



**M.S. thesis**  
**Strategic Management**

**The applicability of agency theory to the  
management of media organizations in Iceland**

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Faculty adviser: Professor Runólfur Smári Steinþórsson

School of Business

June, 2014



HÁSKÓLI ÍSLANDS

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## **In memoriam**

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b. August 7, 1942

d. October 28, 2013

## Prologue

One thing leads to another.

In 2006, the author of this thesis was asked by the Ministry of Education in Iceland to give a talk on media concentration. Up to that point, the author had mostly concerned herself with media effects on children and adolescents, which is the subject of her Ph.D. dissertation in mass communication.

In the following years, she wrote a few articles on the Icelandic media market; and in order to do so, she had to go through media organizations' annual reports and other available material on the companies. This roused her interest in media as organizations.

Twenty-five years after graduating with a B.S. degree in mass communication with an emphasis on journalism, the author has finally managed to complete this M.S. thesis in strategic management, which is equivalent to ECTS 30, at the University of Iceland's School of Business, under the supervision of Professor Runólfur Smári Steinþórsson.

The author wishes to express her gratitude to Steinþórsson for his advice and patience over the two years that this thesis has been in the making, and to the eight managers of the Icelandic media companies that took time out of their daily schedule to speak to her about their organizations. The writing of this thesis would never have been possible without their assistance.

Finally, the author will be forever in debt to her husband and her daughter who had to bear with her during her studies. And although the nine-year-old doesn't believe anyone is going to be interested in this thesis, the author hopes that it throws a light on media management in Iceland.

## **Abstract**

It has previously been maintained by Napoli (1997) that agency theory (principal-agent approach) might be applied to media organizations to understand how media owners make sure that their companies are managed according to their wishes. Thus, the purpose of the present study was to investigate: a) whether the agency theory is applicable to four Icelandic media companies, and b) how the theory manifests itself in the management practices of these companies. The media companies that were examined were: the Icelandic State Broadcasting Service (RÚV), and three privately owned companies, i.e. 365 miðlar ehf., Árvakur hf. and DV ehf. Qualitative interviews were conducted with four editors-in-chief, two CEOs/publishers, the director general of RÚV and the news director of RÚV in May of 2012. Three of the interviewees were also part owners of the media companies.

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

Agency theory and stakeholder theory have generally been treated in the literature as being dichotomous. It is proposed in the present thesis that agency theory and stakeholder theory are not incompatible but rather should be reconceptualized as polar forces on the same continuum.

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## 1 Introduction

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

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

The Icelandic law on media epitomizes the socially sanctioned notion that owners' control of media organizations does not reach beyond the threshold of the newsroom. For example, any effort on the part of owners to fire individual journalists tends to make the headlines and is condemned by members of the academia (e.g. Hauksson, 2010; Olgeirsson, 2010).

One could claim that the undercurrent for the social pressure on the separation of ownership and control in the newsroom is the belief that the mass media are the fourth estate; that they serve some kind of a democratic function in society that other business organizations do not (e.g. Curran, 2002; Keane, 1991). Thus, it is found to be essential to minimize, and preferably eliminate, any influence that owners of media organizations might have on their firms; if, by any chance, they might want to use their firms for their own advancement or to further political opinions that they might favor (e.g. McKnight, 2003), thereby affecting the objectivity norm of the media (e.g. Schudson, 2001).

Hence, the government mandates that media owners relinquish control of their businesses to their subordinates - which is what George Seldes and other members of the U.S. Newspaper Guild advocated in the 1930s (McChesney, 2004). This separation between the ownership and control raises the issue of an agency problem.

Napoli (1997) has proposed that agency theory may be effective in examining and explaining relationships at the organizational level within media organizations. So far, the literature on agency theory and media firms is meager. Nevertheless, two Swedish researchers have applied the concept to media organizations (Ohlsson, 2012; Tjernström, 2002).

Keeping the above in mind, and the fact that research on media companies has been scarce (Picard 2003), it is the main goal of the present study to investigate whether agency theory is applicable to the management of media organizations in Iceland and how the theory manifests itself in the management practices of these companies, i.e. if it is applicable to media organizations in the first place.

Finally, although the present thesis mostly concerns itself with agency theory, the review of the literature revealed that more often than not agency theory is discussed in context with its proposed alternative, stakeholder theory. Hence, it was felt to be necessary to offer some discussion on stakeholder theory as well.

## **2 Literature review**

It will be attempted in this chapter on the theoretical literature to offer some explanation for the state's interference in the management of media organizations – namely because of the widely held beliefs that journalism, democracy and objectivity are permanently linked.

Secondly, this section explains agency theory and stakeholder theory in a nutshell and the main criticism that these two theories have received in the literature. A review of the literature revealed tension between the agency theorists and the stakeholder theorists and it appears that it is becoming increasingly difficult to discuss agency theory or stakeholder theory without mentioning the other, especially since stakeholder theory has been proposed as an alternative to the stockholder approach that agency theory advocates.

Thirdly, this chapter concludes with a brief overview of studies that have applied agency theory or stakeholder theory to media organizations.

### **2.1 Journalism, democracy and objectivity**

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

The notion that journalism is a crucial part of democracy is deep-rooted. Carey (1996), for example, has said:

Journalism is another name for democracy or, better, you cannot have journalism without democracy. The practices of journalism are not self-

justifying; rather, they are justified in terms of the social consequences they engender, namely the constitution of a democratic social order.

McChesney (2003) has reiterated Carey's position by saying: "It is well understood that democracy needs journalism; viable self-government in our times is unthinkable without it. What is less perceived is that journalism requires democracy," (p. 304). Furthermore, some believe that for democracy to prosper, citizens must be informed and have open access to diverse opinions (Keane, 1991).

Even though there has been such a strong emphasis on the intertwining of journalism and democracy, there is no single model of democracy (Held, 1991). Recently, there has even been a call among academics for the reconsideration and the elimination of the conceptual bond between journalism and democracy (Zelizer, 2013). The news channel Al-Jazeera, which is based in Qatar, has, for example, been singled out as an example of good journalism practices in a non-democratic society (Joseph, 2013). Hence, Western-style democracy is not always perceived as being a prerequisite for journalism.

It has long been believed that Edmund Burke coined the term fourth estate in the 18<sup>th</sup> century. According to Splichal (2002), however, the term has been erroneously attributed to Burke when in reality it was introduced by Thomas B. Macaulay who said in the early 19<sup>th</sup> century: "The gallery in which the reporters sit has become a fourth estate of the realm" (Macaulay, 1827, p. 105, as cited in Splichal, 2002). The other three estates being the judicial, legislative and executive powers. Splichal (2002) points out that the concept of the fourth estate refers "to the autonomy of the media from control, and their power to control other (state) powers, but ignore[s] the question of who controls the controllers" (p. 40).

The notion of the press as watchdogs or guardians of the public's interests is related to the idea of the fourth estate; the difference between the two terms mainly being expressed in the fact that the fourth estate implies trustworthiness while the watchdog role stresses objective reporting (Splichal, 2002).

The watchdog function of the media is carried out on behalf of the public and includes monitoring those in power (McNair, 2009). It is consistent with the social responsibility theory of the press (Siebert, Peterson & Schramm, 1963). Curran (2002)

has argued that the watchdog role of the media is “enormously important” (p. 219). This is reflected in the National Service Broadcasting Act in Iceland (Lög nr. 23/2013), where it is mandated that the Icelandic National Broadcasting Service shall monitor the activities of authorities, associations and businesses that affect the interests of the public.

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

This is congruent with Herman and Chomsky’s (2002) propaganda model of the media. They claim that although journalists believe that they are reporting the news objectively, the news is filtered through several filters, including the media ownership, advertising, and experts and other agents of power. Furthermore, Herman and Chomsky (2002) maintain that the media defend the political agenda of privileged groups in society. In that sense the propaganda model is related to the cultivation hypothesis that assumes that all television programs send a message to the audience that supports the power position of the elite and thus maintain the status quo in society (Shanahan & Morgan, 1999). McChesney (2004) has gone as far as to say that journalists and editors internalize and adapt the values of the media owners.

In the National Service Broadcasting Act (Lög nr. 23/2013) and the Broadcasting Act (Lög nr. 23/2013) there is a heavy emphasis on objectivity. Article 26 of the Broadcasting Act, for example, demands that the Icelandic media fulfill requirements of objectivity and exactness. It is hence appropriate to remember what Tuchman said in 1972, i.e. “newspapermen invoke their objectivity almost the way a Mediterranean peasant might wear a clove of garlic around his neck to ward off evil spirits” (p. 660). She argued that objectivity was the news staff’s shield against libel suits. It was used as a “strategic ritual”, as she phrased it.

Objectivity in journalism is a 20<sup>th</sup> century phenomenon. It emerged after World War I when journalists wanted to distance themselves from public relations practitioners, and consequently, it is a product of increased professionalism in journalism. But it has also

allowed media managers to keep journalists in place and as such objectivity is used as social control (Schudson, 2001; Schudson & Anderson, 2009). Objectivity became an institutionalized norm and was propagated in journalism schools (Vos, 2011).

There is evidence that young people nowadays reject objective news and prefer opinionated news stories (Marchi, 2012). Since the importance of objectivity is fairly recent, the end of objectivity in journalism does not equal the end of journalism per se (Schudson & Anderson, 2009).

News, however, can never be objective because selecting which topics to cover and how to cover them, from which angle, is a subjective process. Also, a certain ideology or a world-view is often embedded in news stories (McQuail, 1992). Bagdikian (2000, 2004) has maintained that news stories tend to be imbalanced in favor of the corporate elite as certain stories are covered and others are not. He argues that the media are sympathetic to wealth maximization by corporations and that they omit stories that might negatively affect their own profitability. Bagdikian (2000) pointed out that market dominant media have the power to influence people's political opinions and according to Habermas (2006), the media exert power by forming public opinions.

Habermas (2006) has stressed the importance of independent media since the owners of media companies can transform media power into political pressure and to acquire political influence. Habermas' claims are consistent with the research by McNight (2003, 2009, 2010) who showed that there was a link between Rupert Murdoch's ownership of newspapers and their political biases; the scale mostly being tipped in favor of conservative populism. The underlying assumption is that media owners can indirectly affect the public's political opinion through the agenda setting effects of their media (for a discussion on agenda setting see e.g. Kolbeins, 2012a; McCombs, 2005; McCombs & Shaw, 1972).

It has been argued, however, that:

Privately owned media need to maintain audience interests in order to be profitable; they have to sustain public legitimacy in order to avoid societal retribution, and they can be influenced by the professional concerns of their staff. All these factors potentially work against the subordination of private media to the political commitments and economic interests of the shareholders (Curran, 2002, p. 223).

Interestingly, the literature on media ownership does not take into account that journalists may have their own agenda. Jónas Kristjánsson (2011), former editor-in-chief and owner of the newspaper DV in Iceland, has said that in the early 1990s the newspaper employed journalists who used their position to advance the interests of individuals outside the company. Hence, editorial autonomy does not guarantee that journalists work in the interests of the public. Besides, journalists' claim to autonomy from their employers is "regulative fiction of public intelligence", according to Neron (2013).

## **2.2 Agency theory**

### **2.2.1 Premises**

Agency theory is based on two main premises: the separation of ownership and control, and the objective of wealth maximization (Jensen, 2002).

Agency theory traces its roots to Berle and Means (1968) who concluded in their 1932 classic study that there had been a separation of ownership and control in public U.S. companies.

They argued:

The position of the owner has been reduced to that of having a set of legal and factual interests in the enterprise while the group which we have called control, are in the position of having legal and factual powers over it (p. 113).

Furthermore:

...we are dealing not only with distinct but often with opposing groups, ownership on the one side, control on the other – a control which tends to move further and further away from ownership and ultimately lie in the hands of the management itself, a management capable of perpetuating its own position (p. 116).

The methodology, on which Berle and Means based their conclusions, was criticized from the very beginning (Crum, 1934), and recently it has even been maintained that ownership has never been completely separated from control (Cheffins & Bank, 2009).



At its core, agency theory is a micro-economic theory about nexus-of-contracts, and in that respect it is related to transaction cost theory (e.g. Alchian & Demsetz, 1972; Gibbons, 2010; Oritani, 2010; Williamson, 1981).

According to Jensen and Smith (1985) “[...] an agency relationship is a contract in which one or more persons (the principal(s) engage another person (the agent) to take actions on behalf of the principal(s) which involves the delegation of some decision-making authority to the agent” (p. 2). The agency problem can be found at all levels within organizations, and the relationship between the principal and the agent does not necessarily have to be hierarchical (Jensen & Meckling, 1976). Agency cost is defined as the sum of the principal’s cost to monitor the actions of the agent, the cost of the agent to reimburse the principal for any harm he may cause him (bonding cost), and the monetary value of any loss that the principal may incur because of a decision that the agent made that did not maximize the interests of the principal (Jensen & Meckling, 1976). Because of the agency cost, the principal won’t delegate tasks to the agent unless it’s necessary (Barney & Hesterly, 1996). Within firms, the monitoring by managers is reciprocal as managers may monitor both other managers below them and above them (Fama, 1980).

Agency theory assumes that if the opportunity presents itself, people will always behave in their own self-interest and engage in shirking; hence, becoming guilty of moral hazard (Eisenhardt, 1989). Employees are more likely to engage in shirking if they are paid fixed wages rather than when their interests are tied to the profitability of the firm (Demsetz, 1983).

Furthermore, agency theory entails information asymmetry (Saam, 2007) and the likelihood of adverse selection. The agent may misrepresent himself when he is hired and he may also be in the possession of information, due to his position, which is not available to the principal (e.g. Eisenhardt, 1989; Shapiro, 2005).

It’s thought to be crucial for the existence of the organization to control the agency problem and in order to align the interests of the management with the interests of the owners and reduce any slack, owners may offer their managers incentives to “encourage them to move in the correct direction” (Jensen, 1994, p. 3). The board of directors and decision hierarchies, where there is a separation between initiation and

implementation, and ratification and monitoring, are also mechanisms to control the problem (Fama & Jensen, 1983b; Jensen & Smith, 1985).

Due to the cost of controlling the agency problem in small organizations, the agency cost may simply be limited by “restricting residual claims” to agents when the decision management and control are in the hands of few individuals (Fama & Jensen, 1983a).

There are several modified versions of the agency theory. Lan and Heracleous (2010), for example, have proposed a reconceptualization of the theory where the corporation is the main principal because the corporation is a legal entity and shareholders do not actually own it due their limited liability. From this perspective, the agency problem is a matter of goal alignment but not goal conflict and the running of the firm should be thought of as team production (Heracleous & Lan, 2012).

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

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

Heracleous and Lan (2012) argued that agency theory was not universal because it was “based on historically contingent set of understandings and on specific theoretical streams” (p. 227). Wiseman et al. (2012), on the other hand, posited that agency problems are universal, “even though the explicit manifestation of these problems and ways to deal with these problems may vary depending on institutional context” (p. 207). Moreover, Cuevas-Rodríguez, Gomez-Mejia and Wiseman (2012) have introduced the concept of trust into the equation to decrease the level of conflict between the agent and the principal.

Finally, it has been proposed that it is important to take into account the social context and the subculture, in which the agent and the principal operate. Thus, the relationships between principals and agents may be culturally dependent (Lubatkin et al., 2005; Lubatkin et al., 2007).

### 2.2.2 Criticism

Over the years, agency theory has been considerably criticized. Williamson (1983), for example, said that Fama and Jensen had failed to show that there was a reason to be concerned about the separation of ownership and control, and Donaldson (2012) said that the theory didn't take into consideration what obligations "principals might have either to their agents or to other groups inside or outside the firm" (p. 264).

Agency theory has been criticized for its simplistic and pessimistic assumptions about human behavior, i.e. assuming that people will always act opportunistically (Heath, 2009; Lubatkin, 2005), for being self-activating (Arce, 2007), for freeing business students from being morally responsible (Ghoshal, 2005) and for providing an undersocialized account of human behavior (Granovetter, 1985). Lubatkin (2005) points out that money isn't the sole driving force behind people's actions and that it is important to keep in mind that firms operate in a dynamic social environment. Agency theory, on the other hand, perceives organizations as being static (Barney & Hesterly, 1996).

