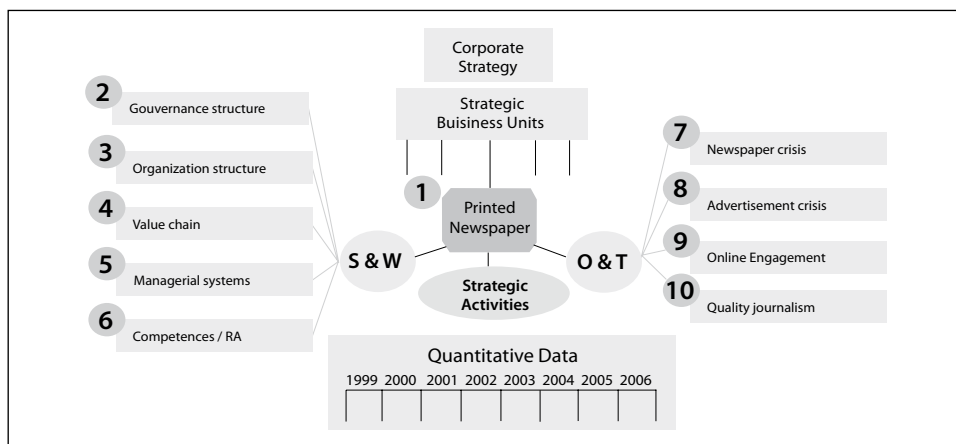
However the case study conducted here is not explorative in nature (in the sense that it tries to explore a theory of strategic path), but explanatory, in the sense that it applies the above developed framework to an empirical case (Yin (2003)). This framework, with its five-step procedure and the four levels of analysis, offers a clear-cut analytical framework for orientating an explanative research design.

### 3.3 DATA COLLECTION AND DESCRIPTION

I obtained the qualitative data for this analysis on a branch level from semi-structured interviews conducted in 2006 with editors-in-chief and leading editors of the newspapers and branch experts with different professional backgrounds. In addition, I observed the editorial department of every newspaper for a period of three days and performed additional narrative interviews. Overall, there were 80 interviews, ranging in length between 20 and 120 minutes, with an average length of 49 minutes. Beyond this directly collected data from the field, I also analyzed more than 1.000 newspaper articles (approximate length between 30 and 2.000 words), published by both the newspapers and other media, concerning the main strategic issues of the branch in the period between 1999 and 2006. The articles were identified on the basis of keywords (e.g., newspaper market, advertisement crisis, online journalism, and so on) and gathered by using available CD-ROM data files and the Lexis-Nexis databank with full-text research possibilities.

I transcribed the interviews and newspaper articles so that this data could be processed with the QDA-software atlas.ti, v5.2. In the first step, I applied the software program to codify the data along the main categories of ten preselected core issues, which enabled me to build up the following case study database (see *Figure 2*).

**Figure 2: The case study database**



I note that I developed the core issues of the database deductively and followed the idea in such a way as to organize and structure the data with regard to the necessary understanding of strategic self-interpretation of the agents in the field. The database is built on the logic of strategic analysis (Porter (1985); Hall (1992)) and focuses, on the resource side, on strength and weaknesses (issues 2 to 6) and on the environmental side on opportunities and threats (issues 7 to 10). As indicated in *figure 2*, the database was supplemented by quantitative data obtained from few internal documents, information gathered in the interviews, and external available material (e.g., IVW, AWA, ZAW) concerning the development of returns, circulation, coverage, selling prices, advertising amount, advertising prices, and the number of salaried persons over the indicated period of time.

### 3.4 DATA ANALYSIS AND PRIMARY RESULTS

The main focus of data analysis lies in identifying if effects of self-reinforcement constitute systematically a strategic path, what kind of strategic pattern is build up by this process, and what kind of impact has this pattern on the strategic development of the players in the field. Conducting a comparative study on the branch level, this analysis mainly focuses on the similarities of the strategic behaviors of different players in the field. For that purpose the data structured in the database relates to the five consecutive steps and the four levels of path analysis in a pattern matching and interpretation process. Thus, step 1 identifies time consistent factors, step 2 all different forms of feedback, step 3 the relevant changes in the environment and the related strategic activities, step 4 focuses on strategic activities used in trying to overcome or change the strategic situation, and step 5 focuses on the self-explanation and self-evaluation of the players in the field.

