6th World Media Economics Conference

Centre d’études sur les médias and Journal of Media Economics

HEC Montréal, Montréal, Canada
May 12-15, 2004

Diversification Strategy, Diversity and Performance among Publishing Companies

H.L. (Hans) van Kranenburg*, University of Maastricht, The Netherlands

*The author thanks the Media Management and Transformation Centre at the Jönköping International Business School for its hospitality and the Netherlands Foundation for Scientific Research (NWO) for providing financial support. He also thanks the participants of the Media Product Portfolios Seminar for their comments.

In this study we focus on the importance of corporate diversification strategies for publishing companies. Diversification may be a viable strategy for publishing companies to survive in the turbulent media and information landscape. In addition, we investigated the relationship between diversity and performance among large publishing companies that differed in both product and international diversity. Our findings show that the large diversified publishing companies do not outperform the more focused publishing companies. This may suggest that the more focused publishing companies were also able to achieve synergy within one or a few product groups or closely related geographic areas.

1. Introduction

For the past twenty years, diversification in large publishing companies has proceeded at a rapid pace. Nowadays, many large publishing companies operate in various media and information markets. Technological developments, convergence of markets and changes in behavior of customers have increased the intra-market competition and greater the inter-market competition for publishing companies. Due to these developments the importance to diversify has increased. The publishing companies that wish to survive in the long-run are challenged to choose the direction of their businesses. The company’s direction can be to achieve growth and or reduce overall risk by investing in businesses or activities directly supporting the competitiveness of existing businesses or in new products, services, or geographic markets. However, these markets have different structural characteristics, and these different structural characteristics result in different average and potential profits in each market. Given the developments and the characteristics of markets the company must decide which businesses and countries it will enter, the degree to which it will build on past strengths and competences or require the development of new ones, and the degree it will diversify. A well-defined diversification strategy may help the company to choose its direction and to create or sustain its competitive advantages.

This study discusses the importance of a well-defined corporate diversification strategy for publishing companies in their attempt to improve their long-term performance. It emphasizes that the development of the corporate diversification strategy of publishing companies has increased in importance due to increasing uncertainty in the media, information and communications landscape. The company needs to decide whether it will implement a more focused, related or unrelated diversification strategy to develop its capabilities for survival and future growth. One of the main determinants for a publishing company to choose for a particular strategy is its success on the performance. However, empirical studies of the effects of corporate diversification on performance are not conclusive. These studies were generally too preoccupied with cross-industry research and places too little emphasis on diversification strategy within one particular group, like the publishing companies. Due to the current developments in the media, information and communications landscape, it may be possible that a particular diversification strategy outperform the others. Therefore, the purpose of this study is not only to explore the corporate diversification strategy for publishing companies but also to investigate the relationship between their business and international diversity and performance.

2. Corporate and Business Strategies

After the information and multimedia company VNU realized that it could no longer achieve its objectives by continuing its strong competitive position as a publishing house in the Netherlands, it sold its newspaper activities to the Dutch publishing companies Wegener N.V. and Holdingmaatschappij De Telegraaf and its consumer information group to the Finnish publishing company SanomaWSOY in the 90s. VNU instead chose to concentrate on professional information services and to expand its businesses in the United States, an area that management felt had greater opportunities to growth. VNU transforms the company gradually to a multinational media conglomerate.

The company VNU illustrates the importance of strategy to a firm's survival and success. A strategy of a company is a comprehensive plan stating how the company will achieve its mission and objectives. It maximizes competitive advantages and minimizes competitive disadvantages. A distinction can be made between two levels of strategy: corporate strategy and business strategy. The latter strategy usually occurs at the business unit or product level, and it emphasizes improvement of the competitive position of a company's products or services in the specific business or market segment served by that business unit. Business strategy asks how the company or its units should compete or cooperate in a given particular business, market segment or country. A company's corporate strategy defines the company's overall mission, specifying achievable objectives, developing strategies, and policy guidelines. It deals with three key strategic issues facing the company as a whole (Hunger and Wheelen, 2003):

1. It provides direction to the company's overall orientation towards growth, stability or divestment.

2. It defines the portfolio of the businesses, markets and countries in which a company competes through its products and business units

3. It views the company in terms of resources and capabilities that can be used to build business unit value as well as generate synergies.