Some have argued that agency theory is outdated and hasn't been empirically validated and others have said that it isn't compatible with management theory, which places much stronger emphasis on the multifaceted aspects of organizations (Dühnfort, Klein & Lampenius, 2008; Lubatkin et al., 2007). For example, shareholders are not the only ones who take risks but the employees do so as well as they have invested interests in the organization (Driver & Thompson, 2002; Fontrodona & Sisona, 2006). Others have pointed out that conceptualizing the relationship between the agent and principal as dyadic is problematic because the agent may, for example, be serving many masters with different interests and the agent himself may be a principal (Shapiro, 2005).

It has further been proposed that agency theory has a "made-in-the-U.S." bias and it may prove to be difficult to apply it to cultures where there is less focus on individualism and more on relationships (Johnson & Droege, 2004; Lubatkin et al., 2005)

Freeman (1994) has gone as far as saying that "the stockholder theory is or at least should be intellectually dead" (p. 413).

## **2.3 Stakeholder theory**

### **2.3.1 Premises**

Stakeholder theory has been proposed as an alternative to agency theory (e.g. Agle et al., 2008). Freeman has argued that stakeholder theory is simply about good management (Agle et al., 2008). His rhetoric is that it's common sense that a business venture won't succeed unless the needs of stakeholders are taken into consideration (Freeman, 2009, 2010).

Freeman and Reed (1983) have identified two groups of stakeholders, i.e. "any identifiable group or individual who can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives" and those "on which the organization is dependent for its continued survival" (p. 91). This is consistent with the definition of primary and secondary stakeholders, where primary stakeholders are shareholders and employees, and secondary stakeholders are customers, suppliers and lenders (Kaler, 2009).

Freeman (1994) later defined the stakeholders as "employees, financiers, customers [...], and communities" (p. 417), while Phillips (2003) prefers to distinguish between normative and derivative stakeholders, and non-stakeholders, and Argandoña (1998) "identifies stakeholders as being those who have an "interest" in the company (so that the firm, in turn, may have an "interest" in satisfying their demands)..." (p. 1099). Another typology classifies stakeholders according to their latent power, urgency and legitimacy to management (Mitchell, Agle & Wood, 1997).

In contrast to agency theory, which views the firm as a nexus of contracts, it has been suggested that stakeholder theory is about social relationships (Hendry, 2001).

### **2.3.2 Criticism**

Stakeholder theory has received its fair share of criticism. Some have pointed out, for example, that stakeholders may have conflicting interests and they may differ in their opinion on what the purpose of the company is, making management difficult (Ambler & Wilson, 1995; Hill & Jones, 1992; Jensen, 2002; Marcoux, 2003; Sundaram & Inkpen, 2004). The needs of the stakeholder groups may also differ and these needs may be met

in different ways (Boatright, 2006). Freeman and his colleagues admit that the interests of the individual stakeholder groups may be in conflict and emphasize that these conflicts must be resolved (Freeman, Wicks & Parmar, 2004).

Jensen (2002) has argued that:

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

Interestingly, stakeholder theory has been criticized on the same grounds as agency theory, - namely that it should be viewed in its U.S. cultural context and as a neo-liberal theory of justice (Pesqueux & Damak-Ayadi, 2005).

## **2.4 Agency theory, stakeholder theory and the media**

Napoli (1997) stated that studies on the influence of media corporate ownership on the content of the media had failed to acknowledge agency theory as a framework. He argued that agency theory is indeed applicable to media organizations. For example, he mentioned that profit maximization is the main goal of media owners and that hiring practices are used to align the interests of the owners and the employees; also, agency problems may arise between the owners and management and between the management and employees.

Both Tjernström (2002) and Ohlsson (2012) borrowed from Napoli's theoretical paper in their studies in Sweden. Tjernström (2002), for example, concluded that agency theory was useful for the examination of the Swedish Broadcasting Corporation and said that there were instances when the management of the public service media provider acted independently. Ohlsson (2012), on the other hand, applied agency theory as a framework for the study of the membership and the decision making of board of directors of three local Swedish newspapers.

A study by Shao (2010) found that fixed salaries for CEOs and board members of media organizations better predicted financial performance than incentive plans – leading to the conclusion that it was more suitable to manage media firms according to the stakeholder perspective rather than the agency theory. In the mid 1980s, the

findings by Busterna (1989), in his study of newspaper managers, had contradicted the profit maximization premise of the agency theory. Managers, who owned at least half of their newspapers' shares, placed less emphasis on profit maximization than non-owner managers.

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

### **3 Methodology**

To fulfill the aim of the present study, two kinds of methods were employed: a search was conducted for any written material that might throw a light on the history and the social context of four Icelandic media companies, i.e. 365 miðlar ehf., Árvakur hf., DV ehf. and RÚV ohf., and eight managers of these same four organizations were interviewed.

As will become quite evident later in this thesis, these four companies are quite different. 365 miðlar ehf. is a media house with several media outlets, including a newspaper, radio and television channels, and an online website, while Árvakur hf. owns a printing press, operates an online news website and publishes a newspaper. DV ehf. operates an online website and publishes a paper, and RÚV ohf. is the Icelandic National Broadcasting Service. All of these companies distribute their products nationally.

Knowing the background of the media companies, under study, and being able to perceive them in their historical and legal context, gives the reader a crucial perspective on these firms and their life cycles, and frames the interviews.

#### **3.1 Information search**

The background information and the historical narrative of the media companies are mostly based on biographies, reports, legal documents, news media coverage, and various online sources that were accessible until April of 2014.

As the section on the companies' history relies heavily on past and current news articles, it comes with a caveat. It should be noted that the accuracy of this section depends to a large extent on the accuracy of these reports.

## 3.2 Interviews

Due to the small sample size and the nature of the project, a quantitative study was not feasible. Furthermore, by employing qualitative methods the researcher was able to capture breadth and depth of management practices that would have been otherwise overlooked in a survey design.

According to Patton (1990):

There are no formulas for determining significance [in qualitative research]. There are no ways of perfectly replicating the researcher's analytical thought processes. There are no straightforward tests for reliability and validity. In short, there are no absolute rules except to do the very best with your full intellect to fairly represent the data and communicate what the data reveal given the purpose of the study (p. 372).

In May of 2012, the researcher used semi-structured interviews with open-ended questions (e.g. Bryman & Bell, 2003; Patton, 1990) to interview eight top-level managers at four media companies in Iceland. Inevitably the interviewer was guided by agency theory in her choice of questions and the section on results reflects this fact. Nevertheless, during the interviews, themes emerged that were unforeseen and they are touched upon in the following section on results.

It must be kept firmly in mind that companies are dynamic phenomena and their operations are fluid and ever-changing. Thus, the interviews reflect the views of the managers at the time of the study, i.e. in the spring of 2012, and they do not necessarily accurately depict the management of the companies or the firms' situations at a later date. Consequently, the interviews should be thought of as static snapshots of the media organizations' management practices. Also, two years later, in the spring of 2014, four of the interviewees had either quit their jobs or had different roles within their organizations.

Each interview lasted half an hour to an hour and took place at the interviewees' place of employment. Seven of the interviews were taped but one participant refused to be recorded.



The following people were interviewed:

1. Ari Edwald, CEO/owner of 365 miðlar ehf. and publisher of Fréttablaðið.
2. Ólafur Stephensen, editor-in-chief of the free-of-charge newspaper Fréttablaðið (365 miðlar ehf.).
3. Freyr Einarsson, editor-in-chief of the television channel Stöð 2 and the online news outlet Vísir (365 miðlar ehf.).
4. Óskar Magnússon, CEO/owner of Árvakur hf. and publisher of Morgunblaðið.
5. Haraldur Johannessen, editor-in-chief of Morgunblaðið (Árvakur hf.).
6. Reynir Traustason, owner/board member of DV ehf. and editor-in-chief of DV.
7. Páll Magnússon, director general of the Icelandic National Broadcasting Service (RÚV).
8. Óðinn Jónsson, news director of RÚV's news service.

All of the interviews were conducted in Icelandic, and for the purpose of reliability, direct quotations are not normally translated into English in the following chapter on results. They are, however, paraphrased in English. Also, for readability meaningless common Icelandic insertions like “sko”, “bara” and “hérna” have been omitted and the sentence structure has been made more coherent – without any wording being changed. The text was thus treated in the same manner that a journalist would edit his/her interviews. The rationale for this decision was the fact that the interviewees were not anonymous.

According to Denzin and Lincoln (2000): “The interpretative bricoleur understands that research is an interactive process shaped by his or her personal history, biography, gender, social class, race, and ethnicity, and by those of the people in the setting” (p. 6). Adding to these words, it should also be kept in mind that previous encounters between the researcher and his/her subjects may influence the outcome of the interviews. Thus, for full disclosure, it should be revealed that the author of the present study had had no previous contact with Freyr Einarsson or Óskar Magnússon.

A few weeks before the interviews, she had briefly exchanged e-mails with Haraldur Johannessen regarding another research project, and over the years she had met Páll Magnússon, Ólafur Stephensen and Óðinn Jónsson on a few occasions. Reynir Traustason is a former co-worker of hers.

In February of 2006, Ari Edwald publicly criticized the author for her comments on media concentration in an interview on RÚV's news magazine show, Kastljós (Kastljós,

2006) and again in October that same year for her research on Baugur Group's advertising in Fréttablaðið ("Fjallaði um fjölmiðla", 2006; Kolbeins, 2006a).

The act of reflexivity requires us to reflect upon how the factors which shape our lives affect our research and our interactions with our subjects, and who we are in the eyes of our respondents (Lincoln & Guba, 2000). Moreover, in a qualitative study it is impossible to eliminate the effect of the researcher (Maxwell, 1998).

From the start, the interviewer was aware that her past research and talks on media ownership might affect the outcome of the interview with Edwald. However, the interview with the CEO of 365 miðlar ehf. was one of the longer ones and there was no indication that the events of 2006 had any significant effects on the interview.

The discussion on 365 miðlar ehf. is more extensive than the coverage of the other companies for three main reasons. First of all, the company is a media house with several media outlets that once upon a time didn't have any ties to each other. Secondly, three managers at 365 miðlar ehf. were interviewed and two of these interviews were among the longer ones. And finally, as will be discussed in more detail later, the company's management practices appeared to fit the best with agency theory and the company's managers offered the most examples of practices that aligned with the theory.

## 4 Results

### 4.1 Background information on 365 miðlar, Árvakur, DV and RÚV

For all our assets, we use value assessment, where we focus on the underlying cash-generation of the business in question. However, there is one exception, as we have recently purchased a 50% share in Iceland's only business newspaper, which, surprisingly or not, is not a very cash-rich business. Although we have no intention of losing money on this investment, I freely admit that there are also other factors at play. In a relatively short period of time, the Icelandic press and broadcast media have more or less ended up in the hands of two families. Apart from the State-owned broadcasting service, these two families have control of nearly all media coverage in the country. We have felt it to be our responsibility to keep at least a small part of the media independent of these two blocs. Therefore, our subsidiaries currently keep two media holdings: Skjár 1, a television station owned by Síminn, and Viðskiptablaðið, a specialized business daily (Guðmundsson, 2007).

The above citation is from a speech by Lýður Guðmundsson, the executive chairman of Exista hf., at the financial services group's annual meeting in 2007 ("Tvær fjölskyldur", 2007). It succinctly summarizes the state of affairs of the Icelandic media from 2005 to 2008, during the so-called "period of prosperity", when influential business people bought shares in media companies – not for wealth maximization, apparently, but for power.

The era of the political party press had run its course in Iceland in the mid 1990s (Friðriksson, 2000) and after some turbulent years, business men funnelled money into the media companies until the banking sector came crumbling down. In the fall of 2008, Iceland plunged into depression and the country suffered from an economic meltdown (Jónsson, 2009). Business transactions of many of the media owners came under scrutiny in the Report of the Special Investigation Commission (cf. Hreinsson, Benediktsdóttir & Gunnarsson, 2010).

In the wake of the crisis, the privately owned media companies underwent financial restructuring and change of ownership, including Viðskiptablaðið that was sold by Exista in November of 2008 ("Myllusetur kaupir Viðskiptablaðið", 2008). Guðmundsson

himself was convicted of illegally increasing Exista's shares and was sentenced to be incarcerated for eight months by the Supreme Court of Iceland in 2014 (five months were suspended) (Hæstiréttur Íslands, 2014).

In the spring of 2014, there were four main news media organizations in Iceland: 365 ehf., Árvakur hf., DV ehf. and RÚV ohf. In addition, there were several other media companies, including the magazine publisher Birtíngur, the television station Skjár 1, and various smaller companies (Fjölmiðlanefnd, n.d.a, n.d.b).

#### **4.1.1 365 miðlar ehf.**

##### **4.1.1.1 Media**

365 miðlar ehf. publishes the free-of-charge daily newspaper Fréttablaðið (no Sunday version), runs six radio stations: Bylgjan, Léttbylgjan, Gullbylgjan, X-977, FM957 and Útvarp Latibær; and nine subscription television channels: Stöð 2, Stöð 3, Stöð 2 sport, Stöð 2 sport 2, Golfstöðin, Bíóstöðin, Gullstöðin, Krakkastöðin and PoppTíVÍ (365, n.d.a; Fjölmiðlanefnd, n.d.c).

Furthermore, 365 miðlar ehf. owns and operates the online news and entertainment website Vísir.is. Recently, the media house has bought Midi.is, the online ticket seller, and Tónlist.is, a music website (Samkeppniseftirlitið, 2013a, 2013b).

It also offers its subscribers access to foreign channels through Stöð 2 fjölvarp (365, n.d.a). Finally, 365 miðlar ehf. owns 26.57% in Birtíngur, the dominant publisher of magazines in Iceland (“Ráðist í miklar hagræðingaraðgerðir”, 2012).

##### **4.1.1.2 History**

365 miðlar ehf. is an umbrella for a number of media outlets and it is important to keep in mind that the company's core outlets, i.e. Fréttablaðið, Bylgjan, Stöð 2 and Vísir.is, started out as separate entities.

#### **4.1.1.2.1 Fréttablaðið**

Fréttablaðið was established in 2001 by the owners and publishers of the afternoon newspaper, DV. The circulation was originally 75,000 copies, and in contrast to other free papers around the world, it has always been delivered to people's doors in the Reykjavík metropolitan area ("Fréttablaðið hóf", 2001; "Stefnt að útkomu", 2001). In 2009, the free delivery was ceased in some parts of the country but the paper was still available if people were willing to pay for it ("Vaxandi erfiðleikar", 2009).

From the start, the competition from other newspapers was fierce. Eyjólfur Sveinsson, the owner of Fréttablaðið ehf., condemned other media for putting the credibility of the paper in a negative light ("Yfirlýsing frá Eyjólfri", 2002). By November 2002, Fréttablaðið ehf. was declared bankrupt (Blaðamannafélag Íslands, 2002).

During the summer of 2002, Fréttablaðið ceased publishing for two weeks while negotiations between the management of Fréttablaðið and new investors took place. The publishing right was sold to Frétt ehf. and Gunnar Smári Egilsson became the editor-in-chief ("Fréttablaðið kemur aftur"; "Fréttablaðið kemur út", 2002; "Nýtt útgáfufélag", 2002). The new owners were willing to enter into a contractual agreement with its rival, the newspaper publishing firm Árvakur hf., that stated that Árvakur's printing press would print Fréttablaðið six days a week for the next two years but Árvakur's board of directors refused ("Prentsmiðja Morgunblaðsins", 2002).

A year after the launch of Fréttablaðið, there was a considerable reduction in advertising sales ("Reykjavíkurbref", 2003). Consequently, Fréttablaðið, which entirely relied on advertising revenue, was hit hard. For decades, DV had monopolized the market for classifieds and thus it was not unexpected that Fréttablaðið planned to offer classifieds as well. The publisher of DV took the matter to court and lost. Sveinsson, and his father, Sveinn Eyjólfsson, had by then sold DV. The new owners of DV considered Fréttablaðið's selling of classifieds a breach of contract ("Fréttablaðið efh. sýknað", 2002).

The new ownership of Fréttablaðið was kept under wraps for almost a year. Egilsson maintained that he didn't want to feed the negative coverage of Fréttablaðið by revealing the identities of the owners ("Fréttablaðið kemur út á ný", 2002). Nevertheless, some demanded answers and wanted to know how Egilsson could justify

not telling the nation who owned a strong medium in a democratic society (Tynes, 2002). Tómasson (2002), a spokesman for Fréttablaðið, replied and argued that the paper should be judged on its own merit.