Subsequently the changes identified by step 3, which are aggregated in the first analysis to the issues of advertisement, readership, new media, and quality journalism, then only

to the first three because quality journalism was related to all of them, are put into relation with the time consistent factors of step 1. As a result, three issues appear as the most appealing factors related to strategy: the applied “financial model” (FM), “the product model” (PM) and the “market model” (MM).

I follow that analysis with an analytical procedure, intended to identify if and how the form and impetus of the strategic activities subsumed in step 3 (reactions to changes) could be related to the factors of step 1 by referring to feedback-mechanisms of step 2. This interpretative procedure is guided by the following questions addressed to the data: “How can we explain the (relatively) time consistency of the FM, PM, or MM, if we consider the changes in advertisement, readership and new media?”.

Using this interpretation process, I identify three different feedback mechanisms that drive the strategy of each player towards a particular idea of quality (= a quality concept, QC), a specific product concept (PC), and a specific market concept (MC). This strategic positioning concerns all the newspapers in the field, even if in a fine grain analysis they are clearly differentiated against each other. However, the point is that the mechanisms as such are identical, even if they lead each player to develop a (slightly) different concept of quality, a different product and market concept.

As noted earlier, the strategic activities identified with step 4 are requiring additional/alternative financial returns or sources, reworking the product model, switching or enlarging the market focus to a more feminine readership etc. Thus, I ask if and to what extent these activities might be appropriated to overcome the present strategic situation. Doing so would offer an excellent understanding of estimating the remaining scope of choice.

Finally, by focusing on the three different reasons, that could explain such persistence, step 5 of the path analysis makes it possible to figure out the form and degree of path dependency. Because of the very different resource situation of the newspapers, the analysis could not detect a common explanation for this point. The awareness, the (self-)estimation and the reasoning on the appropriateness of the present strategic endeavor varies from newspaper to newspaper and also differs between hierarchical levels. The interpretation of the data offers only a slight relation between the resource situation of a newspaper and the estimation of agents in charge about the necessity for a change: the less comfortable the resource situation, the more the necessity for change is claimed, but at the same time considered impossible due to resource limitations [“Yes, we would have to do this, but we are not able to do it.”].

#### **4 DISCUSSION: RECONCEPTUALIZING THE STRATEGIC PATH OF QUALITY NEWSPAPERS**

The concept of a strategic path points out that the strategic scope of an organization might be framed by a dynamic of self-reinforcing mechanisms that lead to a narrowing effect of the focus of strategic concern. Thus, the core of this analysis lies primarily in a detailed reconstruction of these mechanisms. Our analysis has explored three different forms of self-reinforcing mechanism resulting in the adopted concepts of quality, product and

market. These mechanisms are: 1) an advertisement-quality-spiral, 2) a quality-product-concept-spiral and 3) a product-concept-readership-spiral.

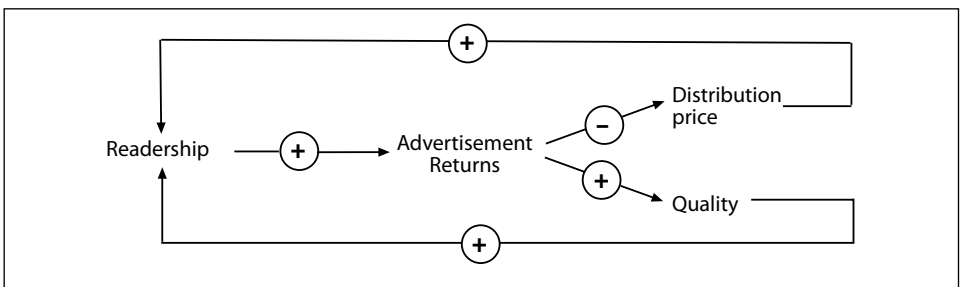
The three mechanisms correspond to the three time consistent issues identified in step 1: the financial model, the product model, and the market model.