The corporate centre is usually responsible for developing the corporate strategy. In some companies the corporate centre plays an active role in the development of the business strategies, while, in others, the development of business strategies is the sole responsibility of the business units. The corporate centre can play an important role in the development of business strategies when internal and external forces require clever strategies that are difficult or impossible for individual business units to mastermind. These forces include regional or global economies of scale, brand benefits, flow of resources, the convergence of consumer tastes, and the applicability of technology and know-how across different product areas and regions.

The role of the corporate centre has increased in the development of the strategies of publishing companies given the dynamics in their environment. Especially, in the last decade the media, information and communications landscape has changed decidedly. Technological and demographic developments, deregulation and the convergence of different media, information and communications markets have left an important mark on the configuration of the traditional markets (Wirtz, 2001; Picard, 2003). Not only have these developments pose threats to companies operating on these markets, but also create new opportunities for companies to engage in profitable new ventures and businesses both in home markets and abroad. The publishing company's reaction on these developments may have consequences for the organizational structure and performance of the company. The strategic decision of a publishing company to diversify its product line or geographical scope may alter the fundamental nature of the company and may involve as well a substantial redeployment of resources and a redirection of human energy (Rumelt, 1974). The company must decide which businesses and countries it will enter, the degree to which it will build on past strengths and competences or require the development of new ones, and the degree it will diversify. The degree of diversification of the company includes both product diversification and (international) geographic area diversification. Corporate diversification strategy has become an integral part of the strategy of many publishing companies, nowadays.

3. Diversification Strategies

Corporate diversification is a phenomenon that has received considerable attention in the strategic management and industrial organization literature. There is a great variation in the way diversification is defined. The reason is that diversification strategy is a multidimensional phenomenon. It includes the goals of diversification, its direction, and the means by which it should be accomplished. Rumelt (1974, p.29) defines diversification strategy as a 'firm's commitment to diversity per se, together with the strengths, skills or purposes that span this diversity, shown by the way in which business activities are related one to another'. This definition does not have a decision focus insofar as it stresses the different types of investment decisions that qualify as diversification moves. The definition provided by Booz, Allen and

Hamilton (1985) attempts to capture all these aspects. Or as Ramanujam and Varadarajan (1989, p. 524) pointed out:

'*Booz, Allen and Hamilton study defined diversification as a means of spreading the base of a business to achieve improved growth and/or reduce overall risk that (a) includes all investments except those aimed directly supporting the competitiveness of existing businesses, (b) may take the form of investments that address new products, services, or geographic markets; and (c) may be accomplished by different methods including internal development, acquisitions, joint ventures, licensing agreements, etc*.'

A number of influences may be at work that induces a publishing company to diversify. The company's decision to diversify can be based on both proactive and reactive reasons. In general, the main influences on a publishing company's diversification decision are the general environment (i.e. the legal-political-economic-technological-social environment in which the company operates), industry's competitive environment, specific characteristics of the companies themselves, and their performance (Reed and Luffman, 1986; Ramanujam and Varadarajan, 1989). Once the decision to diversify has been taken by the management of the publishing company, the next issue they face is that of the direction of diversification. The company tries to maximize its set of performance objectives. The lines of businesses and activities into which a publishing company chooses to diversify involve modifications of its existent businesses and activities. The publishing company should mainly focus on those businesses and activities which represent the greatest strength or offer the greatest opportunity to improve the performance of the company and to create or sustain a competitive advantage. The fundamental elements in making the choose of diversification direction are customer functions the company seeks to satisfy, what customer groups are being target, and which technologies are used or needed in satisfying the customer functions sought by the targeted customer groups.