In May 2003, Egilsson, the editor of Fréttablaðið, disclosed that in addition to himself, the owners of Fréttablaðið were Jóhannes Jónsson, Jón Ásgeir Jóhannesson, Ingibjörg Pálmadóttir, Pálmi Haraldsson, Ragnar Tómasson and Árni Hauksson (“Hagnaður hjá Frétt”, 2003; “Upplýst um eigendur”, 2003). Jóhannesson has since claimed that Egilsson and Tómasson led the group of investors and that any talk of secrecy was “bullshit”<sup>1</sup> (Reynisson, 2011).

In the summer of 2002, Jóhannesson was the chairman of the board of directors of Baugur Group hf. (Nordic Exchange, 2002) but for years he served as the company’s CEO (“Jón Ásgeir hættir”, 2007). He and his father, Jóhannes Jónsson, laid the foundation for Baugur Group when they opened the low-price store Bónus in 1989 (“Móttökurnar hreint”, 1989).

Baugur hf. was listed on the Iceland Stock Exchange from 1999 to 2003 (Nordic Exchange, 1999, 2003) and filed for bankruptcy in 2009 (Hall, 2009; Þórðarson, 2009a). Jóhannesson himself was convicted of tax evasion in 2013 (“Former Baugur chairman”, 2013; Hæstiréttur Íslands, 2013).

Jóhannesson has said that Morgunblaðið’s monopoly of the advertising market was the main reason he and his father invested in Fréttablaðið (Valdórsson, 2009). There is some indication that the retail stores of Baugur Group spent disproportionately on advertising in Fréttablaðið (Kolbeins, 2006a).

Ever since 2003, Fréttablaðið has been the most widely read newspaper in Iceland. In 2014 the readership was 56% per issue country-wise and 68% in the Reykjavík-metropolitan area (Capacent, 2014; DataMarket, n.d.).

In the fall of 2008, plans were laid for a merger of Fréttablaðið and Árvakur hf. Before the plans were realized, Jóhannesson bought Fréttablaðið and other media that

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<sup>1</sup> „[...] þannig að allt tal um leynd er kjaftæði,” (Reynisson, 2011).

belonged to 365 hf., the publisher of Fréttablaðið (Bragadóttir, 2008a; Þórðarson, 2008). Journalists were laid off and in 2009 the journalists' working hours were cut from full time to 90% ("Fréttablaðið hagræðir", 2009; Magnúsdóttir, 2012).

In February of 2010, after leaving his position at Morgunblaðið as an editor-in-chief, Ólafur Þ. Stephensen was hired as an editor-in-chief of Fréttablaðið ("Ólafur Þ. Stephensen nýr", 2010). Three years later, the author and former editor, Mikael Torfason, was hired as an editor-in-chief of Fréttablaðið ("Mikael Torfason verður", 2013). The hiring of Torfason was the cause of bad vibrations at Fréttablaðið and the assistant editor resigned after Torfason taking over her office ("Segist hafa verið ýtt", 2013; Vilhjálmsson & Kjartansdóttir, 2013b).

Shortly afterwards, organizational changes were made and Stephensen was demoted to an editor while Torfason was made the editor-in-chief of all news production of 365 miðlar ehf. The newsrooms of Fréttablaðið, Bylgjan/Stöð 2 and Vísir converged into one newsroom ("Mikael Torfason stýrir öllum", 2013; Stephensen, 2013). Several employees were laid off in the summer of 2013 ("Andri fréttastjóri", 2013; "Uppsagnir hjá 365", 2013) and others quit on their own accord ("Fleiri hætta á Fréttablaðinu", 2013).

#### **4.1.1.2.2 *Bylgjan and Stöð 2***

Although the first Icelandic radio station, which briefly broadcasted in the late 1920s, was privately owned, it wasn't until 1985 that the broadcasting monopoly of RÚV was lifted (Friðriksson, 2000; "Útvarpslagafurvarpið", 1985).

Bylgjan was the first radio station to take advantage of the newfound broadcasting freedom and hit the airwaves on August 28, 1986 ("Bylgjan byrjar", 1986). On October 9 that same year, the privately owned television station, Stöð 2, started broadcasting – during a historical time due to the summit of Ronald Reagan, the president of the United States of America, and Mikhail Gorbachev, the general secretary of the Communist Party in the Soviet Union, in Reykjavík ("Íslenska sjónvarpsfélagið", 1986; "Stöð 2 byrjar", 1986).

From the very beginning, Stöð 2 was funded through advertising sales and subscriptions. When the channel started broadcasting, 5,000 subscriptions had already been sold (“Fimm þúsund hafa”, 1986).

The original owners and founders of Íslenska sjónvarpsfélagið, which operated Stöð 2, were Jón Óttar Ragnarsson, Davíð Scheving-Thorsteinsson, Eyjólfur K. Sigurjónsson and the Ellingsen-family (“Íslenska sjónvarpsfélagið”, 1986).

Four years later, when a group of investors intended to start another subscription channel, Sýn, to compete with Stöð 2, Stöð 2 merged with Bylgjan and Sýn (“Stöð 2, Sýn”, 1990). In the following years, the ownership and control of Stöð 2 and Bylgjan changed and the media outlets became a part of Íslenska útvarpsfélagið, the original name of the operating company of Bylgjan (“Íslenska útvarpsfélagið”, 1986; Kárason, 2005). In 1999, Íslenska útvarpsfélagið, Sýn and Skífan merged into Norðurljós hf. Norðurljós was now the parent company of the television stations Stöð 2, Sýn and Bíórásin, the record-store chain Skífan, the radio stations Bylgjan, Stjarnan and Mónó, and the movie theatre Regnboginn (“Skífan, Sýn”, 1999).

Jón Ólafsson had become one of the owners of Stöð 2 in January of 1990 but he had been one of the founders of Bylgjan (Kárason, 2005). In November of 2003, he sold his stake in Norðurljós, or 60%, to Jón Ásgeir Jóhannesson and Kaupping-Búnaðarbanki (“Ekkert leyndarmál”, 2003; “Mjög sáttur”, 2003; “Samningur um kaup”, 2003). Jóhannesson has reported that he, and his associates of Baugur Group, paid ISK 250 million for Norðurljós and ISK 110 million for Fréttablaðið (“Leitar jafnvægis”, 2007).

Ólafsson’s ownership of Norðurljós was controversial (“Af uppátækjum Jóns”, 2012; e.g. Kárason, 2005) and at one time he clashed with the news director of Stöð 2, Elín Hirst. According to her, he fired her on the grounds that she didn’t take the company’s advertising interests into consideration in her selection of news stories. For instance, an insurance company had terminated an advertising contract (“Elín Hirst lætur af”, 1996; “Elín Hirst um afskipti”, 1996; “Góð samviska”, 1996). Páll Magnússon, the station’s first news director, was her successor (“Ég betri fréttastjóri”, 1996). Ólafsson denied the accusations and said he had never interfered with the work of the newsroom, except once when he reported an accident and when he disliked insinuations that were made in a news story (“Harma að Elín”, 1996; “Jón Ólafsson stjórnarformaður”, 1996).



Another former employee of Stöð 2 has related an incident where a previous owner of the television channel banned a news story because of business interests (the story was aired at a later date). Shortly after the embargo, the employee had the opportunity to get the message across to the owner that he shouldn't interfere because otherwise the journalists would walk out (Snævarr, 2013).

When Páll Magnússon took the position of a news director of Stöð 2 for the third time in January of 2005, he discussed the pressure of the ownership on the newsroom and the battles he had to fight to keep the newsroom independent<sup>2</sup> (Jónatansson, 2005). However, his term as a news director was short as he quit once again just six months later ("Páll Magnússon hættir", 2005).

Among those who were fired from 365 miðlar ehf. in 2009 was Sigmundur Ernir Rúnarsson, the director of the news division. He voiced his discontent in an interview where he lamented the changes that had taken place. He claimed that the criteria for newsworthiness was now based on a popularity contest (Hlynsdóttir, 2009).

The turnover rate of news directors of Stöð 2 is considerably high. The station changed news directors nine times in a decade and when Kristján Már Unnarsson was hired in 2010 he was the 12<sup>th</sup> individual to hold the position. On average, the news directors of Stöð 2 only last for a year and half (Jónatansson, 2005; "Nýr fréttastjóri ráðinn", 2010; "Tíð fréttastjóraskipti", 2005). When Torfason became the head of the joint news operation in 2013, Unnarsson received a new role within the company ("Kristján Már hættir", 2013).

One cannot discuss Stöð 2 without mentioning the era of NFS, the 24-hour news channel that broadcasted from September 2005 to November 2006. Viewing ratings were low and when the operation closed its doors, 20 people were laid off, including Róbert Marshall, the director of NFS, who had appealed to Jóhannesson, one of the

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<sup>2</sup> „En í gegnum öll þessi átök og djöfulgang í kringum eignarhaldið á fyrirtækinu síðan það var stofnað, þá hefur það verið gæfa fréttastofunnar að geta haldið sig fyrir utan þessi átök og haldið sér óspilltri af þeim. Í fréttastjórastarfinu hef ég oft þurft að berjast um hæl og hnakka fyrir sjálfstæði fréttastofunnar. Ég held að sú barátta hafi skilað árangri. Eignarhaldið á fyrirtækinu, sama hvernig það svo er á hverjum tíma, kallar alltaf á það að fréttamenn eru á varðbergi gagnvart eignum sínum,“ (Jónatansson, 2005).

owners, to keep the station going for two more years (Logadóttir, 2006b; Marshall, 2006; “Ný fréttastöð 365 ljósvakamiðla”, 2005).

In March of 2014, the newscast of Stöð 2, which has always been an “open window”, had ratings of 20% and reach of 26%. In comparison, the newscast of RÚV had ratings of 22% and reach of 29%. Overall, Stöð 2 had 26% share in the age group of 12 to 80 year-olds and 28% share in the age group of 12 through 49 year-olds (Capacent, n.d.a). Ari Edwald, the CEO of 365 miðlar ehf., estimated in 2011 that the company had 40,000 subscribers and had lost 10% of its subscribers compared to the numbers of subscriptions in 2006 (“Stöð 2 missti þúsundir”, 2011).

Bylgjan is by far the most popular radio station in Iceland with a weekly share of 44% in the age group of 12 to 49 year-olds, and on average nearly 300 minutes of weekly listening in the age group of 12 to 80 year-olds (Capacent, n.d.b).

#### **4.1.1.2.3 Vísir**

From 1910 to 1981, an afternoon newspaper called Vísir was published. The paper merged with Dagblaðið, whose publisher was Frjáls fjölmiðlun (Friðriksson, 2000). Not surprisingly, when Frjáls fjölmiðlun launched a website in 1998 it was named Vísir. Vísir had its own editorial room but also published material from other media outlets, owned by the same investors (“Frjáls fjölmiðlun opnar”, 1998). In 1999, Vísir got exclusive rights to distribute media material from Íslenska útvarpsfélagið (“Vísir.is og ÍÚ sameinast”, 1999).

Vísir was sold in 2002 to Femin.is, whose owners included Norðurljós and Baugur (“Femin.is kaupir”, 2002; “Kaup Femin.is”, 2002). Only a year later, Femin.is had sold Vísir (“Femin ehf. selur”, 2003).

In 2014, Vísir was the news and entertainment website for 365 miðlar ehf. It was the second most visited website in Iceland with 157,500 daily users and 7.4 million clicks, 4 million fewer clicks than its main competition, Mbl.is (Modernus, 2014).

#### **4.1.1.3 From Norðurljós to 365 miðlar ehf.**

What started with a single newspaper soon grew into a conglomerate. Frétt ehf., the publisher of Fréttablaðið, merged with Norðurljós in January of 2004. Hence, Norðurljós became the parent company of Frétt, Íslenska útvarpsfélagið and Skífan. Baugur Group became the dominant shareholder. Companies that were connected with Jón Ásgeir Jóhannesson of Baugur Group and his business partner, Pálmi Haraldsson, held 58% of the stocks (Hálfvánardóttir, 2004). Jóhannesson said that when he bought Norðurljós, the company had defaulted on its loans and hadn't even paid interests. He hadn't decided at that point whether he would continue owning Fréttablaðið ("Jón Ásgeir Jóhannesson", 2004).

In September of 2004, the main shareholder of the telecommunication company, Og fjarskipti hf., the parent company of Vodafone in Iceland, sold his shares to Norðurljós. Three months later, Og fjarskipti bought Íslenska útvarpsfélagið ehf. and Frétt ehf. (Landsbankinn & Og Vodafone, 2005). The names of Íslenska útvarpsfélagið and Frétt were changed to 365 ljósvakamiðlar and 365 prentmiðlar ("ÍÚ og Frétt", 2005).

Effective October 1, 2005, the organizational structure of Og fjarskipti hf. was altered and the name changed to Dagsbrún hf. Og fjarskipti hf. had been listed on the Iceland Stock Exchange. Dagsbrún hf. replaced it and became the parent company of the media firms ("Dagsbrún móðurfélag", 2005).

It is beyond the scope of this thesis to go into details about the extensive expansion of Dagsbrún hf. It became a holding and an investment company, whose purpose it was to invest in media, telecommunications and entertainment (e.g. Bjarnason, 2011; Dagsbrún & Landsbankinn, 2006; Kolbeins, 2006b, 2007). One can, however, say that it was the overreaching and well-publicized goal of the company to double its size every 12 to 18 months ("Dagsbrún stefnir að", 2005; Landsbankinn, 2006). In December of 2005, Gunnar Smári Egilsson became CEO of Dagsbrún hf. and Ari Edwald was hired as CEO of 365 miðlar, the media subdivision of Dagsbrún hf. Moreover, Þórdís Sigurðardóttir, the chairman of Dagsbrún's board of directors, declared that the board had decided that the company would expand its media operations abroad ("Ari Edwald tekur", 2005).

In 2006, Egilsson resigned as CEO of Dagsbrún hf. and became the head of Dagsbrún's Mediafund (Nordic Exchange, 2006a). Among Dagsbrún's investments abroad were Nyhedsavisen in Denmark and Wyndeham Press Group in the U.K. It is estimated that Nyhedsavisen cost investors DKK 665 million (Viðskiptablaðið, 2008). Dagsbrún's purchase of Wyndeham Press Group wasn't profitable either and it was up for sale only six months after it was bought. Jóhannesson has since said that the purchase of Wyndeham had not been thought through thoroughly (Danielli & Roberts, 2006; Jóhannesson, 2008).

In the fall of 2006, Dagsbrún was divided into two companies, i.e. 365 hf. and Teymi hf., the parent company of the telecommunication and IT firms within Dagsbrún. Ari Edwald became CEO of 365 hf., the former media division of Dagsbrún hf., and Jón Ásgeir Jóhannesson was elected as the chairman of the board of directors. Dagsbrún's listing on the Iceland Stock Exchange was changed to 365 hf. ("Lagt til að skipta", 2006; Nordic Exchange, 2006b, 2006c).

365 hf. lost considerable amount of money in 2006 and 2007 and was forced, for instance, to write off ISK 2 billion in 2007 due to Wyndeham. The total financial loss of the company in 2006 was ISK 7 billion. As already discussed, it closed the 24-hour news channel NFS. Additionally, it sold the newspaper DV and got rid off five magazines by either discontinuing publishing them or selling them. Fréttablaðið and its accompanying business publication, Markaðurinn, were the only print media left ("2,3 milljarða króna tap", 2008; "Tæplega sjö milljarða tap", 2007).

In July of 2008, 365 hf. was delisted on the Iceland Stock Exchange as the outlook for its operation was bleak, not least because of the decrease in advertising revenue ("365 afskráð úr", 2008; "Hluthafafundur 365 samþykkir", 2008).

Less than a month after the signing of the merger agreement between Fréttablaðið and Árvakur hf., Jón Ásgeir Jóhannesson, the chairman of the board of directors of 365 hf., bought the media division from the company through his own holding company, Rauðsól (some news reports refer to the company as Sýn or Ný sýn). The name of 365 hf. was changed to Íslensk afþreying hf., and once the entertainment units of Íslensk afþreying had been sold as well, i.e. Sena (which still included some of the properties formerly owned by Norðurljós: Skífan and Regnboginn, for example) and EFG ehf., the

company filed for bankruptcy (“365 verður Íslensk afþreying”, 2008; Bragadóttir, 2008a; “Ekki lengur áhugi”, 2008; “Félag í eigu Jóns Ásgeirs”, 2008; “Íslensk afþreying gjaldþrota, 2008; “Rauðsól verður Sýn”, 2008; Þórðarson, 2008).

Jóhannesson bought the media outlets for ISK 1.5 billion and by taking on debts of ISK 4.4 billion. He paid ISK 1.34 billion and by agreement with 365 hf./Íslensk afþreying, the rest of the payment, ISK 160 million, was considered to be a discount. The District Court of Reykjavík later invalidated the discount (Héraðsdómur Reykjavíkur, 2010).