These different models contribute to the strategic pattern that a firm develops and refer to different forms of changes in the environment which are threefold: the decline of advertisement returns, the challenges concerning the emergence of the internet and the new media and the decline of readership.

#### 4.1 THE FINANCIAL MODEL

Clearly, the decline of advertising revenues has had a deep impact on the financial model of the newspapers. Normally, newspapers in the market are financed up to 66% by advertising revenues and only 34% of those revenues result from sales (Bauer (2005)). Beyond this net effect on the economic prosperity of the newspapers, there is an inherent dynamic and a historically developed dependency between this financial model and the way newspapers are produced and sold. The most evident effect of this model is that the newspapers can be sold systematically under the production costs of content because they are subsidized by advertisement returns. Also, newspapers can develop a specific kind of journalistic profile and a specific form of quality concept (QC) neither of which would be possible without advertising revenues. Further, this model creates a consumer willingness to pay that lies definitely under the production costs of content. *Figure 3* summarizes the inherent dynamic.

**Figure 3: The advertisement-quality-spiral**

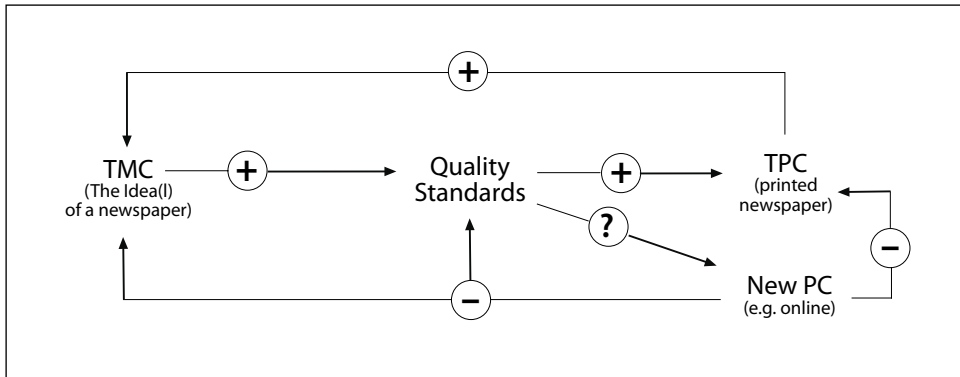


This self-reinforcing effect exerts both direct and indirect forms of dependency, and once established, it turns out to be quasi irreversible, because in the beginning it has only positive effects on both information producers and consumers. However, if there is an external shock such as an economic crisis, this model reveals its inherent fragility and shows its shadow side: quality declines due to necessary cost reduction and thus may then reinforce a downward spiral effect.

4.2 THE PRODUCT MODEL

With the emergence of the new media, daily newspapers are not only confronted with a new and different form of journalism, but also threatened in one of their traditional core abilities: providing up-to-date news. However, over time, the traditional market concept (TMC) of the newspapers has developed a specific idea of quality standards (and thus a specific quality concept) concerning not only actual events, but also breadth and depth of news coverage. This quality concept is directly linked to the traditional product concept (TPC): the print version of a newspaper in a particular format that provides full news coverage of politics, economy, financial markets, culture, sports, and to a certain degree regional and local news. Thus, this traditional product concept refers to an idea of a core market for journalistic products and focuses on the needs of the politically and culturally interested citizen for information. This idea (and ideal) of “Bildungsbürgertum” is assumed by the TMC and is reinforced over years by following specific quality standards that have been realized with a specific product concept. As a consequence, in the development of the newspapers a self-reinforcing dynamic between the assumed market concept (MC), the idea of quality and the product concept (PC) has emerged. *Figure 4* summarizes this dynamic, which is paradigmatic for the product model by indicating that a deviation from this dynamic could be difficult, if this deviation (as in the case for online journalism) is considered a threat not only to the printed version of journalism but also to the adopted quality standards and last not least to the whole idea of the newspaper itself.