The publishing company's diversification direction can be range from very close related to totally unrelated to its existing activities and businesses. The degree of relatedness depends on the motives of the management. A publishing company can diversify because of the existence of synergy. The synergy – economies of scale and scope - can be achieved by sharing resources and transferring resources from one activity to another. Resource sharing refers to operative processes such as the sharing of production processes or distribution channels. The transfer of resources, on the other hand, involves resources that can be used in different businesses. For instance, the application of technological know-how in different businesses may be a source for value creation through the transfer of resources (Robins and Wiersema, 1995). Indeed, the diversity into new geographic and product markets or businesses may be related in several ways to a current activity but may still require the understanding of a different production technology, different marketing concepts and methods, or new approaches to investment decisions, planning and control.

Diversification moves are not only connected to the synergy motives. Corporate diversification may be a desirable alternative to reduce publishing company's business risk. A publishing company may control internal factors such as inventory and R&D policy, but it cannot reduce the environmental effects of a firm's exposure to economic fluctuations, threats of rivals, new technological developments and uncertainty. The company may select to operate businesses that sell their products in different product and geographical markets. The motive is that the businesses and markets are not simultaneously affected by the developments. For instance, when one market begins to contract, another may just begin to peak, thereby smoothing the cyclical behavior of the company's sales and profit. Furthermore, in dynamic markets companies must adapt quickly to new technologies, products, production methods, regulations and competitive strategies to create or sustain its competitive advantages. Due to the competitive environment publishing companies do not know what combination of activities will give them a competitive advantage in the future. In their search for competitive advantages and higher profitability, companies could exam the opportunities to enter a new set of activities within new businesses. The risk reduction motive induces a strategy that is more based on the rationale for unrelated diversification (Amit and Livnat, 1988).

Another motive for risk reduction is related to the aspiration and goals of top management. This is a more intangible motive. Managers can also decide to diversify the publishing company to reduce the probability of bankruptcy in order to provide job security and increase their bonuses. Or as the agency theory (Jensen, 1986) emphasizes, managers are not inclined to return free cash flows to shareholders, but spend them on diversification projects, because of motives like empire building and reduction of employment risk.

Diversification may be a successful strategy when the corporate mission is to growth, in particular when the company operates in a mature or declining industry. Diversification into less related or unrelated businesses could trigger the growth of the publishing company.

4. Performance and Diversification

To formulate the right corporate diversification strategy, publishing companies need to know the success of the various strategies. As part of the understanding of the success of a diversification strategy, it is appealing to focus on the effect that the diversity of business (or product) and market portfolio has on the performance of low and high diversified companies. Since Rumelt's (1974) pioneering study, the relationship between corporate diversification and firm performance has attracted serious attention in the strategic management research area. Despite of the received considerable attention in the literature, no consensus has emerged as to the impact of corporate diversification on performance. The literature is inconclusive in showing which diversification strategy should be used. Rumelt (1974) found a relationship between diversification strategy and performance. The related diversified firms were found to outperform the no diversified and unrelated diversified firms. The unrelated diversification strategy was found to be one of the lowest performing on average. However, Bettis and Hall (1982) showed that the performance advantage findings by Rumelt were due largely to industry effects. Varadarajan and Ramanujam (1987) suggested that related diversification may be a necessary, but not sufficient condition for superior performance, and that unrelated diversification serves a number of firms as well, if not better than, more related or focused strategies. Markides (1995) showed that a curvilinear relationship appeared between diversification and performance. This implies that there exists a limit to how much a firm can grow and diversify. An explanation for this inversed u-shaped relationship is that as firms diversify away from their core businesses, their assets lose some of their efficiency and earn declining returns.

A study by Szeless, Wiersema and Müller-Stewens (2003) found no significant relationship between product-market diversification and performance. However, their defined resource-relatedness diversification measure showed a positive linkage with performance. The resource-relatedness measure captured the aspects of potential synergy from transfer of technological know-how between different businesses of a company, what the product-market measure did not do.