According to Jóhannesson, his buying 365 miðlar became suspect when the fact of the matter was that 365 hf. was heading towards bankruptcy which would have caused great harm to creditors and other stakeholders as the company was unable to make the payment of ISK 1.5 billion on November 5, 2008 (Jóhannesson, 2008).

The sole purpose of Rauðsól was to buy 365 miðlar from 365 hf. To simplify matters, as Jóhannesson put it in an interview, Rauðsól and 365 miðlar ehf. merged in September of 2009. Rauðsól increased its capital stock before the merger, and a year later, in 2010, more capital was raised. By then, Ingibjörg S. Pálmadóttir, who had been the chairman of the board of directors of 365 miðlar ehf. but is also the wife of Jóhannesson, had become the majority shareholder, holding over 90% of the shares (“365 fær milljarðinn”, 2010; “365-miðlar yfirtaka”, 2009; “Hluthafaleynd verður viðhöfð”, 2010; “Rauðsól sameinast 365”, 2009; Þórðarson, 2009b).

Pálmadóttir’s ownership of 365 miðlar ehf. has been disputed (Helgason, 2012) but she has firmly maintained that she owns the media organization<sup>3</sup> (“Ingibjörg þreytt á umræðunni”, 2012). Nevertheless, her husband, Jóhannesson, has been active in the managing of the company. According to Edwald, he has provided the company with consultation services. For a brief period, Jóhannesson bore the title of director of development in the company’s organizational chart but quit after uproar, especially among the journalists (Bergsvein, 2013; M. Halldórsson, 2013; “Jón Ásgeir fer ekki lengur”, 2012; “Jón Ásgeir hættir sem þróunarstjóri”, 2013; “Jón Ásgeir yfir þróunarverkefnum”, 2013; Ólafsson, 2012a).

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<sup>3</sup> „Ég á 365. Ég setti sjálf peninginn í það. Þess vegna á ég það, annars myndi ég ekki nenna að eiga það,“ (“Ingibjörg þreytt á umræðunni”, 2012).

The organizational chart of 365 has repeatedly been changed in the past years, and thereby the governing structure. The main objective of these structural alterations has been to economize and increase efficiency to the limit. The human resources manager was let go in January of 2012, and a few months later, the executive committee was dismantled and more top-level managers lost their jobs (“Fréttastjóri með yfirfrakka”, 2010; Hansen, 2012; Ólafsson, 2012b; “Uppsagnir hjá 365 miðlum”, 2012).

The most recent changes, in 2013, haven't been to everyone's liking and consequently there have been resignations (“Pálmi Guðmundsson hættir”, 2013). Others have been fired (“Fréttastjórar látnir taka pokann”, 2013; “Hægir á breytingum”, 2013) while some of the remaining staff members have criticized the changes for being chaotic (“Titringur innan 365”, 2013).

The company refinanced its long-term debts and showed an EBITDA of ISK 1,092 million<sup>4</sup> in 2012 and a profit of ISK 312 million (365, n.d.b; “Hagnaður 365 miðla eykst”, 2013). A year later the profit was ISK 757 million. The company had managed to sell the newspaper and mail delivery company Póstmiðstöðin (Ármannsson, 2014).

365 miðlar ehf. is expanding its operation again. When the company bought Midi.is, the main online ticket seller, the Icelandic Competition Authority gave the merger a stamp of approval on certain conditions (Samkeppniseftirlitið, 2013a). In addition, the company has cooperated with the IT firm, OZ, to offer high-definition television through an application for mobile devices (Þ. Jónsson, 2013). Finally, 365 miðlar ehf. is entering the field of telecommunications as it has committed itself to build the infrastructure for the 4G communication network in Iceland (J. H. Halldórsson, 2013a; Póst og fjarskiptastofnun, 2013).

As a media provider that is financed through subscriptions and advertising sales, which are based on ratings, 365 miðlar ehf. has been facing a tougher competition from its main competitor in Iceland, Skjár 1, from web based global players like Netflix and Hulu, and from illegal downloading of media content. The telecommunication company Tal made Netflix available to its Icelandic customers in October of 2013 by providing them with foreign IP addresses. Edward of 365 miðlar ehf. adamantly opposed this

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<sup>4</sup> There is a slight discrepancy between the figures in the company's Statement of income for the years 2010-2012 and news reports that are based on a press release from the company.

move by Tal and accused Tal of encouraging people to break copyright laws (“365 berst gegn Netflix”, 2013; Edwald, 2013). In February of 2014, it was estimated that Netflix had more than 20,000 subscribers in Iceland and that Skjár 1 and Stöð 2 had approximately 23,000 subscribers each (Vilhjálmsson, 2014).

#### **4.1.1.4      *The influence of ownership***

Ever since Jón Ásgeir Jóhannesson and his family and business partners bought Fréttablaðið in 2002, their media ownership has been the source of contention. Jóhannesson invested heavily in Iceland and abroad and “was once one of Britain’s most powerful retail tycoons” (Bowers, 2013). Thus, not surprisingly, over the years he has been the subject of a number of news reports in his own media. More specifically, on several occasions, Jóhannesson has voiced his indignation and grievances of some of these news stories publicly or through the management of his media companies. Sigurður Hólm Gunnarsson has gone as far as saying that while he worked as a journalist for the online website Vísir.is, news stories about Jóhannesson and Baugur Group were censored. On one occasion he had received a message from his superior stating that Jóhannesson had gotten in touch and requested that a specific news item was deleted because it was incorrect.<sup>5</sup> Furthermore, his superior asked him to keep in mind who owned the medium (Gunnarsson, 2003, 2013).

In the summer of 2005, 40 charges were made against Jóhannesson and others for fraud (Bjarnason, 2011; Griffiths, 2005; Treanor & Tomlinson, 2005). On August 13, Fréttablaðið published the charges and accompanying interviews with Jóhannesson and his father, Jóhannes Jónsson. It later became public that legal advisors of Baugur Group had read the interviews before they were published, which was a breach of the paper’s ethics code, and that the owners of Fréttablaðið had actually shared a copy of the charges with Fréttablaðið in early July. A journalist of DV, then still owned by Baugur Group, heard through the grapevine what was going on but he was kept from publishing

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<sup>5</sup> „Jón Ásgeir hafði samband og biður um að frétt sé eytt vegna þess að fréttin er röng,“ (Gunnarsson, 2013).

anything about the interviews that Fréttablaðið was sitting on (Egilsson, 2006; “Fyrrum blaðamaður DV”, 2008; Hauksson, 2008).

Two former editors-in-chief of DV, Jónas Kristjánsson and Illugi Jökulsson, have maintained that Jóhannesson never contacted them when they were editors or tried to exert undue influence on them in any way (Jökulsson, 2005; Kristjánsson, 2009). Nevertheless, from 2010 to 2013, several instances have surfaced where Jóhannesson was discontent with his media’s news reports of his and Pálmadóttir’s activities and they, or Ari Edwald, CEO of 365 miðlar ehf., wanted the journalists fired.

In 2006, a journalist did a story on Jóhannesson’s participation in the Gumball 3000 race (“Keppir í kappakstri”, 2006). Róbert Marshall, who was the managing director of NFS at that time, has since claimed that Edwald wanted the journalist fired. Edwald has said that the accusations were completely unfounded and fabricated (Guðmundsson, 2010a, 2010b).

On another occasion, a journalist at Fréttablaðið made fun of Jóhannesson on Facebook. E-mail communication between Jóhannesson, Pálmadóttir and Edwald showed that Jóhannesson was adamant about firing the journalist immediately. Jóhannesson said that the journalist could mock him all he wanted somewhere else but there was no way that he was going to pay his salary for doing so<sup>6</sup> (Hauksson, 2010; “Jón Ásgeir heimtaði”, 2010; Sigurðsson & Hauksson, 2010).

Members of the academia condemned Jóhannesson and Pálmadóttir’s demanding of the management to lay off the journalist, and their request was considered “sad” and an example of what “bad owners” do (Olgeirsson, 2010a, 2010b).

In February of 2013, Magnús Halldórsson, business editor of Vísir and Stöð 2, wrote an article where he publicly criticized the hiring of Jóhannesson as the director of development and argued that Jóhannesson’s presence cast a shadow on the credibility of the journalists and that the users of the media of 365 miðlar ehf. doubted their integrity. Moreover, he said that Jóhannesson had repeatedly tried to put pressure on

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<sup>6</sup> „Óska eftir því að þessi starfsmaður verði látinn fara nú þegar hann verður ekki í mínum húsum. Hann getur verið sniðugur og búið sjálfur til fréttir hvar sem hann vill og hæðst af mér eins og hann vill, en að ég ætli að borga honum laun fyrir það no way,“ (Hauksson, 2010).



the journalists through the board of directors and the management (M. Halldórsson, 2013).

Ólafur Stephensen, editor-in-chief of Fréttablaðið, admitted that Magnússon was correct in his assertions in saying that Jóhannesson had been unhappy with the media coverage of himself. Stephensen said that Jóhannesson had tried to influence how these news reports were presented.<sup>7</sup> In addition, a number of journalists of 365 miðlar ehf. voiced their support for Halldórsson (Magnúsdóttir, 2013; “Uppnámið á 365”, 2013)

Jóhannesson himself has said that he doesn't get any special treatment at 365 miðlar ehf. but that it was his right to comment on the news coverage. He claims that the main point is that he has never changed or deleted a news story on himself or those in his inner circle (S. M. Jónsson, 2013a).

Edwald pointed out that Jóhannesson had every right to complain about the news coverage like any other person when the code of ethics hadn't been followed, and there had been instances when Jóhannesson's side of the story was not presented in a story (“Eðlileg afskipti af”, 2013; S. M. Jónsson, 2013b).

Another public incident took place after Stöð 2 did a story on Jóhannesson and Pálmadóttir's debts and Jóhannesson accused the employees of Stöð 2 of thinking that it was “cool” to serve up untruths about the media's owners and be hailed by the newspaper DV the next morning for doing so. Supposedly, Jóhannesson and Pálmadóttir also wanted to fire a staff member for doing a story on a company owned by Pálmadóttir that had not turned in annual reports for several years in a row (“Jón Ásgeir harðorður”, 2010; “Segir Jón Ásgeir hafa”, 2013).

Apparently there is a contradiction in the public's attitude towards media owners exercising direct influence on the hiring and firing of staff members. Case in point: In May of 2013, a well-known blogger in Iceland, who had been fighting breast-cancer, received a letter of resignation via e-mail from 365 miðlar ehf., after working for the television channel Stöð 2 for 25 years as a translator (Einarsdóttir, 2013). It is reported

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<sup>7</sup> „Ég kannast alveg við það að Jón Ásgeir hafi verið mjög ósáttur við fréttaflutning af sjálfum sér í Fréttablaðinu og að vissulega hafi hann reynt að hafa áhrif á það hvernig við setjum hann fram,“ (Magnúsdóttir, 2013).

that Ingibjörg Pálmadóttir, the owner of 365 miðlar ehf. and the chairman of the company's board of directors, immediately reacted to the news and demanded that Einarsdóttir firing was recalled – which it was (“Inngrip Ingibjargar”, 2013). Furthermore, the person who fired Einarsdóttir wrote a public letter of apology (“Uppsögn Láru Hönnu”, 2013). Although Pálmadóttir is said to have interfered directly with staff matters, public condemnation didn't ensue.

#### **4.1.2 Árvakur hf.**

##### **4.1.2.1 Media**

Árvakur hf. publishes the daily newspaper Morgunblaðið (the Sunday version of the paper accompanies the Saturday version) and the weekly paper, Monitor, that accompanies Morgunblaðið. Furthermore, it operates the online news site Mbl.is. and owns the printing press, Landsprent (Mbl.is/Morgunblaðið, n.d.).

##### **4.1.2.2 History**

Vilhjálmur Finsen and Ólafur Björnsson founded the newspaper Morgunblaðið in 1913. The original name of the paper was Dagblaðið and it was intended to be an afternoon paper but due to a competitor's shenanigans, who had published a paper with that same name just two days before the launch of the new paper, Finsen and Björnsson were forced to find a different name. The name was changed to Morgunblaðið and it was published as a morning paper (Finsen, 1953).

Although the newspaper received a warm reception from the start, the first year was rocky, mostly as a result of the advertisements being too inexpensive. The outbreak of World War I led to increased newspaper readership, thereby securing the financial future of the paper (Finsen, 1953).

Six years later, the two founders of Morgunblaðið were forced to sell their shares to a group of merchants in Reykjavík who threatened to establish a newspaper in direct competition with Morgunblaðið. Finsen realized that Morgunblaðið wouldn't be able to survive without these merchants' advertisements and sold his shares (Finsen, 1953). In 1930, the name Árvakur first appeared in Morgunblaðið as the publisher of the

newspaper but Árvakur had already been established as a shareholder company in 1919 (Ásgeirsson, 2003; Morgunblaðið, 1930).

From 1924 to 1963, Valtýr Stefánsson was the editor-in-chief of Morgunblaðið and a major shareholder. Soon after being hired as an editor-in-chief, he knew he had to stand on firm footing within the company as he was sometimes at odds with the members of the board of directors. By 1928, he owned 44% of Árvakur's shares (Ásgeirsson, 2003).

For 60 years there was relatively little change in ownership of Árvakur hf. For the most part, the ownership group consisted of the descendants of the original founders of Árvakur and the family of Valtýr Stefánsson (Ásgeirsson, 2003; Skýrsla nefndar menntamálaráðaherra um íslenska fjölmiðla, 2005).

By the turn of the 21<sup>st</sup> century, Morgunblaðið had a dominant position as the newspaper with the greatest readership in Iceland. On average, 60% of Icelanders between the ages of 12 and 80 years old read each issue of the paper ("Niðurstöður nýrrar fjölmiðlakönnunar", 2000).

In December 2004, Árvakur hf. sold its headquarters by the Kringla mall for ISK 2.1 billion to enable Morgunblaðið to be more competitive ("Mogginn flytur", 2004) and year and a half later, all operations were moved to the outskirts of Reykjavík where Árvakur had already built a new printing press ("Morgunblaðið flytur", 2006; "Stjórn Árvakurs samþykkir", 2002).

Although the arrival of Fréttablaðið on the newspaper scene in 2001 didn't pose a serious threat to Morgunblaðið and other subscription newspapers in the beginning, new ownership of Fréttablaðið in 2002 changed that.

In 2003, the circulation of Morgunblaðið was 55,000 copies while Fréttablaðið was printed in 90,000 copies. In May/June that same year, the readership of Morgunblaðið had declined to 53%. The increased competition between Fréttablaðið and Morgunblaðið led to a drop in advertising prices but only a couple of years earlier revenues for advertisements had decreased significantly. At that time, Morgunblaðið received 40% of its income from subscribers and 60% from advertising sales ("Lestur á dagblöðum", n.d.; "Reykjavíkurbéf", 2003).

To meet the competition from Fréttablaðið, Árvakur hf. bought the free-of-charge newspaper Blaðið that had been established in 2005 (Sigurjónsson, 2005). Árvakur

originally bought 50% of *Ár og dagur ehf.*, the publisher of *Blaðið*, at the end of 2005 but acquired the rest of the shares in 2007 to maximize economies of scale (Jónasson, 2005; “Mogginn kaupir allt”, 2007). *Árvakur*’s aim was to print 100,000 copies of *Blaðið* and make it the paper with the highest circulation in Iceland. Shortly after the acquisition, Ólafur Þ. Stephensen, who was then an assistant editor of *Morgunblaðið*, was hired as the editor-in-chief of *Blaðið* and the name of the newspaper was changed to *24 stundir* (“Nafni Blaðsins breytt”, 2007; “Ólafur Þ. Stephensen ráðinn”, 2007). In the summer of 2008, the readership of *24 stundir* had surpassed 50% while *Morgunblaðið* was down to 39% (“Lestur Morgunblaðsins”, 2008).