**Figure 4: The quality-product-concept-spiral**

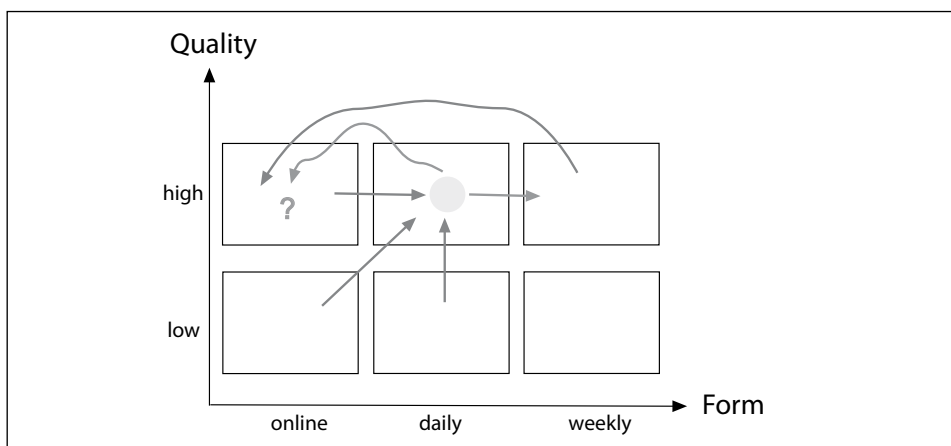


Beyond these difficulties, for the newspapers to enter into the online market the situation is more complex. Other quality producing media organizations, traditionally in the weekly sector such as “Der Spiegel” with “spiegel online,” have entered the online market, thus increasing the competition in this market and coerce the newspapers into that market that threatens their traditional product. On the other hand, until now the online market has not generated a really convincing idea of doing business with high quality journalistic products for the traditional newspapers. Although the ratio between

advertising and distribution returns was 2:1 before 2002, and in 2006 is near 1:1, the ratio for online journalism is approximately 1:0. Thus, the business model for online journalism actually refers to almost 100% of advertising revenues and the market for advertising in the new media is much more complex than it is in the world of printed journalism.

As a result of this effect, the differences between what is considered quality and what is considered entertainment or services are unclear, if not indeed blurred. Further, with the emergence of new “meta-news organizations,” the online market emerges more and more as a fundamental dilemma for the newspapers. Without any quality content delivered by the newspapers a “meta-news-machine” would not and could not exist. On the other hand, meta-news-machine products generate additional side visits and page impressions for the online version of the classic newspapers, which is apparently the precondition for competition in the advertising market. Thus, the situation in the market turns out to be a major dilemma. *Figure 5* summarizes these different effects of the market and the positioning of the newspapers. It does so by drawing on the two dimensions of quality and frequency of appearance (form). Obviously the context of the product model is more complex if we were to also consider other forms of media (broadcasting, television, and again, the Internet) and a more detailed analysis of the text-based media as such.

**Figure 5: The product model in the context of other media products**



As indicated by the product model, the newspapers try to regain a sufficient market shares by entering into forms of journalism that were traditionally assigned to weekly formats. But for the product concept of a daily newspaper, this “movement” can never be more than a tendency, as long as the publishing frequency of the products is fully maintained. However, there is also the possibility that newspapers will come up with new products in a weekly design. But again, this diversification does not change the fragile situation of the adopted product concept for daily produced newspapers.