Another option available to companies confronting the decision on how to deploy its resources for competitive advantage is to diversify internationally. For instance, a broad geographic scope of operations may allow a company to exploit interrelationships between different product markets, geographic areas, or related businesses. Increased geographic scope may increase a company's ability to achieve economies of scale, scope and experience. Although international expansion has become a popular corporate diversification strategy among companies, it received less attention in the diversification research. A minority of studies has tried to analyze international diversification strategies and their effects on the performances of the companies. Research showed that internationalization was positive related to performance (Geringer, Beamish and daCosta,1989; Hitt, Hoskisson and Ireland, 1994). However, the linkage between internationalization and performance is not monotonic but curvilinear. The positive effect of international diversification on performance has its optimum, beyond that point the effect decline due to increased managerial complexity and cost of coordination. Grant, Jammine and Thomas (1988) found that profitability in the home market encouraged firms to expand abroad that in turn increased profitability. Studies that combined product and international diversification seem to suggest that the combined effects of both diversification strategies on performance are positive. For instance, Hitt, Hoskisson and Kim (1997) found in their study a negative effect of international diversification on corporate performance for single-business firms, while the performance of high-product diversified firms showed a positive effect of increasing international diversification.

Finally, the findings of the studies on the relationship between diversification and performance may also be influenced by the quality of the performance data. The major problem encountered by relying on accounting data, is that they can be easily manipulated by the company. Furthermore, the accounting standards differ from country to country.

Research on the effect of product and international diversification on performance is complex. Many factors may influence the effect of diversification and performance. Most of the research referred to above has been done using companies from many different industries. These studies have generally not considered that the decisions to diversify may be industry related. Empirical strategy research is generally too preoccupied with cross-industry research and places too little emphasis on diversification strategy within one group of firms. The study based on the publishing companies might provide an interesting and complementary perspective on former diversification research.

5. The Publishing Industry and the Data

For the publishing companies it has been shown that they operate in one of the most regulated industry (Picard, 2002). The company's ability to diversify may be influenced by the antitrust authorities and the political and cultural policies in many countries. In some countries companies are restricted in the cross-ownership of media and information companies. On the other hand, the publishing companies experience a convergence of media and information markets (Wirtz, 2001, Picard 2003). Due to introduction of new technological innovations, such as internet and mobile telecommunication, many new firms could enter the media and information markets and incumbents could operate in related markets. These developments lead to transformation of the media and communications markets. Furthermore, the consumer preferences have also changed, and advertisers are responding to the new opportunities and changes to reach potential customers. For instance, the increasing choices for news, information, diversion and entertainment that are available to customers and advertisers reduce the demand for traditional products. This leads, on the one hand, to increased intra-market competition and, on the other hand, to greater inter-market competition. Traditional publishing companies may respond on these developments to diversify into other markets.

Another interesting characteristic of the traditional publishing markets is the stage of the life cycles. The four stages of the life cycles are introduction, growth, maturity, and decline phase (Kranenburg, Palm and Pfann, 1998). The three major publishing industries, newspaper, magazine and book industries, are mature industries in which opportunities for natural growth are generally limited (Picard, 2003). Furthermore, the barriers to entry are relatively low in the magazine and book publishing industries, but higher in the newspaper industry. However, the newspaper industry experiences a gradually decline in demand and penetration of their products in many industrialized countries.

The publishing companies also face challenges due to increased cost structures. Publishing is highly labor intensive and requires specific capabilities and resources, and the selling of products depends on an expensive distribution network. At the same time, the profitability of publishing companies may also influence by economic fluctuations. Revenues especially in the newspaper and magazine markets are highly affected by downturns (Picard and Rimmer, 1999). Diversification in other businesses or geographic markets may reduce the effects of recessions on these company finances.

In the last decade the majority of large publishing companies operate in more than one media and information markets. In general, they have been diversified in traditional media, information and entertainment related markets. Nowadays, they are active in at least one of the following markets: books, magazines, newspapers, television, broadcasting, marketing, education, and Internet.

For the empirical part of this study we have chosen large-sized publishing companies with respect to their revenues from Europe and North America. According to the database Worldscope, the selected companies are among the highest revenue generating companies in the publishing industry. Another argument for choosing the large-sized companies is the current level of competition between these companies and the likelihood that they are involved in international activities. The period under investigation is between 1997 and 1999. In total, 27 publishing companies are selected. The sample consists of 14 European and 13 American publishing companies.