It should be noted that in 2005 and 2006 several changes took place within *Árvakur hf.* First of all, Hulda Valtýsdóttir, the daughter of Valtýr Stefánsson, and her daughters sold 17% of the shares of *Árvakur hf.* to Ólafur Jóhann Ólafsson, a writer and an executive vice president for international and corporate strategy at Time Warner (Sigmundsson, 2013; Time Warner, 2011). At the same time, Straumur Burðarás investment bank bought additional 17% of the shares. Furthermore, Björgólfur Guðmundsson, the chairman of the board of directors of *Landsbankinn* and one of the richest men in the world, according to *Forbes*, bought 8% of the shares in *Árvakur hf.* through his holding company, *Ólafsfell* (Grettisson & Indriðason, 2009; Kroll & Fass, 2007; “Ólafsfell kaupir hlut”, 2006). Gradually, the composition of the ownership group changed and Guðmundsson strengthened his hold on the company. By 2008 he controlled over half of the shares (“Björgólfur eykur hlut”, 2008; “Eignarhald Morgunblaðsins”, 2007). However, Guðmundsson’s ownership of *Morgunblaðið* was controversial. For example, Vilhjálms (2008) called the public into action to demand that he sell his shares in *Árvakur hf.* In 1991, Guðmundsson had been sentenced to 12 months in prison for breaking the law on shareholder companies when he served as the CEO of *Hafskip*, a shipping company. However, his conviction was suspended for two years (“Dómur Hæstaréttar í Hafskipsmáli”, 1991).

Secondly, Einar Sigurðsson became the CEO of *Árvakur* and the company redefined its mission with the goal of being listed on the Iceland Stock Exchange in 2009 (“Einar Sigurðsson”, 2008; “Einar Sigurðsson hefur verið”, 2008).

In 2008, Ólafur Þ. Stephensen became the editor-in-chief of Morgunblaðið when Styrmir Gunnarsson, who had been an editor-in-chief for 36 years, retired (“Nýr ritstjóri”, 2008; “Ritstjóraskipti”, 2008).

The fall of Landsbankinn and other financial institutions in Iceland (e.g. Hreinsson, Benediktsdóttir & Gunnarsson, 2010; “Landsbanki Íslands”, 2008), seriously affected Árvakur hf. and put the media organization in dire straits. The shares became worthless and Ólafsfell, and Guðmundsson personally, had to file for bankruptcy (Mason, 2009; “Ólafsfell gjaldþrota”, 2009). It turned out that Ólafsfell and two other holding companies of Guðmundsson’s that were associated with Árvakur hf. owed Samson Global Holding, another one of Guðmundsson’s companies, ISK 2.5 billion (Ólafsson, 2009).

As a last resort, on October 10, 2008, Árvakur hf. signed a merger agreement with its archrival 365 hf., the publisher of Fréttablaðið. Through the issuing of more shares, 365 hf. was to own 36.5% of Árvakur’s shares (“Fréttablaðið og Árvakur”, 2008). Árvakur discontinued publishing 24 stundir as Fréttablaðið was to become a part of the company and 26 employees were laid off (“Árvakur fækkar störfum”, 2008; Sigurjónsson, 2008). Within a month, however, interest in the merger had dwindled (Bragadóttir, 2008a; “Ekki lengur áhugi”, 2008; Þórðarson, 2008). The Icelandic Competition Authority later annulled the agreement on the grounds, among other things, that it was not impossible to sell Árvakur hf. and refinance the company in other ways than through the merger with Fréttablaðið ehf. (Samkeppniseftirlitið, 2009).

Árvakur hf. had serious cash flow problems at the end of 2008 and its debts had increased dramatically with the devaluation of the Icelandic króna. Separating Landsprent, the printing press, from the newspaper was one of the options that were discussed to save the company (“Árvakur”, 2008; “Rætt um að skilja”, 2008).

Einar Sigurðsson quit as the CEO of Árvakur hf. in February of 2009 (“Forstjóri Árvakurs”, 2009) and shortly afterwards, Þórsmörk ehf. acquired Árvakur hf. after the company had gone through a transparent sales process (“Þórsmörk hæstbjóðandi”, 2009).

The people who formed the Þórsmörk group were no newcomers to business in Iceland. The new CEO/publisher, Óskar Magnússon, had extensive experience from the

private sector, as well as having been a journalist and a managing editor. Several other members of the group have strong ties to the fishing industry (Ólafsson & Þórðarson, 2009).

The sale of Morgunblaðið to Þórsmörk raised concerns in the minds of some, including one member of parliament for the Social Democratic Alliance who worried about corruption and felt that the group might be able to monopolize their views on the fishing quota in Morgunblaðið<sup>8</sup> (Matthíasson, 2009).

Magnússon replied to these concerns in an open letter to Morgunblaðið's readers and emphasized that the owners had no intention of causing any harm to the company. However, he did say that the right of the owner to interfere with his property was, of course, undisputed. The only question was when and how it was sensible to use that right. Furthermore, he claimed that the owners were authorized to reject and approve news stories but it would be unwise of them to do so. He stressed that as a publisher he had the last word and it was perfectly clear who had the power of decision within the company. Nevertheless, if he could trust his subordinates, he would delegate power to others<sup>9</sup> ("Bréf frá útgefanda", 2009).

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<sup>8</sup> „Okkur hafa borist þær fréttir að það sé búið að selja Morgunblaðið valinkunnum hópi auðmanna, nánar tiltekið öflugum mönnum í íslenskri útgerð. [...] Í þessu sambandi má glögg sjá að þegar slíkur hópur kaupir Morgunblaðið, eins og þetta útgerðarfolk gerir, [...] þá vakna upp spurningar um það hvort þetta sé ekki til þess að vekja upp enn frekari hugsanir um meiri og meiri spillingu þegar slíkur hópur manna sem ég vil annars ekki segja neitt ljótt um eignast slíkan fjölmiðil og getur haldið til streitu eða komið sínum sjónarmiðum og viðhorfum fram með þessum fjölmiðli án þess að aðrir hafi aðgang að,“ (Matthíasson, 2009).

<sup>9</sup> „Réttur eigenda til afskipta af eign sinni er vitaskuld ótvíræður. Spurningin er einungis hvort og hvenær er skynsamlegt að beita honum. [...] Það ætlast eflaust enginn til þess að ritstjórn ráði ein almennum efnistöðum, stærð og samsetningu blaðs. Á hinn bóginn gera fæstir ráð fyrir því að eigendur blandi sér í einstaka frétt eða umfjöllun [...] Þótt heimildin til þess sé skýlaus er jafn óskynsamlegt að beita henni. [...] nú er í Árvakri eins og öðrum fyrirtækjum alveg ljóst hvar ákvörðunarvaldið liggur ef til þess þarf að koma. Útgefandinn hefur síðasta orðið. Það breytir þó engu um það að í vel reknum fyrirtækjum felur til dæmis forstjóri oft sínum nánustu samstarfsmönnum yfirgripsmikið vald og sjálfstæði til að sinna sínu sviði. Þeir sem rísa undir slíku trausti fá mikinn stuðning og lítil afskipti, ef nokkur,“ (“Bréf frá útgefanda”, 2009).

Due to differences of opinion between Stephensen and the new owners of Árvakur, concerning the editorial policy, new editors-in-chief were hired, i.e. Haraldur Johannessen and Davíð Oddsson (“Davíð og Haraldur”, 2009; “Ólafur kvaddi”, 2009; “Ólafur segist ganga”, 2009). Moreover, 19 journalists were laid off and approximately 20 other employees (Vilhjálmsson, 2009b).

The hiring of Davíð Oddsson, a prime minister for the Independence Party from 1991 to 2004 and later director of the Central Bank of Iceland (Alþingi, 2006), caused some stir in society. Some maintained that Morgunblaðið lost a substantial number of subscribers and the Icelandic Press Association condemned the hiring of Oddsson and the firing of the journalists (Blaðamannafélag Íslands, 2009; “Meira en þúsund”, 2009). Moreover, one of the managing editors of Morgunblaðið resigned after a dispute over the news angle of a front-page story, covering the Report of the Special Investigation Commission. She felt the newspaper trivialized the role of government officials in the fall of the banks and put the blame disproportionately on businessmen (“Ágreiningur um fréttamat”, 2010).

When the new owners bought Árvakur hf., ISK 4.7 billion were written off (“Árvakur uppfyllir ekki”, 2011). The company lost ISK 575 million in 2008, ISK 486 million in 2009, and ISK 97 million in 2010. There was a turnaround in 2011 when the company showed EBITDA of ISK 40 million and the equity ratio was 24%. Shareholder capital has been increased and new owners have joined the stockholder group (“Umskipti í rekstri”, 2012). Two years later, the company showed ISK 6 million profit (“Hagnaður hjá Morgunblaðinu”, 2014).

According to Magnússon, Morgunblaðið has nearly 3,000 new subscribers (“Umskipti í rekstri”, 2012). In the spring of 2012, Árvakur offered college students a special subscription deal; a free iPad with a 30-month subscription to the app-version of Morgunblaðið (“iPad-tölva fylgir”, 2012).

Although the discussion so far has mostly centered on Morgunblaðið, Mbl.is, the company’s online news site, is probably the most valuable asset of Árvakur. No other news site in Iceland has been able to topple it, despite their efforts. In the middle of July of 2013, it had 128,000 daily users and 10.5 million clicks on weekly basis (Modernus, 2013). When disaster strikes, e.g. volcanic eruptions, visits to the site erupt as well

(“Nærri 600 þúsund notendur”, 2013). Morgunblaðið, however, is down to readership of 31% (Capacent, 2014).

For years, there has been tension between the management of Morgunblaðið and the owners of Fréttablaðið (e.g. Gunnarsson, 2005). For instance, in 2005, Jón Ásgeir Jóhannesson, then CEO of Baugur Group, and Finnur Árnason, CEO of Hagar, accused Morgunblaðið of campaigning against Baugur Group and threatened to re-evaluate their advertising buys in Morgunblaðið. Hagar, a retail company then-owned by Baugur Group had 81 stores in Iceland, Sweden and Denmark (“Baugur endurskoðar”, 2005; “Hagar vilja funda”, 2005). More recently, Jóhannesson has claimed that the investors of Morgunblaðið had a hidden agenda, i.e. to propagate hatred against those whom the extremists within the [Independence] Party dislike and to distract people’s minds from the injustice of the fishing quota system, as he phrased it<sup>10</sup> (Jóhannesson, 2010; “Útgefandi Morgunblaðsins”, 2010).

### **4.1.3 DV ehf.**

#### **4.1.3.1 Media**

DV ehf. publishes the subscription newspaper DV. Over the years, DV has moved from being published six days a week to being a weekly, to being published three days a week and finally, in December of 2013, to being published twice a week (“Veglegt vikublað DV”, 2013). The company also owns the news website DV.is.

#### **4.1.3.2 History**

In 1975, Jónas Kristjánsson and Sveinn Eyjólfsson founded the afternoon newspaper Dagblaðið after Kristjánsson had been fired as an editor from Vísir. Six years later, it merged with Vísir and became known as DV (Friðriksson, 2000; Kristjánsson, 2009).

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<sup>10</sup> „[...] fjárfesting í Morgunblaðinu byggist ekki á hagnaðarvon. Tilgangurinn er að halda uppi gegndarlausum hatursáróðri gegn fólki sem öfgahópi flokksins er í nöp við. Með því vilja þeir beina sjónum fólksins í landinu frá því hrópandi óréttlæti sem tengist kvótanum og þeim forréttindunum sem hann býr til fyrir fáa útvalda,“ (Jóhannesson, 2010).



By 1983, it had readership of 64% compared to Morgunblaðið's 70%. But more importantly, the paper was quite profitable (Kristjánsson, 2009). In his book, Kristjánsson (2009) argued that DV failed to be on its guard and due to its cozy position in the market, it stagnated and became a dinosaur that didn't react to changing conditions in the mid 1990s.

To a certain extent, it was DV's Achille's heel that the owners of Frjáls fjölmiðlun, the publishing firm of DV, also had stakes in other companies. For a while, for instance, they owned the airline Arnarflug. These investments drained the newspaper financially (Kristjánsson, 2009).

During a three year period, from 1995 to 1998, Íslenska útvarpsfélagið hf. owned a 35% stake in Frjáls fjölmiðlun hf. Plans were made to increase the cooperation between the companies in the area of multi-media but they didn't come to fruition to the extent that the investors expected ("Íslenska útvarpsfélagið hf. kaupir", 1995; "Íslenska útvarpsfélagið hf. selur", 1998). Sveinn R. Eyjólfsson, the chairman of the board of directors of Frjáls fjölmiðlun hf., and his son, the director of the company, bought the shares originally but sold almost immediately 20% of them, with the intention of selling an additional 5% at a later date. Sveinsson said at that time that they wanted to diversify the stockholder group and it would be feasible to list the company on the stock exchange in a year or two ("Tryggingamiðstöðin og fjórir", 1998).

Jónas Kristjánsson quit as the editor-in-chief of DV on January 1, 2002, only to return again for a year, from 2005 to 2006. Óli Björn Kárason had been hired in 1999 as a co-editor-in-chief (Kristjánsson, 2009) and in 2001, he bought a 40% stake in Útgáfufélagið DV. The other 60% was owned by Frjáls fjölmiðlun. Frjáls fjölmiðlun had gradually become a holding company and DV was the only operating unit still within the company. Thus, to meet the upcoming competition from Fréttablaðið, Útgáfufélagið DV was established to run DV ("Sérstakt útgáfufélag stofnað", 2001). In December of 2001, Frjáls fjölmiðlun sold its remaining stock to Kárason and his business partners. It should be kept in mind that when DV was sold, Frjáls fjölmiðlun still owned Fréttablaðið and Vísir ("Frjáls fjölmiðlun selur", 2001).

Only two years later, the publishing firm of DV was bankrupt ("Útgáfufélag DV úrskurðað", 2003). Attempts had been made to merge the company with Frétt ehf. but

in the end, Frétt ehf. bought the publishing rights and the bankrupt estate (“DV og Fréttablaðið sameinist”, 2003; “Hömlur hafa selt Frétt”, 2003). Mikael Torfason and Illugi Jökulsson became the editors-in-chief of DV. Jökulsson later quit and Kristjánsson became an editor-in-chief again in 2005, as previously stated (Kristjánsson, 2009).

Under the auspices of Dagsbrún hf., Torfason’s editorial policy was in the spirit of the yellow press – which led the newspaper onto a destructive track in January of 2006 when a suspect in a child molestation case committed suicide after being featured on the paper’s front page (Logadóttir, 2006a; “Sjö ár frá umdeildri umfjöllun”, 2013), resulting in the Association of Advertisers declaring that it was detrimental to advertisers’ image, and even harmful to their interests, to advertise in the paper (“Auglýsendur hvattir til”, 2006). Gunnar Smári Egilsson, then head of Dagsbrún, criticized the Association of Advertiser’s pressure on DV’s editorial policy and found it to be tasteless (“Dagsbrún gagnrýnir aðgerðir”, 2006). However, Torfason and Kristjánsson resigned and were replaced by Páll Baldvin Baldvinsson and Björgvin Guðmundsson (Kristjánsson, 2009; “Páll Baldvin”, 2006).

Jón Ásgeir Jóhannesson, CEO of Baugur Group, the main shareholder of Dagsbrún, said that it was not his job to run the newsrooms. His goal was to receive a return on his investments. Nevertheless, he did say that the editors of DV overstepped the boundaries and that they had taken responsibility for their actions by resigning<sup>11</sup> (“Jón Ásgeir segir ritstjóra”, 2006).

DV was not a good investment for Jóhannesson. Its EBITDA was negative of ISK 50 million for the first quarter of 2006 (Landsbankinn, 2006) and in December of 2006, DV was sold to Dagblaðið-Vísir útgáfufélag ehf., whose owners were 365 (40%), Hjálmur ehf. (49%), owned by Baugur Group, Sigurjón M. Egilsson and his son, Janus Sigurjónsson. Egilsson, the brother of Gunnar Smári Egilsson, became DV’s editor-in-chief (“365 miðlar selja DV”, 2006; “Útgáfufélögin Birtingur”, 2006).

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<sup>11</sup> „Ritstjórn fjölmiðla er ekki á minni könnu. Ég kem að rekstri fjölmiðla út frá arðsemisforsendum og að þeir peningar, sem ég lagði til verkefnisins í upphafi, ávaxti sig. Ritstjórar DV fóru hins vegar út af brautinni. Þeir tóku poka sinn og tóku ábyrgð á ritstjórnarstefnu sinni. Aðrir mættu taka ákvörðun þeirra sér til fyrirmyndar,“ (“Jón Ásgeir segir ritstjóra”, 2006).