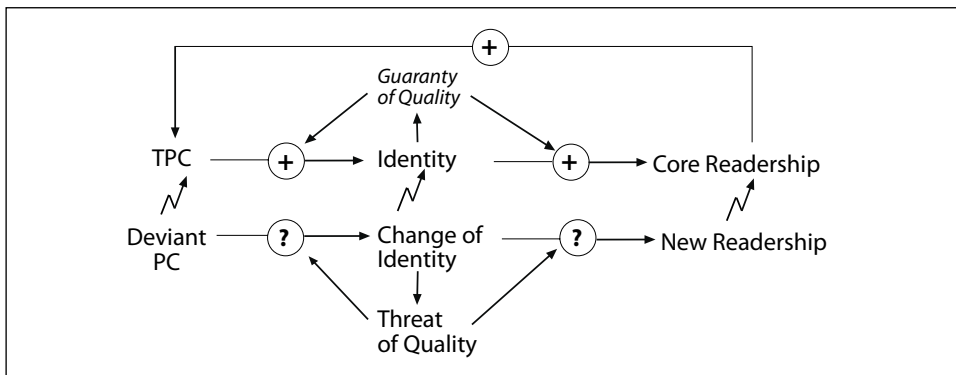


### 4.3 THE MARKET MODEL

Meanwhile, the decline of readership is a long-lasting process that to some extent affects nearly all quality newspapers, and which could also be considered an effect of all highly industrialized societies at the end of the 20<sup>th</sup> and the beginning of the 21<sup>st</sup> century. Despite this well-documented process, the high quality newspapers are confronted with a very specific situation in this market, one which impacts their market model in different ways.

The quality newspapers in the study are all focused on a core readership, meaning a (sufficient) number of people who buy and read the newspaper as a matter of habit. This core readership is built on a clear journalistic identity of the newspaper and therefore by a specific profile that guaranties either the quality standards or what is considered the symbol of that guaranty. Thus, the newspapers are tightly coupled (Danneels (2002)). For that reason it is difficult to change the product concept, because changes in this model could also be considered a decline of quality and thus a threat to a specific profile. The more a newspaper has customized this identity and the more this identity also constitutes the main competitive difference in the newspaper market, the more difficult it is to adopt new ideas and to change the traditional product concept. *Figure 6* summarizes these effects and highlights the self-reinforcing mechanism between a particular product concept, the newspaper's identity, and the core readership.

**Figure 6: The product-concept-readership-spiral**



This model also shows that it might be very difficult for a quality newspaper to gain new readership without threatening the traditional core readership. And this is the third dilemma for the newspapers.

### 4.4 THE DRIVING SELF-REINFORCING EFFECTS

The three different models represent the disposition of the newspaper organizations for the different self-reinforcing mechanisms in the first place and leading to different emerging

patterns concerning the adopted concepts and ideational representation of quality, product and market. In its functioning the financial model refers to cost effects in the form of economies of scale concerning the production costs of content and basically to network externalities in the form of direct network effects: the higher the coverage, the higher the advertisement revenues which directly can be reinvested to increase the coverage. If this effect would be the only force of the market, then only one newspaper could survive due to this network effect.

The product model is governed primarily by learning effects (the once accustomed reader's habits reinforce a specific product concept), but also by adaptive expectations ("the reader") concerning the market concept and coordination effects (the product concept is based on specific rules, coordinating the "flow of reading").

The market model is basically reined by complementary effects between the adopted product concept and the approachable readership giving the raise to an identity of the newspapers ("a brand") which in turn is a guaranty and symbol of quality.

Thus the idea of quality and the adopted quality concept is the core element of the developed strategic pattern.

#### 4.5 THE STRATEGIC PATTERN

The three different models identified and discussed in the previous sections constitute an important part of the strategic path. Each of the models is based on a specific feedback loop, which refers again to different self-reinforcing effects, constituting for each newspaper a particular pattern of doing business. But for understanding the whole strategic pattern, the feedback mechanisms must be understood not only in isolation, but also in their reciprocal dependency. That interdependency means that the financial, market, and product models must be considered as intertwined and mutual affecting each other, because all of them are related by at least one of the concepts of quality, product, and market.

For capturing this interplay between the different parts of the strategic pattern, it is helpful to refer to strategic relevant changes in the global and/or business environment, which are challenging the adopted strategic pattern of the sample firms. Change 1 can be regarded as the ongoing modifications in the advertising sector that have a deep impact directly on the financial model. Change 2 can be considered as "the online impact" challenging the product model of the media organizations. Finally, change 3 indicates the modifications concerning the readership of the different newspapers.