In order to identify the product and the international diversification strategies among publishing companies and to carry out a comparison, we used the diversification identifications that are done by Kranenburg, Hagedoorn and Pennings (2004). For the product diversification they classified the publishing companies according to the guidelines proposed by Rumelt (1974). The level of product diversification of each publishing company is classified as follows:

1. A single business diversified publishing company (SBD) is defined as a publishing company whose primary commitment is to a single business. More specifically, the publishing company derives 95% or more of its revenues or sales from a single business.

2. A dominant business diversified publishing company (DBD) has a primary commitment to a single business but has diversified to a small degree. The revenue or sales of a single business contribute between 70% -94% to the publishing company's total revenues or sales.

3. A related business diversified publishing company (RBD) derives less than 70% of its revenues or sales from one business. Furthermore, it diversified into new areas related to the primary business.

4. An unrelated business diversified publishing company (UBD) also derives less than 70% of its revenues or sales from one business and diversified into new business areas without regard to the primary business.

Kranenburg et al. (2004) also classified the publishing companies according to the standard industry code (SIC-code) instead of using sales and revenues data. The computation of the diversification level is based on two- and four-digit SIC codes. This classification provides insights into the degree of diversity, - high versus low - and the direction of product diversification, i.e. predominately concentrated in one product group or predominantly in more product groups. A similar method is used to classify the publishing companies according to their international diversification. The computation of the international diversification is based on the modified Eurostat/European Union classification of countries. The following four general diversification categories could be identified: A) publishing companies with very low product or international diversity; B) product or international related-diversified publishing companies; C) companies with very high product or international diversity; and D) product or international unrelated-diversified publishing companies. Table 1 provides the overview of the level of diversification of the publishing companies.

--------- insert table 1 about here----------

In the empirical part, we actually measure diversity, which measures the extension to which firms are simultaneously active in many distinct businesses at a point of time, and not diversification, which measures changes in diversity over time.

As already discussed above, the use of accounting measures as indicators of a firm's performance has been a subject of considerable debate. To take these considerations into account, we chose to use four financial performance ratios as our primary measures of firm performance. Furthermore, according to Grant, Jammine and Thomas (1988), the impact of corporate diversification strategy on a company's performance is more directly reflected in accounting profit than in stock price, which measures investor's expectations about future profits. The financial performance ratios are obtained from Worldscope. One of the most important indicators is the return on equity (ROE). It shows how much profit has been generated using the stockholders' capital. Return on assets ratio (ROA) indicates how effectively the assets of the publishing company businesses were working to generate profit. Another key performance indicator is gross profit margin ratio (GPM) which gives an indication on whether the average mark up on goods and services was sufficient to cover expenses and make profit. The last performance measure is operating profit margin (OPM). This indicates how effective the publishing company is at controlling the costs and expenses associated with their normal business operations. Table 1 also provided an overview of the average financial performance ratios for the publishing companies for the years 1998 and 1999. Incidental fluctuations are partly eliminated by taking the average over this period.

The purpose of this study is not only to show the product and international diversity of publishing companies but also to compare the performances between the various diversified publishing companies. The basis statistical technique used for comparison the performances in our study is the two-sample t-test for equal means. Due to small sample size we constructed two groups to compare the groups' mean financial performance ratios. The first group consists of no and low diversified publishing companies, while the more diversified and unrelated diversified publishing companies are classified in the second group.

6. The comparison between publishing companies

Table 2 reports the distribution of the degree of diversified publishing companies based on the Rumelt diversification classification. One third of the selected firms are single or dominant product diversified publishing companies, while the majority of publishing companies followed a related diversification strategy. On average, the single or dominant product diversified publishing companies perform better that the related diversified ones on all the four performance ratios. However, only the operating profit margin shows a statistical significant difference. In other words, the more specialized focus publishing companies outperform the more related ones. This may suggests that the single and dominant diversified publishing companies operate more efficient than the related diversified publishing companies.

-------- insert table 2 about here ---------

-------- insert table 3 about here ---------

In an effort to understand better the relationship between product diversity and company performance, we also compared the group means across the product diversification categories based on the two and four digit SIC codes. It does confirm that there exists no significant difference between the return on equity and return on assets of the low product diversified publishing companies and the highly diversified companies. It seems that both kind of diversified companies are more or less even effective in generating profit. Table 3 shows the performance differences of diversified publishing companies based on the SIC-codes. The findings show that the companies differ in the gross profit margin and not in operating profit margin. This suggests that the average mark up on goods and services of the selected low product- and related-diversified publishing companies is more sufficient to cover expenses and make profit in comparison to the selected high product- and unrelated diversified companies.