In the summer of 2007, DV's operations were put under shared management with Birtíngur. By then, Baugur Group owned a 90% share in both companies ("DV og Birtíngur", 2007; "Rekstrarstjórn DV og Birtíngs", 2007). Austursel ehf., a company owned by Hreinn Loftsson, the chairman of the board of directors of Birtíngur, bought the magazine publishing firm, and DV, in November of 2008 but only three months earlier, Útgáfufélagið Birtíngur ehf. had bought DV. Hreinnsson said he believed in DV and that the newspaper had the public's support. He was convinced that the paper's future was bright<sup>12</sup> ("Austursel eignast Birtíng", 2008; "Birtíngur kaupir DV", 2008).

Reynir Traustason became the editor-in-chief of DV in the summer of 2007 (Halldórsson, 2007). Sigurjón M. Egilsson was Traustason's co-editor-in-chief until the end of that same year when he became the editor of a magazine, and Jón Trausti Reynisson, Traustason's son became an editor-in-chief of DV along with his father ("SME hættir á DV", 2007). Reynisson later quit as an editor-in-chief and became the newspaper's managing director ("Jón Trausti hættir", 2012).

Traustason and Reynisson had in 2006 launched a new magazine, Ísafold, owned partially by themselves (25-30%) but mostly by Hjálmur (70-75%) ("Baugur stærsti hluthafinn", 2006). In the summer of 2007, Jón Helgi Guðmundsson, CEO and owner of Kaupás that ran several supermarket chains, made the decision to stop selling Ísafold in the stores of Kaupás because of the magazine's coverage of the alleged connection between the mayor of Kópavogur to Goldfinger, a strip joint. Ísafold folded due to the embargo, according to Reynisson ("Ísafold fjarlæggt úr", 2007; Ólafsson, 2007).

Over the years, DV has been more aggressive in its coverage of the Icelandic business elite than most other media in Iceland. Reynisson has revealed that the paper has lost advertisers because of its coverage. Moreover, he has said that while Landsbankinn was under the control of Björgólfur Guðmundsson, the bank did not do business with DV (Reynisson, 2012). It has been reported that Guðmundsson and his son, Björgólfur

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<sup>12</sup> „Þjóðin þarf frjálsa fjölmiðla á þessum örlagatímum. Það er barist upp á líf og dauða en við treystum því að almenningur standi með blaðinu sínu. Haldi salan á DV áfram að aukast eins og gerst hefur undanfarnar vikur og mánuði er ég þess fullviss að blaðið eigi góða framtíð,“ ("Austursel eignast Birtíng", 2008).

Thor Guðmundsson, made two attempts to buy DV in order to terminate its operations (“Reyndu tvisvar að kaupa”, 2006).

Reynir Traustason’s feelings toward Guðmundsson became public when one of his own journalists recorded him saying that he would fight that devil and that they would take him down<sup>13</sup> (Bragadóttir, 2008b; “Upptaka sýnir að Reynir”, 2008). Traustason had refused to publish a story by that same journalist on a former director of Landsbankinn but later admitted that he had given in to outside pressures by doing so because of the papers’s financial situation. He also insinuated that Guðmundsson had threatened to stop printing DV which was printed by Árvakur hf. at that time. Guðmundsson has said that the accusations were ridiculous (“Björgólfur: Fjarstæða”, 2008). Traustason apologized to the parties involved and for not publishing that particular story in the first place (“Reynir biðst afsökunar”, 2008; Traustason, 2008).

In the spring of 2010, Traustason bought DV and founded DV ehf. in cooperation with Lilja Skaftadóttir, an art dealer in France (“Nýir eigendur að DV”, 2010; “Nýir eigendur DV”, 2010). Skaftadóttir has said that it is difficult to run a medium in a small country like Iceland but that it was necessary for people to have a medium that was outspoken about things that others were mute about<sup>14</sup> (“Ég stækkaði minn hlut”, 2011).

It may reflect DV’s style of reporting that there were 10 ongoing court cases against the newspaper in 2011. Traustason claimed that the paper was being sued for saying too much rather than for inaccurate news stories. According to him, scoundrels were trying in a disgusting way to stop media coverage<sup>15</sup> (“Tíu dómsmál í gangi”, 2011). The newspaper was even being taken to court by other media companies. In November, 2013, 365 miðlar ehf. sued DV for coverage of the media company’s financial affairs (“Stefnt fyrir umfjöllun”, 2013).

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<sup>13</sup> „Ég bara berst við þann djöful og við munum taka hann niður og þá verður allt miklu heilbrigðara,“ (“Upptaka sýnir að Reynir”, 2008).

<sup>14</sup> „Fjölmiðlarekstur er erfiður í svo litlu landi sem Ísland er en fólk þarf upplýsingar, miðil sem talar um það sem aðrir þegja um og þess vegna er ég að þessu,“ (“Ég stækkaði minn hlut”, 2011).

<sup>15</sup> „Það eru þarna litlir og stórir skróðkrimmar og dólgar að reyna stoppa umfjöllun fjölmiðla með ógeðfelldum hætti,“ (“Tíu dómsmál í gangi”, 2011).

So far, DV ehf. has continued to lose money. Accumulated loss in 2010 and 2011 was ISK 127 million (Oddsson, 2012) and in 2012, the loss was ISK 65 million. Equity was increased in 2013 to clear up short-term debts and new investors joined the group of shareholders (Grettisson, 2013; Valdórsson, 2013).

In 2013, DV ehf. had 35 employees and in the beginning of 2014, its online website, DV.is, was the third most visited website in Iceland, with 119,000 daily users. Its revenue had also increased more than 50% from 2012 to 2013 (Grettisson, 2013; Modernus, 2014) while the readership of the paper itself has been around 12% (Capacent, 2014).

#### **4.1.4 Legislation on privately owned media companies**

The increased concentration of media ownership in Iceland, especially the stronghold of Baugur Group, was a cause for concern in December of 2003. The minister of education formed a committee whose purpose it was to look into whether there was a need for a special legislation on media, and the prime minister of Iceland, Davíð Oddsson, said it was worrisome that the same people who owned Fréttablaðið and DV should now own Norðurljós, taking into account how the media were being used. Jóhannesson replied by saying that the prime minister wouldn't be looking into the matter if Morgunblaðið had bought Norðurljós. New law on media had nothing to do with democracy but more to do with animosity<sup>16</sup> ("Lög um eignarhald", 2003).

Jóhannesson later argued that there were hardly grounds for running media in Iceland without streamlining the businesses and cutting costs. He pointed out that if he and others hadn't bought Fréttablaðið and DV, Morgunblaðið would have been the only newspaper in Iceland. To dampen people's concerns about the ownership harming news production in Iceland, he proposed that the newsrooms of Fréttablaðið, DV and

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<sup>16</sup> „Ég fullyrði að ríkisstjórnin væri ekki að skoða þetta ef Morgunblaðið hefði keypt Norðurljós. Þetta stjórnast af persónulegri heift forsætisráðherra út í ákveðna einstaklinga, eins og við höfum fundið fyrir síðastliðin 4-5 ár. Þetta hefur ekkert með lýðræði að gera,“ (“Lög um eignarhald”, 2003).

Stöð 2 should be completely independent of each other (Jóhannesson, 2004). Needless to say, the latest maneuvers at 365 miðlar ehf. go against this view.

On May 3, 2004, Prime Minister Davíð Oddsson, claimed in Alþingi, the Icelandic parliament, that the concentration of ownership was a hurdle to plurality and diversity in the media. It was not desirable that a firm with a dominant position in the market also owned media. It was actually dangerous (Oddsson, 2004). The political opposition disagreed and Össur Skarphéðinsson, a member of parliament for the Social Democratic Alliance, said he believed that the bill that was being discussed would cost hundreds of people their jobs and lead to monotony in the programming of media. His party recommended that instead of trying to curb people's ownership of media, it was more important to have a legislation on the independence of the editorial staff from the owners and full disclosure of the ownership (Skarphéðinsson, 2004). Ögmundur Jónasson of the Left-Green Movement said he was pleased with the merger of the media companies because it fortified their operations. It was expensive to run media companies and powerful media that employed highly qualified staff were more likely to be independent than a medium which was struggling for its survival. Thus, he cheered if the media were able to financially strengthened their positions (Jónasson, 2004).

On May 24, 2004, Alþingi passed a law that banned companies, whose main business was unrelated to media operations, from owning broadcast media. Also, companies could not own more than a 35% stake in a broadcast medium, and broadcast media and print media could not share ownership (Lög um breytingu á útvarpslögum, nr. 53/2000, og samkeppnislögum, nr. 8/1993, 2004; Þingskjal 1525, 2003-2004). In 2000, Baugur Group had 70% market share in the Reykjavík metropolitan area and 51% in the country as a whole (Þingskjal 1525, 2003-2004).

Many were vocal in their opposition to the law and it has been argued that the general public felt that the legislation was the prime minister's vendetta against Jóhannesson and Baugur Group. Thus, people considered the law to be unjust (Vilhjálmsson, 2009a). The chairman of the Icelandic Press Association, Róbert Marshall, who was also an employee of Stöð 2, appealed to his colleagues to sign a petition where the president of Iceland, Ólafur Ragnar Grímsson, was encouraged to not sign the bill into law. Marshall went as far as asking people to sign the petition even though they

were in favor of the proposed legislation. The chairman considered the bill to threaten the job security and professional honor of the employees of Norðurljós (“Formaður Blaðamannfélagsins”, 2004).

A few hundred people gathered in front of the president’s office in downtown Reykjavík to appeal to him to not confirm the law with his signature and journalists threw bananas on the steps of Alþingi (“Fjölmiðlafrumvarpinu mótmælt”, 2004; “Um 300 manns”, 2004; Vilhjálmsson, 2004).

Around 30,000 people signed the petition to the president who in the end refused to sign the bill into law, on the grounds that the media were the cornerstone of democracy and there was a divide between the people and the parliament. Thus, he would activate article 26 of the constitution that allowed the president to refer a bill to the public to be voted upon (“Forsetinn staðfestir ekki”, 2004).

The nation never had the opportunity to vote on the law on media as parliament passed another bill that recalled the previous legislation (Lög nr. 107/2004, “Þingfundur boðaður”, 2004). However, all the commotion around the media law in 2004 was a catalyst for the minister of education forming another committee on media, this time around with the participation of all the parties. The committee submitted a report on the state of the Icelandic media in April of 2005, and recommended, for example, that ownership of media should be legally restricted (Skýrsla nefndar menntamálaráðherra um íslenska fjölmiðla, 2005).

It wasn’t until 2011 that a comprehensive legislation on media was passed, which included article 24 on editorial autonomy (Lög nr. 38/2011). Amendments were made in 2013, when a chapter on media ownership was included. However, article 62a on media ownership is vague and only allows the Icelandic Competition Authority to step in if conditions arise where the public is being harmed due to lack of pluralism and diversity<sup>17</sup> (Lög nr. 54/2013).

It had been concluded that it was not feasible to limit ownership by using some concrete statistical measures or certain percentages, rather it was considered to be

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<sup>17</sup> „Samkeppniseftirlitið getur gripið til aðgerða gegn aðstæðum sem koma í veg fyrir, takmarka eða hafa skaðleg áhrif á fjölræði og/eða fjölbreytni í fjölmiðlum almenningi til tjóns,“ (Lög nr. 54/2013).

better to allow the Competition Authority to make a subjective decision in investigating media concentration, for example based on a company's advertising market share or the number of subscriptions. The Media Commission can, on its own accord, submit a request for investigation to the Competition Authority (Þingskjal 631, 2012-2013; Þingskjal 935, 2011-2012).

The new media law of 2011 wasn't to everyone's liking and a petition was started to encourage the president, once again, to refer the bill to the people. Several media companies, including 365 miðlar ehf., supported the petition ("Undirskriftasöfnun gegn", 2011; "Undirskriftir gegn", 2011), and The Icelandic Press Association severely criticized the law and even argued that one of the articles went against the media's constitutional right to free speech. The Association of Broadcast Journalists had also serious reservations about the bill ("Hörð gagnrýni á", 2011; Jónsson, 2010; Sigurðsson, Björnsdóttir & Halldórsson, 2011). The bill didn't receive much media publicity or attention among the public, although 4,000 people signed the petition ("Ólafur Ragnar gagnrýndur", 2011).

Both Árvakur hf. and DV ehf. have called for a clear regulatory framework on media ownership (Magnússon, 2010; Skaftadóttir, 2011). Furthermore, Magnússon (2010), the publisher of Morgunblaðið, believes that the legislature does not define the concept of editorial autonomy correctly. In his mind, editorial autonomy means that the media organization has an obligation to hire a publisher/editor who is responsible for the content and the editorial policy of the medium.

The Icelandic Competition Authority is largely in agreement with the government on how to curb concentration in the media industry. However, it has pointed out that as matters stand today, it doesn't have the tools or resources to fulfill its legal obligation<sup>18</sup> (Sæmundsson & Pálsson, 2013).

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<sup>18</sup> „Samkeppniseftirlitið mun að líkindum ekki geta beitt nýjum lagaheimildum með þeim hætti sem gert er ráð fyrir í frumvarpinu,“ (Sæmundsson & Pálsson, 2013).



#### **4.1.5 RÚV ohf.**

##### **4.1.5.1 Media**

The Icelandic National Broadcasting Service operates three radio channels, i.e. Rás 1, Rás 2 and Rondo, two television channels, i.e. RÚV and a sports channel that is mainly used when major sports events take place like the Olympic games, and the website RÚV.is.

##### **4.1.5.2 History**

On May 19, 1930, the Icelandic State received the right to broadcast. To fund the broadcasting station, households had to pay an annual users' fee per radio receiver. The minister of industry was to appoint a five member radio council, but of those five members, the minister only had the legal right to choose the chairman as the other four members were appointed by others (Lög nr. 62/1930).

The council's role was to make decisions concerning the programming in cooperation with the director general. Furthermore, it was stated that the radio valued free speech and should be careful to be objective in its coverage of all parties and general policies<sup>19</sup> (Lög nr. 62/1930).

Interestingly, original programming plans allowed for more time for newscasts than in the neighboring countries due to the lack of infrastructure and transportation in Iceland (Jóhannesson, 1930). When RÚV started broadcasting on December 21, 1930, it was estimated that 2,000 people owned radio equipments ("Útvarpið", 1930).

A television station was launched in 1966 after three years of preparations. Around 13,000 television sets were already in the Reykjavík metropolitan area because for a while some Icelanders had been able to receive broadcast signals from the American Naval Base in Keflavík ("Eftir þriggja ára", 1966; Friðriksson, 2000; "Hvernig fannst yður", 1966).

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<sup>19</sup> „Þess skal stranglega gætt, að við útvarpið ríki skoðanafrelsi og að gætt verði fyllstu óhlutdrægni gagnvart öllum flokkum og stefnum í almennum málum,“ (Lög nr. 62/1930).

Rás 2 got on the air on December 1, 1983 ( “Útsendingar Rásar 2”, 1983), not least to meet the competition of other privately owned radio stations that were on the horizon. It was very different from Rás 1 and appealed mostly to young people (Friðriksson, 2000).

In 2005, the minister of culture appointed Páll Magnússon as the director general of RÚV and in 2007, when the governing structure of RÚV was changed and the company became a shareholder company, his contract was extended (“Páll skipaður útvarpsstjóri”, 2005; “Páll Magnússon útvarpsstjóri”, 2007).

Until 2007, the organizational chart of RÚV had been bound by law. Thus, in 2007, the organizational chart was changed and five positions that the minister of education had previously had the power to appoint were eliminated (“Stöður lagðar niður”, 2007). A year later, the divisions of radio news, television news and sports news merged in order to economize. Óðinn Jónsson became the news director of the converged news department (Árnadóttir & Einarsson, 2008; “Fréttastjórar látnir fjúka”, 2008). Elín Hirst, who had been the news director of the television news department since 2002, became an anchor (“Elín Hirst ráðin”, 2002). Hirst was laid off along with several other staff members in 2010 (Pálmason, 2010). On that occasion, both the Icelandic Press Association and the Association of Broadcast Journalists wrote a resolution where they pointed out that 50 staff members of RÚV had lost their jobs in a two-year period and among of them were some of the most-experienced broadcast journalists in the country (“Uppsagnir á RÚV”, 2010). Two years later, there were plans to lay off several employees of Rás 1 but those plans were shelved for some time (“Ekki kemur til uppsagna”, 2012).

On November 27, 2014, 39 employees of RÚV were let go but altogether it was clear that in the end 60 people would lose their jobs in order to cut down the organization’s operating cost by ISK 500 million (“Mesta uppsagnahrina á RÚV”, 2013). The lay-offs caused considerable stir in society, not least because many of the employees were asked to leave RÚV’s premises immediately and their e-mail accounts were closed. The fired staff members felt humiliated and perceived themselves to be *personae non gratae*. Losing their jobs felt less hurtful to them than the firing process itself (Jónsdóttir, 2014).