Analyzing the strategic activities against the background of these changes provides the interpretative template for understanding how difficult it is for the newspapers to act on these changes. What we can observe in the field are three different "packages of strategic activities" as responses to the environmental changes. Responses are summarized under focus on the attempts to react to challenges concerning the financial model, responses to the product model, and responses to the market model. *Table 1* summarizes the results.

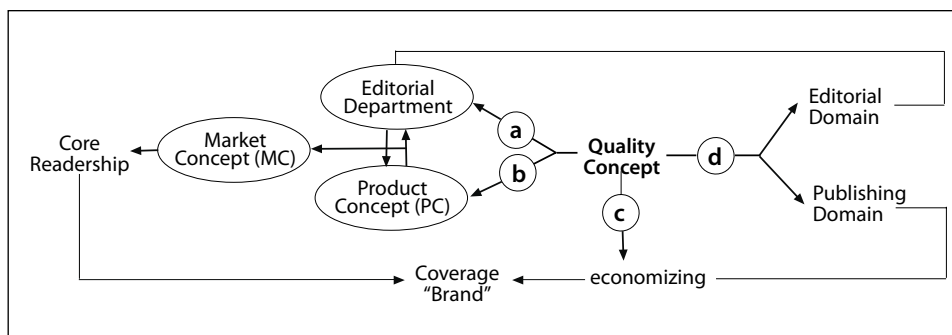
**Table 1: Aggregated strategic activities as responses to different changes**

A. Responses to Change 1 (concerning the FM)	B. Responses to Change 2 (concerning the PM)	C. Responses to Change 3 (concerning the MM)
<ul style="list-style-type: none"> <li>■ cost reduction (short-run/long lasting)</li> <li>■ adopting alternative models of ownership</li> <li>■ augmentation of prices</li> <li>■ acquiring other alternative but complementary returns</li> </ul>	<ul style="list-style-type: none"> <li>■ regarding online as a complement to the printed version</li> <li>■ adopting a more weekly format in the printed version</li> </ul>	<p>Acquiring a new profile and a new legibility</p> <ul style="list-style-type: none"> <li>■ by permanently changing the core product</li> <li>■ by relaunching the core product</li> <li>■ by introducing complementary products with different degrees of legibility</li> <li>■ by introducing new related products to develop and/or to benefit from the brand</li> </ul>

The analysis and interpretation of these “packages of strategic activities,” which represent the responses to the different changes, reveal much about the scope of strategic choice in the field. Three consequences emerge from this analysis:

- 1) There are different cross impacts and even counterproductive effects between the strategic activities in one dimension of activities for another dimension (e.g., cost reduction has a deep impact on the ability to approach new readership). This interdependency again complicates changes in one of the three dimensions only.
- 2) The way these strategic activities are implemented lacks decisiveness (e.g., the online engagement).
- 3) There are conceivable strategic activities (completely new form of newspapers, radical restructuring of editorial departments, etc.), that the newspapers do not adopt, or which the newspapers do not even take into consideration.

The interpretation process of the data on the three additional levels of path analysis (strategic discourse, reflection, and basic assumptions) reveals four basic assumptions that stand at the core of the strategic pattern. These are (a) the way of producing quality and defining what quality in journalism is all about; (b) the idea that quality journalism is tightly coupled with printing on paper (and in a specific format); (c) the assumed necessity that quality journalism has to be subsidized by other sources of returns; and (d) the idea that economic concern and quality journalism have to be two separate realms in the “lifeworld” of a quality newspaper. Unfolding the interdependency between these assumptions leads to identifying the inner functioning of the strategic pattern, which is summarized in *figure 7*.

**Figure 7: The strategic pattern**

This strategic pattern is the result of an ongoing process concerning the strategic development of the newspaper companies. It is a deeply rooted structural representation induced by the strategic path and maintained by the self-reinforcing mechanisms. In this sense, having strategic choices means having the ability to act on this strategic pattern so as to change the situation positively, meaning to overcome the strategic path and to transform the changes in strategic opportunities and to create a new and convincing business model.