As already discuss above, many publishing companies have also followed an international diversification strategy to create or sustain competitive advantages. An interesting question that arises is whether the international diversified publishing companies outperform the more geographical focused companies. Table 4 shows the groups' mean financial performance ratios of the international high and unrelated diversified publishing and of the international low and related diversified ones.

-------- insert table 4 about here ---------

The selected publishing companies are equally distributed across the identified international diversification categories. Pairwise comparison of groups' means across the categories shows that the publishing companies do not differ significantly with respect to ratios of performance. However, it seems that the international highly diversified publishing companies may have on average a better return on equity in comparison to the relatively low diversified companies.

Significant differences in the corporate governance and regulatory environment of European countries as compared to North American countries may indicate that performance may be impacted by these contextual factors (Szeless, et al. 2003). Therefore, it is important to ascertain whether the performance differ between companies from the two continents. Table 5 shows the groups' mean financial performance ratios of European and North American publishing companies. The number of European and North American companies is equally distributed in our sample. Despite the existence of institutional differences, the group means of the financial performance ratios do not show significant differences.

-------- insert table 5 about here ---------

7. Discussion and Conclusion

This study has discussed the importance of strategy, in particular corporate diversification strategy for publishing companies. In addition, it has also investigated the relationship between corporate diversification strategy and the performance of 27 large publishing companies between 1998 and 1999. Our findings suggest that the focused publishing companies may outperform the more related diversified companies. This is a somewhat surprising finding. The literature suggests that related diversification might be a necessary condition to survive in the industry, although it is definitely not a sufficient condition. Our results temper the claims of the absolute performance advantages attributed to product diversified companies to more focused companies. This is similar for our findings of international diversification. It seems that the more focused publishing companies were able to achieve synergy within one or a few product groups or geographic areas. In our case, in particular the large newspaper companies were able to achieve the synergy. They could have achieved economies of scale and scope by sharing resources and transferring resources within one business such as the sharing of production processes and distribution channels. Furthermore, the advantages of international diversification may be disappeared due to currency fluctuations. With the degree of internationalization profits of publishing companies become very dependent on currency fluctuations. Furthermore, the costs may increase with internationalization due to increase managerial complexity and coordination.

Our results might be biased due to the small sample size and the fact that we have selected the large sized European and North American publishing companies. Thus, these firms are not necessarily representative of all publishing companies from these continents. However, the companies in the sample are some of the most visible and well-known companies in the publishing industry. These compa nies may set examples for many other publishing companies especially if they are regarded as successful.

As we have not investigated longer term performance and due to the small sample size we cannot draw definite conclusions, regarding the relationships between product diversification, international diversification and performance. However, as the sample must be regarded as representative of the group of large publishing companies, it must reflect the relationship between both product and international diversity and performance in this group and perhaps also the larger group of large multimedia companies from Europe and North America.

In conclusion, there is little doubt that corporate diversification would become an important strategy of many publishing companies. Given the trends in globalization and convergence of media and communication industries, the competition between publishing companies but also between companies from other media and information markets will increase. A well-defined diversification strategy may help these companies to create or sustain their competitive advantages. Only time will tell which corporate diversification strategy outperform the other strategies and create competitive advantages.

Reference

Amit, R. And J. Livnat. 1988. 'A concept of conglomerate diversification'. Journal of Management, 14(4), 593-604.

Bettis, R.A. and W.K. Hall. 1982. 'Diversification strategy, accounting determined risk, and accounting determined return'. Academy of Management Journal, 25(2), 254-264.

Booz, Allen and Hamilton. 1985. Diversification: a survey of European chief executives. Booz, Allen adn Hamilton, Inc., New York.

Geringer, J.M., P.W. Beamish and R.C. daCosta. 1989. 'Diversification strategy and internationalization: implications for MNE performance'. Strategic Management Journal, 10, 109-119.