There were protests in front of RÚV's headquarters, meetings were held and several world-class artists, like the piano player Vladimir Ashkenazy, wrote an open letter to voice their concerns (Ashkenazy et al., 2013; "Mynduðu hring um"; 2013; "Ógnar tilvist RÚV", 2013). Two members of the board of directors felt compelled to publicly express their views. Björg Eva Erlendsdóttir, for example, said that the board had no idea how to bridge the gaps in RÚV's programming schedule that were caused by the lay-offs and Guðrún Nordal called for a re-evaluation of RÚV's position in the global media market (Erlendsdóttir, 2013; Nordal, 2013). Since many of the employees weren't allowed to continue working, there were holes in RÚV's programming for several weeks that were simply filled with music (S. M. Jónsson, 2013c).

On December 17, 2013, Páll Magnússon resigned as the director general of RÚV, claiming there was a breach of trust between himself and the board of directors ("Páll Magnússon hættur", 2013; "Staða útvarpsstjóra auglýst", 2013). The chairman of the board, however, maintained that because of a new legislation that put a five year limit on the director general's term in office, it was necessary to advertise the position before Alþingi appointed a new board of directors in January of 2014 ("Óhjákvæmilegt að Páll hætti", 2013). At the end of January, 2014, Magnús Geir Þórðarson, who had been director of the Reykjavík City Theater for six years and a board member of RÚV, was hired as the new director general ("Magnús Geir tekur við", 2008; "Magnús Geir ráðinn útvarpsstjóri", 2014).

Þórðarson had only been the director general for one week in March of 2014 when all 10 of the top-level managers of RÚV's executive committee, including Óðinn Jónsson news director, got resignation letters due to organizational changes, overhaul and restructuring of the company. The aim of the resignations was also to balance the gender ratio. Nine out of the 10 managers who were laid off were males ("Magnús Geir: Viljum setja", 2014; Olgeirsson, 2014; "Öllum í framkvæmdastjórn", 2014). Jónsson decided not to apply for the position of the news director again, despite having the support of his news staff ("Óðinn sækist ekki", 2014; Sigurþórsdóttir, 2014). Rakel Þorbergsdóttir, who had worked as an assistant news director of RÚV, became the new news director, and four other women were hired to serve as top-level managers ("Sex ný í framkvæmdastjórn", 2014).

In RÚV's annual report for the operating year 2012-2013, it was stated that the firm had turned a profit of ISK 1.7 million. Its equity ratio was 10.4% and its assets were worth ISK 6.3 billion (Ríkisútvarpið, 2013). A couple of months later, the board of directors issued a statement claiming that the loss for the current operating year would be ISK 357 million and the equity ratio would fall below 8%. The board called for an independent audit of the company's finances ("Stefnir í 357 milljóna tap", 2014).

Through the years, RÚV's existence has come under fire. Níelsson, a member of parliament for the Independence Party, wondered what justified the tax payers paying ISK 4 million annually to run broadcasting services (Níelsson, 2013). Magnússon, former RÚV's director general, replied by pointing out that if RÚV disappeared from the market, only two other media organizations that provided daily news services would exist, i.e. 365 miðlar ehf. and Árvakur hf. One was under the control of Jóhannesson and the other under the control of Oddsson. He raised the question of whether people would consider that situation acceptable for a democratic debate ("Vill Brynjar að Jón Ásgeir", 2013).

RÚV is legally obligated to be objective in its news coverage. It has, however, been heavily criticized for being slanted to the left, politically; for example, by the current prime minister, Sigmundur Davíð Gunnlaugsson (2013). Hirst, a former television news director and now a member of parliament for the Independence Party, accused RÚV of presenting news stories from the perspective of the coalition government of the Social Democratic Alliance and the Left Green Movement that was in power from 2009 to 2013 (Hirst, 2012) and Hallsson called RÚV a propaganda machine ("Ríkisútvarpinu hefur verið breytt", 2013).

Prime Minister Gunnlaugsson hasn't been the only member of the Progressive Party who has been dissatisfied with RÚV. Gunnar Bragi Sveinsson, minister of foreign affairs, refused to answer questions from one of RÚV's reporters because he didn't like how his words had been edited in another interview (Alfreðsson, 2014) and MP Vigdís Hauksdóttir accused RÚV of distorting and misinterpreting her words, presenting untruths and balancing its news in favor of the political left. Moreover, Hauksdóttir claimed that RÚV's newsroom was in favor of the European Union (Bjarnar, 2013). (Her party has been firm in its stand against Iceland joining the European Union

(Framsóknarflokkurinn, 2013)). When Hauksdóttir, who is the chairman of the budget committee, was asked in an interview if she would take her concerns further, she reminded people that she was a member of a special committee whose mission it was to find ways to economize and in her opinion too much money was spent on RÚV's operations (Bjarnar, 2013; "Vigdís ósátt við", 2013). After being criticized for her words, Hauksdóttir later said that they had been taken out of context and she never intended to threaten RÚV (J. H. Halldórsson, 2013b; "Ummæli Vigdísar vekja", 2013).

Óðinn Jónsson, then RÚV's news director, called the criticism sad, and Magnússon said that RÚV's employees were ambitious and honest ("Óðinn segir gagnrýni", 2012).

Criticism of RÚV's news is nothing new. In 1973, the organization's radio council felt that the news department's coverage of the Chilean coup d'état was one-sided. The council wanted the news staff to cover in more details the difficulties that the government of Allende had to deal with (Njarðvík, Karlsson, Grímsson & Júlíusson, 1973). The staff members replied by saying that the council's criticism was completely unfounded and there was no evidence for their claims ("Yfirlýsingar frá starfsmönnum", 1973).

#### **4.1.5.3      *The radio council / board of directors***

From 1930 to 2007, the radio council was RÚV's governing board. It's interesting to note that from the very beginning there was willingness on the part of the government to keep the council from being purely political. One member of parliament posited that in many other countries, radio users had the majority seats in the radio council. He thought it was a fair way of governing because the public broadcasting services company was run in their interest. The state was not meant to profit from its operation; but rather, running of such company was intended to enrich the country's culture<sup>20</sup> (Jónsson, 1930, p. 1746 ).

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<sup>20</sup> „Það mun nú orðið svo víða, að þeir, sem nota útvarpið, skipa meiri hluta útvarpsráðs, og það sýnist mér ekki ósanngjart, því að fyrir þá er þetta fyrirtæki rekið; þótt það hafi verið rekið af ríkinu, þá er ekki ætlað til þess, að ríkið hafi tekjur af því, eða að það sé í gróðaskyni gert, heldur er það gert til að auka menningu í landinu,“ (Jónsson, 1930, p. 1746 ).

Nevertheless, for years, the actions and decisions of the council were based on political affiliations. For instance, the council reviewed the staff's jobs applications and voted on them, even though the final power of decision lay with the director general or the minister of culture. More often than not, the votes of the council's members split according to political lines (e.g. "Bjarni ráðinn", 1997; "Helgi fékk 4 atkvæði", 1997; "Helgi H. Jónsson", 1997).

In 2005, there was an uproar when the director general, on the recommendation of the council, hired a young man, Auðun Georg Ólafsson, as news director of the radio news department, thereby bypassing several other older and more experienced staff members. Ólafsson had received four votes out of seven and no other applicant received any support. RÚV's broadcast journalists revolted and the newly hired news director decided not to accept the post after all ("Auðun Georg hættur", 2005; "Auðun Georg Ólafsson", 2005; "Ráðning nýs fréttastjóra", 2005). Óðinn Jónsson became the news director ("Óðinn Jónsson ráðinn", 2005).

In 2007, the radio council was changed to board of directors to reflect the organization's different ownership and governing structure and at the same time the power of the board of directors had been considerably reduced (e.g. Lög nr. 6/2007), only to be fortified again in 2013 (e.g. Lög 23/2013). For example, in 2007, the role of the board was more or less operational whereas in 2013, the board gained power to affect the programming policy and the organization's long-term strategy. Despite the increased power, the board is not meant to have any influence on daily operations or specific programs (Þingskjal 197, 2012-2013).

To meet the demand that the ties between RÚV and Alþingi should be severed, parliament altered the process behind the members' appointment and made it more complex. A five-member special selection committee was to be formed by the general affairs committee of Alþingi, the universities and the Federation of Icelandic Artists, whose role it was to appoint five members to the board. In addition, the minister of culture was to appoint the chairman, and the employees of RÚV could appoint one member. The intention was to broaden the base of the board, allow more stakeholders to have a say in the board's composition and to secure that the members of the board had relevant knowledge (Jakobsdóttir, 2013; Lög nr. 23/2013; Þingskjal 30, 2013;

Þingskjal 197, 2012-2013). However, after the parliamentary election in 2013, a new bill was submitted on RÚV's board membership. It was considered undemocratic and non-transparent to have members on the board that were not elected by Alþingi and did not have to be accountable to the public (Þingskjal 11, 2013; Þingskjal 25, 2013). The opposition accused the ruling parties of wanting to make the board more political, taking into account that the board had now more power but the minister of culture and education, Illugi Gunnarsson, argued that as things stood, the minister of culture and education could strengthen his grip on RÚV through his personal connections with the universities and the arts sector (Gunnarsson, 2013; Þingskjal 30, 2013)

The new bill on RÚV's board's composition was passed on July 3, 2013. Alþingi elected nine members to the board. The coalition government of the Independence Party and the Progressive Party recommended five members and the opposition another four. In addition, RÚV's staff members can appoint one member that does not have the power to vote (Konráðsdóttir, 2013; Lög nr. 89/2013). The board of directors is supposed to reflect the political parties' power in parliament and consequently, the proportions should have been six for the government and three for the opposition. However, after some commotion, one member of the coalition voted for the list submitted by the minority, thereby giving the opposition one additional member of the board ("Sjóðandi heitir Píratar", 2013; "Stjórnarandstaðan fékk 4", 2013; "Svikabrigsl í kosningu", 2013).

In January 2014, Alþingi voted once again on the board of directors of RÚV and this time around, the opposition lost one member to the majority ("Meirihlutinn fékk sínu framgengt", 2014).

It's noteworthy that in 2010, when Alþingi was appointing members to the board of directors, Þór Saari (2010), then a member of parliament for the Movement, asked his colleagues what was the policy of the people that were being appointed to the board and why their policy wasn't introduced to the public. Furthermore, he asked what were the parties' criteria for selecting those particular individuals.

#### 4.1.6 Legislation on RÚV

In general, the media legislation from 2011 (Lög nr. 38/2011) applies to RÚV, except for a few articles. But overall, RÚV's mission and purpose is legally defined by a special legislation (Lög nr. 23/2013).

RÚV is funded 70% through a special tax or a levy of ISK 19,400 per person with income over the tax-free limit and 30% through advertising (Ríkisskattstjóri, 2014; Þingskjal 517, 2005-2006). After the crash of the financial institutions in 2008, the Icelandic government had for several years used a part of the levy for other expenditures. The government of the Social Democratic Alliance and the Left-Green Movement had plans to allocate all of the levy to RÚV in the year of 2013 (Njálsson, 2013) but their successors, the government of the Progressive Party and the Independence Party, which came into power in the spring of 2013, raised the license fee and decided that of the ISK 3.9 million collected, it would give back to RÚV ISK 3.3 million (Ólafsson, 2014). ISK 150 million was transferred from RÚV to the universities ("Ekki frekari niðurskurður", 2013).

RÚV's presence in the advertising market has been a source of contention for years. Marshall (2008) maintained that RÚV competing for advertising revenue was the cause of increased concentration in the media industry and it weakened democracy because as the importance of advertising revenue increased, the walls between the media's advertising departments and their editorial rooms came crumbling down. Moreover, he said that journalists relented to pressure and employed self-censorship in their work. The Icelandic Press Association agrees with this view and has pointed out that RÚV's advertising sales had a negative effect on the operation of the privately owned media and distorted the competition (Jónsson & Jónsson, 2013). Needless to say, Edwald, CEO of 365 ehf., has been a fierce advocate of the removal of RÚV from the market for advertising (Edwald, 2012a, 2012b).

The Icelandic Competition Authority has repeatedly concluded that it was undesirable that RÚV was selling advertising space. In 2008, the Authority said that RÚV's ability to sell advertising should be strictly limited (Samkeppniseftirlitið, 2008; Sigurðsson, 2012).



In the beginning of 2013, the regulation on RÚV's advertising was tightened by the government of the Social Democratic Alliance and the Left-Green Movement but to alleviate its loss of revenue from the license fee, the government of the Progressive Party and the Independence Party postponed the date of effect of article 7, which puts restrictions on RÚV's advertising, until January 1, 2016 (Lög nr. 140/2013). When, and if, the law takes effect, RÚV will only be allowed to sell eight minutes of advertising per hour of broadcasting compared to 12 minutes for other broadcasters. Furthermore, except under special circumstances, RÚV's programming cannot be sponsored, and it cannot insert commercial breaks into programs unless they are RÚV's own production and at least 60 minutes long (Lög nr. 23/2013).

Magnússon, the former director general, opposed the restrictions. He estimated that RÚV would lose ISK 395 million because of these measures. According to Magnússon, RÚV's market share is 20% in comparison to the 55% market share of 365 miðlar ehf. Thus, if RÚV would disappear from the advertising market, 365 ehf. would monopolize it. Publicly he has said that by cutting RÚV's advertising revenue, the government was transferring these ISK 300-400 million to the pocket of Jóhannesson and 365 miðlar ehf. (Magnússon, 2012a, 2012b, 2012c).

In addition to the legislation on RÚV, there is a binding contract between RÚV and the Ministry of Education and Culture where RÚV's duties and obligations are further spelled out. For example, as a public service broadcaster RÚV cannot profit from its operations and is required to use available resources towards its operations ("Samningur mennta- og menningarmálaráðuneytis", 2011).

## **4.2 The four media organizations and agency theory**

The following section is based on analysis of interviews with eight top-level managers at the four Icelandic media companies which were examined. The discussion on each company is then divided into several subsections that reflect the questions that were asked during the interviews and the themes that emerged; for instance, in the case of 365 miðlar ehf., the concept of culture was prominent in the managers' replies.

The subsections cover the external factors that the managers felt affected their companies (which turned out to be a highly relevant aspect in the case of RÚV, for

example), profit orientation and financial control, the control of the board of directors, owner-manager duality, strategy and editorial policy, hiring of editors and staff alignment, and stakeholders and social responsibility. The section on each company then concludes with a summary where agency theory is applied to that particular company.

#### **4.2.1 365 miðlar ehf.**

##### **4.2.1.1 *External factors***

According to Ari Edwald, CEO of 365 miðlar ehf., two main external factors influenced the media company, i.e. the general economic conditions in society and thus the demand for the company's services, and the legal environment.

The newscast of Stöð 2 has always been an open window, i.e. free-to-air, in order to advertise the channel. Except for access to the programs of Stöð 2, all other news production of 365 miðlar ehf. is free for the user, i.e. Vísir.is, the radio stations, and Fréttablaðið. Consequently, the company is highly dependent on the highs and lows of the advertising market and other companies' budget for marketing.

Furthermore, according to Edwald, in general, people considered the programming of Stöð 2 to be good so it was people's income and their decision to save or not to save that was a deciding factor in whether they subscribed to the channel or not. The devaluation of the Icelandic currency, króna, had also hit the company hard as the cost of programming increased.

Secondly, Edwald mentioned that the playing field was uneven because RÚV was allowed to sell advertising. Also, 365 miðlar ehf. had to pay the telecommunication companies ISK 500 million per year to carry the company's broadcasting while RÚV didn't have to pay them at all.

#### **4.2.1.2 Profit orientation and financial control**

The profit orientation of 365 miðlar ehf. is overt. Profitability is one of the company's four core values. The values are: Creativity, cooperation, reliability and profitability.<sup>21</sup>

The in-house code of ethics explicitly states that the profit value shall guide how work is conducted in the newsrooms. Furthermore, if the company suffers financial calamities due to media coverage, the company has a right to demand the equivalent of a month's post-tax salary from the editors-in-chief (365 miðlar ehf., 2009).

