

The crunch keeps coming on Fairfax – but does the blame lie solely with management?

Written by The Conversation USA

Last week a reported 20 to 30 Fairfax Media journalists were made [involuntarily redundant](#) . While recognising in a dynamic economy that businesses will contract and expand all the time, we should never lose sight of the human cost of that process. Getting sacked must a traumatic event for anyone – getting sacked through no fault of your own, doubly so.

The journalists at Fairfax blame current management, describing CEO Greg Hywood as being [‘overpaid and underperforming’](#);

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And the latest Australian Bureau of Circulations (ABC) Paid Media Audit Data can be cited in support of the notion that Fairfax management are to blame.

Year-on-year quarterly circulation figures for the January to March 2016 period show print numbers for the Monday to Friday editions of the Sydney Morning Herald fell by 8.7%, while The Age fell 7.9%.

Certainly, declining print circulations are a feature of the continuing disruption of traditional publishers, not just for Fairfax. The Monday to Friday editions of the major NewsCorp tabloids the Daily Telegraph and Herald Sun also fell by 5.3% and 3.10% respectively.

Sales of the two national dailies fell too – but the Australian Financial Review’s sobering fall of 10.5% (even factoring in that the January period is a quiet time for business and it didn’t publish for some of this period) dwarfed that of The Australian, which declined by 2.1%.

The picture for Fairfax isn’t any better if we look at digital sales. The Sydney Morning Herald showed flat growth of 0.9%, while The Age declined by 3.4%.

This contrasts to significant increases in digital sales for the Rupert Murdoch-owned NewsCorp competitors, The Australian and Herald Sun - albeit these were from a much lower base.

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These numbers, however, don't speak for themselves. It appears that Fairfax newspapers are under-performing their competitors, but we really want to understand why that is so.

In addition to the global disruption the print media industry is experiencing, there are local factors at work too. There is no shortage of “centre-left” (or small ‘l’ liberal) news and opinion in Australia. So the market position occupied by The Age and SMH is highly contested space.

The ABC, the Guardian, and (dare I say) The Conversation, for example – there are others, are all direct competitors in that space (and it's important to make the distinction that none of these have commercial paywalls). Each of those media outlets haven't just taken Fairfax consumers, they very often employ former Fairfax staff too.

More importantly Fairfax's print media competitors all have [patrons with deepish pockets](#) willing to underwrite media losses. Fairfax has failed to attract (or keep) such a patron.

So there are at least three sets of factors that can explain the relative decline of Fairfax's newspapers. Global disruption – something that is impacting all media - local industry conditions, and poor management. As indicated above, the data suggest poor management – yet I'm not entirely convinced.

It isn't clear that the current Fairfax management are to blame for their predicament. In 2014, former Fairfax CEO Brian McCarthy blamed [the decline of the Fairfax papers on the Board of Directors](#).

But the other point to bear in mind is that while Fairfax has adopted a “digital first” strategy which has underpinned the latest organisational changes and redundancies, its newspapers are still considered by many readers as Fairfax's public face. In recent years readers have seen the broadsheet papers become tabloid size papers, the departure of many and often much-loved journalists and as the printing arrangements modified. They have seen grammatical and spelling errors increase as sub-editing functions are sub-contracted out.

Even while Fairfax journalists can point to a number of large and important news stories it has

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broken in the last 12 months, there is a perception of a decline in quality standards and quality control overall.

Clearly cost-cutting has not always allowed Fairfax management to deliver the outcomes they had hoped for, or expected. Talk that print versions of The Age and Sydney Morning Herald will be discontinued (on weekdays) has intensified. But overall, Fairfax has returned to profitability and corporate debt has been reduced. To be sure the glory days of a share price above \$4 many not return anytime soon, but the company may well survive – just not (some of) the newspapers.

With the disruption in the media market it is difficult to know what more Fairfax management could have done to keep the newspapers going. Nobody can deny that costs were cut – it has been brutal. At the same time nobody can deny that many readers are unhappy with the product they now get. It could well be that given industry conditions Fairfax cannot deliver the papers that their readership expect. Yet the Australian Financial Review (albeit with a smaller, specialist business audience) remains a good quality paper, and the Fairfax radio stations remain popular.

As an outside observer it is difficult to untangle the net effects of poor industry conditions, global disruption, and poor management. While employees are blaming management, they too are not well-suited to making those distinctions. This brings us back to the patronage model.

One of the benefits of having a large shareholder on the register is that they get to perform a monitoring role. What [Harold Demsetz and Kenneth Lehn](#) call “control potential”. Large shareholders are in a position to closely examine the market conditions a firm face and the management responses to those conditions and form well-informed opinions as the causes of good or bad performance. Demsetz and Lehn also speak about patronage (they refer to this phenomenon as “amenity potential”) in the media industry.

If anything the biggest failure of Fairfax’s current management is in attracting a major large shareholder. Some years ago [Gina Rinehart almost took on that role](#) but, rightly or wrongly, she was an unacceptable choice to the Fairfax staff.

It will be sad to see the end of venerable mastheads such as The Age and Sydney Morning Herald. In their heyday they were fine newspapers – changing economic conditions may well

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explain more of their decline than does poor management.

In that sense, of course, print media (with its large workforce) may become like so many other obsolete industries - we're sad to see them go and experience some nostalgia, but no matter how good or bad the management, the business model could not survive change.

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