Grant, R.M., A.P. Jammine and H. Thomas. 1988. 'Diversity, diversification, and profitability among British manufacturing companies, 1972-84'. Academy of Management Journal, 31(4), 771-801.

Hitt, M.A., R.E. Hoskisson and R.D. Ireland. 1994. 'A mid-range theory of the interactive effects of international and product diversification on innovation and performance'. Journal of Management, 20(2), 297-326.

Hitt, M.A., R.E. Hoskisson and H. Kim. 1997. 'International diversification: effects on innovation and firm performance in product-diversified firms'. Academy of Management Journal, 40, 767-798.

Hunger, J.D. and T.L. Wheelen. 2003. Essentials of Strategic Management (3rd edition). Prentice Hall,

Jensen, M.C. 1986. 'Agency costs of free cash flow, corporate finance, and takeovers'. American Economic Review, 76, 323-329.

Kranenburg, H.L. van, J. Hagedoorn and J. Pennings. 2004. 'Measurement of international and product diversification in the publishing industry'. Journal of Media Economics, forthcoming.

Kranenburg, H.L. van, F.C. Palm and G.A. Pfann. 1998. 'The life cycle of daily newspapers in the Netherlands: 1848-1997'. De Economist, 146, 475-494.

Markides, C.C. 1995. Diversification, refocusing, and economic performance. MIT Press, Cambridge.

Picard, R.G. 2002. The economics and financing of media companies. Fordham University Press, New York.

Picard, R.G. 2003. 'Cash cows or entrecôte: publishing companies and new technologies'. Trends in Communication, 11(2), 127-136.

Picard, R.G. and T. Rimmer. 1999. 'Weathering a recession: effects of size and diversification on newspaper companies'. Journal of Media Economics, 12(1), 1-18.

Ramanujam, V. And P. Varadarajam. 1989. 'Research on corporate diversification: a synthesis'. Strategic Management Journal, 10, 523-551.

Reed, R. and G.A. Luffman. 1986. 'Diversification: the growing confusion'. Strategic Management Journal, 7, 29-35.

Robins, J. And Wiersema, M.F. 1995. 'A resource-based approach to the multibusiness firm. Empirical analysis of portfolio interrelationships and corporate financial performance'. Strategic Management Journal, 16, 277-299.

Rumult, R.P. 1974. Strategy, structure, and economic performance. Harvard Business School Press, Bos ton.

Szeless, G., M. Wiersema adn G. Müller-Stewens. 2003. 'Portfolio interrelationships and financial performance in the context of European firms'. European Management Journal, 21(2), 146-163.

Varadarajan, P.R. and V. Ramanujam. 1987. 'Diversification and performance: a reexamination using a new two-dimensional conceptualization of diversity in firms'. Academy of Management Journal, 30(2), 380-393.

Vernon, R. 1966. 'International investment and international trade in the product life cycle'. Quarterly Journal of Economics, 80, 190-207.

Wirtz, B.W. 2001. 'Reconfiguration of value chains in converging media and communications markets'. Long Range Planning, 34, 489-506.

Table 1: Level of diversification and average financial performance ratios 1998-99 among publishing companies