## 5 CONCLUSION AND FINAL REMARKS

In this paper I introduce the concept of the strategic path and an analytical framework for analyzing strategic processes in a path dependent perspective. Strategic path analysis refers to a "thick description" of strategic systems, and trying to explore and to better understand their inner logic and the range and scope of strategic activities. Focusing on self-reinforcing socioeconomic mechanisms provides a template for understanding the complex, structural, and cognitive entwined strategic pattern that guides strategic systems consciously, or even unconsciously, in a specific direction. Such a perspective could be estimated a very promising template for capturing and better understanding not only that, but also how and why incumbent firms might lose their absorptive capacity and thus their scope of strategic choice (Cohen and Levinthal (1990)).

The results of the case analyzed here indicate how difficult it can be to change or to overcome such a strategic situation. There are always "good reasons" for maintaining a certain position. There is no doubt that "quality" stands at the core of the strategic pattern of the newspapers analyzed here, and for very good reasons. However, the problem is not the core as such, but how it is embedded, entwined, and tightly coupled in that complex web of the strategic pattern. This pattern has not only enabled the newspapers to be successful in the past, but also it is now definitely determining the scope of strategic activities and the range of variety. It is this web of structural entanglement that could be very helpful for understanding the inherent inertia of capabilities and offering an approach for a dynamic perspective (Teece, Pisano, and Shuen (1997); Schreyögg and Kliesch (2007)).

Reacting strategically would mean to disentangle the core of “quality” from the structural representation in which it is embedded. The above mentioned core assumption of the strategic pattern must be taken into consideration and questioned. But if any questioning of any part of strategic pattern (the product concept, the way of producing quality, etc.) is already perceived as a threat to quality, then changes become impossible. Hence, the phenomenon of threat or opportunity perception can be explained by referring to the emergent pattern (Jackson and Dutton (1988)).

Given the fact that the pattern that has been developed and established is not dependent on only a single newspaper, the study indicates not only the difficulties each player faces in overcoming these structures, but for the industry as a whole (Miller and Chen (1994)). Therefore, strategic concepts on the branch level, such as strategic groups (McNamara, Luce, and Tompson (2002)) and structural holes (Walker (1997)), could be further explored in a path dependency perspective. However, the strategic pattern presented above confirms the necessary distinction between a strategic and a competitive group (Leask and Parker (2007)). Especially from a branch perspective, the lock-in of the present situation becomes all too evident and has much similarity to a prisoner dilemma (Scalet (2006)): If any strategic move (e.g., significantly changing the way of producing newspapers, the way of presenting them, etc.) due to the strategic pattern is assumed to lead to a decline in market performance, then none of the players will move. This lock-in is not basically normative, but “competitive” in nature (Farrel and Klemperer (2007)).

A consequence would be to claim that a successful change of the present situation would require more than a single supported action for a sustainable change, but rather a collective response, in the media environment. But due to the competitive market structure of the newspaper field (and also beyond the newspaper market), such a coordinated collective action (e.g., “no quality content for free”) to overcome the problematic pattern is not likely to occur. On the contrary, the competitive situation might reinforce the assumption of the newspapers that they really compete at the end of the lifecycle of their own capabilities (Helfat and Peteraf (2003)). [“Well, then we will produce our product only for a small intellectual elite.”] And once again, a self-reinforcing effect comes to the fore: If all the players assume that they are playing an endgame, then they *are* playing an endgame.

However, at the beginning of 2007, two players implemented significant changes. The »Frankfurter Rundschau« has introduced a radical new product concept and switched over to the tabloid format, and »Die Welt« has radically changed the organizational structure of its editorial department. From the background of the strategic pattern presented above, both activities should be considered path-breaking changes, since they concern a part of the established pattern. Not least for the sake of a functioning democracy, but also for a functioning, innovation-generating market mechanism, it is desirable that these attempts are not in vain and that they will help to “re-embed” daily quality journalism in a prospective product-market concept.

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