	Level of Diversification			Financial Performance Ratios in %			
company	Rumelt categories	SIC-product Diversity	International Diversity	Return on Equity	Return on Assets	Gross Profit Margin	Operating Profit Margin
AXEL SPRINGER VERLAG	RBD	B	B	30,29	10,26	30,67	6,57
BANTA CORPORATION	RBD	C	A	8,34	5,42	20,36	7,7
BELO (A.H.) CORPORATION	RBD	C	A	9,59	5,43	18,43	18,43
BERTELSMANN	RBD	C	D	25,99	6,84	30,21	-0,2
DAILY MAIL & GENERAL TRUST	DBD	C	C	96,3	15,08	31,39	13,73
EMAP	DBD	C	C	17,03	8,07	39,72	12,56
GANNETT CO.	DBD	D	C	26,41	14,95	44,19	28,96
HOLLINGER INTERNATIONAL	RBD	B	A	30,42	9,41	47,57	12,49
INDEPENDENT NEWS AND MEDIA	SBD	C	C	10,02	5,85	45,31	15,83
KNIGHT-RIDDER	SBD	C	A	21,61	9,68	39,42	17,83
LEE ENTERPRISES, INCORP.	DBD	C	A	20,37	11,31	46,79	20,47
MCGRAW-HILL COMPANIES	RBD	C	D	25,33	10,88	48,08	15,86
MEREDITH CORPORATION	RBD	C	A	25,04	10,77	55,19	15,81
PEARSON	RBD	C	C	28,35	14,88	52,38	8,64
PRIMEDIA	RBD	B	A	n.a	1,13	63,41	6,92
READER'S DIGEST ASSOCIATION	RBD	A	D	35,39	6,19	62,2	4,9
REED ELSEVIER	RBD	B	C	23,45	8,54	55,05	13,6
SANOMA-WSOY OYJ	RBD	C	D	19,61	10,75	3,98	3,72
SCHIBSTED ASA	RBD	C	B	4,6	3,57	43,66	3,55
SCRIPPS, (E.W.) COMPANY	RBD	C	A	13,13	7,33	52,24	18,93
THOMSON CORPORATION	RBD	D	C	25,1	10,65	14,28	13,48
TRINITY MIRROR	SBD	A	A	19,57	13,93	50,28	23,36
UNITED NEWS & MEDIA	RBD	C	A	-12,39	10,85	27,58	27,58
VNU	RBD	C	B	52,43	16,56	34,59	17,79
WASHINGTON POST COMPANY	RBD	C	C	24,66	14,68	39,19	17,74
WEGENER	RBD	D	B	37,3	12,56	21,69	8,3
WOLTERS KLUWER	RBD	C	D	36,47	10,27	39,62	22,06

Sources: Worldscope 2001 and Kranenburg, Hagedoorn and Pennings (2004)
Notes:
1. n.a = not available
2. SBD = single business diversification; DBD = dominant business diversification; and RBD = related business diversification.
3. A = firm with very low diversity; B = related-diversified firm; C = unrelated-diversified firm; and D = firm with very high diversity.

Table 2: Rumelt diversification classification and the associated financial performance ratios

	Single and dominant business diversified firms		*Related diversified firms*		*Groups' means equal*	
	No.	Mean	No.	Mean	t-value	
Return on Equity	7	30,1871	19	23,3211	0,59	Yes
Return on Assets	7	11,2671	20	9,3485	1,19	Yes
Gross Profit Margin	7	42,4429	20	38,019	1,00	Yes
Operating Profit Margin	7	18,9629	20	12,1935	2,50	No

Table 3: SIC –product diversification classification and the associated financial performance ratios

	Product low and related-diversified firms		*Product high and unrelated diversified firms*		*Groups' means equal*	
	No.	Mean	No.	Mean	t-value	
Return on Equity	5	27,824	21	24,5376	0,61	Yes
Return on Assets	6	8,2433	21	10,3038	-1,07	Yes
Gross Profit Margin	6	51,53	21	35,6333	2,77	No
Operating Profit Margin	6	11,3067	21	14,7033	-1,05	Yes

Table 4: International diversification classification and the associated financial performance ratios

	International low and related diversified firms		*International high and unrelated diversified firms*		*Groups' means equal*	
	No.	Mean	No.	Mean	t-value	
Return on Equity	13	20,0231	13	30,3162	-1,40	Yes/No
Return on Assets	14	9,1579	13	10,5869	-0,97	Yes
Gross Profit Margin	14	39,42	13	38,8923	0,09	Yes
Operating Profit Margin	14	14,695	13	13,1446	0,54	Yes

Table 5: North American and European publishing companies and the associated financial performance ratios

	North American Companies		*European Companies*		*Groups' means equal*	
	N	Mean	N	Mean	t-value	
Return on Equity	12	22,1158	14	27,7871	-0,80	Yes
Return on Assets	13	9,0638	14	10,5721	-1,02	Yes
Gross Profit Margin	13	42,4115	14	36,1521	1,10	Yes
Operating Profit Margin	13	15,3477	14	12,6493	0,96	Yes