Edwald explained that in the long run it was impossible to separate power and responsibility. There had been an increase in libel suits against the newspaper, Fréttablaðið, and he didn't want to have to monitor the content of the paper. Consequently, it was decided upon that the editors themselves would be held liable by having to sacrifice a month's salary if the company lost a libel suit.<sup>22</sup>

Since 2006, 365 miðlar ehf. had been streamlined. Brands had been sold or discontinued, and although the company still had two radio stations that reached a particular audience segment, its flagship radio station was Bylgjan. Other brands were Stöð 2, Fréttablaðið and Vísir. Consequently, the company was operated with around 200 fewer employees than previously. Fewer staff members meant ISK 1 billion less

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<sup>21</sup> Sköpunargleði, samstarf, áreiðanleiki og arðsemi.

<sup>22</sup> „Það auðvitað gengur aldrei upp til lengdar að aðskilja vald og ábyrgð. Það var að færast í vöxt, eins og bara á Fréttablaðinu, að skrif í Fréttablaðinu yrðu tilefni dómsmála og þá var ég til dæmis í þeirri stöðu sem útgefandi blaðsins að ég varð að vera að skipta mér af því hvað þeir voru að skrifa [...]Þá sagði ég bara við þá: „Ég vil ekki vera að fylgjast með því hvað þið eruð að skrifa. Er þá ekki betra að við höfum þá reglu að ef einhver stefnir ykkur út af því sem þið eruð að skrifa ...“ – maður er ekki dæmdur út af því sem er skrifað nema vegna þess að það felst í því lögbrot, dómur um meiðyrði felur náttúrulega í sér að sá sem er að skrifa er að fremja lögbrot – „...og þið verðið bara sjálfir að bera ábyrgð á ykkar lögbrotum. En við skulum hafa þetta bara sanngjarnt. Það er bara endurkrafa og hún er aldrei umfram ein mánaðarlaun og þá miðum við útborguð laun, ekki fyrir skatt.“ Þeir vildu þetta. Þeir sögðu: „Við viljum bera þessa ábyrgð, við viljum vera skipstjórar á okkar skipi. Og hérna, borga það sjálfir ef við verðum dæmdir.“ [...] Ef þú ætlar að hafa frelsi til að segja það sem þú vilt án þess að það sé einhver ritskoðun í gangi af hálfu eigenda og stjórnenda, þá hlýtur að hanga á spýtnni að þú berir einhverja ábyrgð á því sem þú ert að segja. Það var algjörlega hugsunin í þessu.“

annually in payroll.<sup>23</sup> Einarsson of Stöð 2/Vísir concurred with Edwald and said that there was constant pressure to cut down the expenses.<sup>24</sup>

#### **4.2.1.3 Control of the board of directors**

Although the present study did not focus on the governing boards, it was nevertheless important to get some sense of how active the boards were in controlling the companies.

At 365 miðlar ehf., Ingibjörg Pálmadóttir, who owns 90% of the company's shares, was also the chairman of the board. Board meetings took place once a month when a detailed and a comprehensive report of the company was submitted. The board was thus quite active in running of the company.<sup>25</sup>

The code of ethics of 365 miðlar ehf. declares that the newsrooms work as agents of the board for the benefit of readers, viewers and listeners. Stephensen of Fréttablaðið emphasized that the board of directors provided the blueprint for its operation with its code of ethics and values of the firm. The staff had to be accountable to the board of

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<sup>23</sup> „Ef við værum bara reknir jafn vel eða jafn illa eins og Ríkisútvarpið þá mundum við ekki geta verið til af því að bjögum á markaðnum er það mikil að við verðum að ná einhverju öðru forskoti. Og við höfum reynt að gera það bara með því að lækka okkar kostnaðarlevel eins mikið og við mögulega getum. Auðvitað kemur það niður á mörgu [...] Við erum enn að reyna að klípa af okkur starfsmenn hér og þar og það breytir starfsemi. Ég alveg fullyrði að það er ekki lengur þannig að það séu einhverjir sem eru að labba um gangana og séu ekki að gera neitt. Við vitum alveg þegar við segjum einhverjum upp núna og að eitthvað sem þarf að gera núna verður ekki gert og getur skaðað. Þannig að sumt af því þarf að koma aftur þegar hagurinn vænkast.“

<sup>24</sup> „Nú förum við alltaf reglulega í gegnum svona niðurskurði. Það er nú bara búið að vera hérna stöðugt. Alltaf verið að reyna að skera niður og pressa á okkur að skera niður.“

<sup>25</sup> „Við erum með mjög formlega stjórnarfundir og gerum félagið upp mánaðarlega. Erum með ítarlega mánaðarskýrslu sem er allur reksturinn. Þannig að við erum í mjög stífu formi [með] alla áætlanagerð og framkvæmd á áætlunum. En jú, jú, það eru líka óformleg samskipti þar fyrir utan. Það er þá meira svona spjall en ekki formlegar ákvarðanir [...] Það er mjög virk stjórn. Miðað við að ég hef nú sjálfur verið stjórnarmaður í félögum og er að kvarta þar þegar eru haldnir stjórnarfundir þar einu sinni, tvisvar á ári. Ég hef yfirleitt ekki áhuga á að vera í slíkri stjórn – það getur bara endað með ósköpum.“

directors but he emphasized that the staff worked, first and foremost, for the benefits of the readers and listeners.<sup>26</sup>

#### **4.2.1.4 Owner-manager duality**

Ari Edwald, CEO of 365 miðlar ehf., owned 6% of the company's shares at the time of the study. He said that he did not have any role in the company as an owner but that he believed that his share would go up, taking into account that the company did show profit.

#### **4.2.1.5 Strategy and editorial policy**

In the spring of 2006, everyone who was considered to be a manager at 365 miðlar ehf., participated in creating the firm's strategy and setting the values. The work was conducted under the supervision of the consulting firm, Capacent.

Edwald said that the editorial policy of the company's news media hadn't been officially formed. The news media didn't take stand on issues. Editorials were always signed with the name of the author, and for a while Fréttablaðið had several people, inside and outside the company, rotating in writing the editorial. Edwald said the idea was that Fréttablaðið didn't have any opinion at all, i.e. the paper was a market square for ideas.<sup>27</sup>

However, Edwald emphasized that 365 miðlar ehf. did not publish yellow press papers and that was one of the reasons that the company sold DV. The newspaper didn't fit any more with the company's strategy as DV tended to be more aggressive and go further in its news reports. Hence, court-related expenses had almost disappeared.

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<sup>26</sup> „Það er náttúrulega stjórn fyrirtækisins sem leggur línurnar með siðareglunum og gildunum og svo framvegis. Við þurfum að standa henni reikningsskil. Það stendur reyndar líka í siðareglunum að við störfum fyrst og fremst í þágu lesenda og hlustenda. Þannig lítum við nú á það.“

<sup>27</sup> „Þælingin með þessu var náttúrulega sú að það væri ekki Fréttablaðsins að hafa neina skoðun á neinu. Þetta væri bara eitthvert markaðstorg. Það væri eingöngu fréttablað og væri bara eingöngu að flytja fréttir, og skoðanadálkurinn ætti bara að reyna að gefa kost á öllum svona meginhornum þjóðfélagsumræðunnar.“

Edwald brought up that Magnússon of Árvakur hf. had said in a recent interview that Fréttablaðið sailed in calm waters. Edwald agreed with this view of Fréttablaðið and pointed out that a paper that is delivered free-of-charge to people's homes had to be more modest in its news coverage than subscription papers.<sup>28</sup>

Stephensen, on the other hand, said that the role of Fréttablaðið was to fulfill its readers' needs for newspaper reading, exchange of views and entertainment. The paper looked after the readers' interests as consumers, tax payers and users of public services. In addition, the paper's role was to be a watchdog of government, institutions and corporations.<sup>29</sup>

Einarsson, editor-in-chief of Stöð 2 and Vísir, said that the editorial policy of his media was constantly being reviewed and that it was, first and foremost, formed by those who managed the media. He said that they had gone back to the roots of Stöð 2 after the channel had gone through a more aggressive period. The ratings had gone down. Einarsson said that for a while it was believed at Stöð 2 that by simply copying RÚV, the station would succeed. He pointed out that copying one's competitor is the worst thing one could do in strategic management. His strategy had been to change the presentation of the news, i.e. the tempo, as he put it. The channel had more news items per newscast even though the newscasts themselves were shorter than the competitor's.<sup>30</sup>

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<sup>28</sup> „Við erum ekki að gefa út gula pressu og það er mörkuð stefna; það er til dæmis ein af ástæðunum fyrir því að við seldum DV út úr félaginu. Það myndi ekki passa inn í rammann eins og það er rekið. Þau vilja ganga lengra, fara með ásakanir eða annað sem þau hafa ekki endilega fullnægjandi heimildir fyrir. Annars myndu heldur ekki dómstólar dæma þá fyrir að vera að brjóta lög í sinni umfjöllun [...] Óskar orðaði það þannig í blaðaviðtali nýlega að Fréttablaðið sigldi í kurteisilegu logni alla daga. Það getur alveg verið og það sé bara rétt [...] það er auðvitað eðlilegra að blað sem er dreift á öll heimilanna, það er eðlilega svona hógværa og svona meira meðaltals en einhver sem ætlaði að vera mjög harður í sinni boðun. Það er áskriftarblað sem menn kaupa eða hafna. Það er öðruvísi þegar þú kemur óboðinn á heimilin. Þú verður að kunna þér meira hóf. Það er alveg réttur punktur.“

<sup>29</sup> „Hvaða hlutverki á fréttamiðill almennt að þjóna? Við leggjum áherslu á að fylgjast vel með hagsmunamálum lesenda; sem neytenda, sem skattgreiðenda, notenda opinberrar þjónustu og svo framvegis, og veita stjórnvöldum, stofnunum og fyrirtækjum á markaði sanngjarnt aðhald.“

<sup>30</sup> „[...] ritstjórnarstefna er eitthvað sem er alltaf í einhverri mótun. Hún er bara náttúrulega mótuð af okkur sem erum að stýra þessu apparati hérna og að einhverju leyti af hefðinni. Það er náttúrulega búin

#### 4.2.1.6 *Hiring of editors*

At 365 miðlar ehf., Edwald had the responsibility to hire the editors. He said: “[...] by hiring this editor instead of someone else, you are having influence because you know approximately who he is. You don’t hire someone whom you don’t know.”<sup>31</sup>

In particular, Edwald mentioned the reasons why Ólafur Þ. Stephensen was hired as an editor-in-chief of Fréttablaðið. He said that Stephensen had managed to make such effective changes to 24 stundir that it was becoming a serious competition to Fréttablaðið and when he quit as an editor-in-chief of Morgunblaðið, the paper had 39,000 subscribers. Not least, Stephensen had managed to run a newsroom where the

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að vera herna starfsemi í 25 ár. Og við höfum kannski leitað svona aftur í hefðina. Það má segja að á ákveðnu tímabili hafi kannski verið svona breyting á ritstjórnarstefnunni. [...] það kom herna nýr stjórnandi í ákveðinn tíma sem kannski var róttækari stjórnandi heldur en hafði verið herna þannig að fréttastofa Stöðvar 2 var um tíma djarfari en hún hafði verið áður en svo höfum við kannski horfið aftur til fortíðar að einhverju leyti. Við erum samt með mjög skýr markmið og skýra sýn á það sem við erum að gera. Við höfum skýra sýn á sérstöðu okkar, hvernig við skilgreinum okkur frá öðrum miðlum. Ég held að það hafi verið svona kannski betri leið til árangurs að skýra bara sérstöðuna og hafa skýra sýn á hana heldur en endilega fréttastefnan þyrfti að vera eitthvað öðruvísi til að ná árangri vegna þess að fréttastofa Stöðvar 2 lenti í ákveðinni krísu. Áhorfið var orðið mjög lítið - ég hef skilgreint það þannig að það hafi verið út af því að stefnan var orðin sú að reyna að gera alveg það sama og RÚV og þá væri menn góðir. Ef við værum bara svona með svipaðar fréttir og þeir. Þannig að það er nú þannig í stefnumiðaðri stjórnun að það er versta leiðin sem þú finnur að það er reyna að kópera einhvern og reyna að gera eitthvað alveg eins og einhver annar. Þannig að það sem við gerðum herna og ég hef reynt að gera er að hafa skýra sérstöðu; það er ekki endilega fréttirnar sjálfar, contentið hefur enga sérstöðu því við stjórnnum því ekki. Það er samfélagið og viðmælendur okkar sem stjórna því. Heldur bara framsetningin á contentinu. Og við finnum sérstöðu okkar þar og í viðmótinu á fréttunum. Við reynum að hafa viðmótið aðeins svona léttara. Við erum með fleiri fréttir í styttri fréttatíma heldur en til dæmis RÚV. Það er meira svona tempó í fréttatímanum. Og svo er náttúrulega bara ákveðin hugmynd um hvernig fréttatíminn byggist upp. Hvernig hann byrjar og hvernig hann endar [...] Það er ekki verið að stýra því hvernig fréttirnar eru sagðar heldur slíkt heldur svona kannski meira í viðmóti eða í svona áferð og tempói og slíku.”

<sup>31</sup> „...en auðvitað með því að velja þennan ritstjóra frekar en einhvern annan ertu í sjálfu sér að hafa áhrif því þú veist sirka hver hann er og svona. Þú ræður ekki ritstjóra sem þú þekkir ekkert til. Það er kannski leiðin til þess að hafa áhrif, að ráða ekki köttinn í sekknum.“

same staff was sometimes producing material for three news outlets, i.e. Mbl.is, Morgunblaðið and 24 stundir.<sup>32</sup>

#### **4.2.1.7 Staff alignment**

At 365 miðlar ehf., it was considered essential that the staffs' values aligned with the company's values. According to Edwald, it was not possible in the long run to have vastly different values in one's private life and at work. At staff meetings he emphasized that if the employees were not willing to embrace the company's values, the ways of the employees and the company would part in the end.<sup>33</sup>

At Fréttablaðið, quality meetings were held, usually every other Tuesday, where the editorial policy, the code of ethics and any criticism was discussed.

Moreover, Stephensen of Fréttablaðið said that he implemented the editorial policy of Fréttablaðið by regularly reminding the staff of its existence. It was sometimes discussed informally via e-mail. If he felt that a journalist had only one unreliable

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<sup>32</sup> „Þegar Óli tók við Bláinu og breytti í 24 stundir þá var það farið að narta í hælana og þegar hann var fluttur þá voru þrjú alvörublöð á landinu: Fréttablaðið, 24 stundir og Morgunblaðið. Þegar hann fluttist yfir á Morgunblaðið gerði hann velheppnaðar breytingar á því og skilaði því af sér vorið 2009 í 39.000 áskrifendum. Þannig að við töldum okkar náttúrulega að vera að ráða besta ritstjóra sem við gætum fengið til að reka gott blað með hagkvæmum hætti. En við vorum líka að horfa til þess að hann hafði verið að vinna með ritstjórn þar sem sama fólkíð þurfti oft á tíðum að skila af sér í 24 stundir, Morgunblaðið og Mbl.is og það er það sem við erum að reyna að gera.“

<sup>33</sup> „Og við gerðum líka einu sinni mælingu á því [...] þar sem reynt var að nálgast [starfsmannsins] gildi. Og það var út frá því að það væri ekki hægt til lengdar að vera með mjög ólík gildi í sínu lífatlífi eða á vinnustað. Þannig að við yrðum að reyna að mæla hvað það væri mikil gjá á milli persónulegra gilda starfsmanna og þeirra gilda sem að þeir ættu að hafa í heiðri yfir vinnudaginn. Og við komumst nú að því [...] þá væri nú svona alveg ásættanlegt samræmi þarna á milli. En ég hef alltaf sagt það á starfsmannafundum að á endanum hljóti það að þýða það að það [...] skiljist að fyrirtækið og starfsmaður ef starfsmaðurinn er ekki hlynntur þessum gildum [...] Bara dæmi: Það plagaði þetta fyrirtæki að menn höfðu oft lítinn áhuga á samstarfi hver við annan og vildu bara spila einleik. Og það er lagt upp úr, (þetta er svona japönsk þæling), að menn séu tilbúnir til að hafa samstarf í öndvegi og ef að menn eru illa fallnir til þess og það er endalaus vandræði með það, þá eru menn á leiðinni út.“



source, he pointed out that the code of ethics required that on such matters they had two sources.<sup>34</sup>

Stephensen defined his role as an editor as being the initiator for idea creation. He stressed that Fréttablaðið relied more on the journalists themselves for initiating material for the paper, and he believed that a journalist-driven papers were better than papers, like Morgunblaðið, where the ideas originated to a greater extent with the management.

Furthermore, he also felt that he had a role as a supervisor who made sure that the paper operated in accordance with its editorial policy, the code of ethics and the media legislation, and to guard the editorial autonomy of the paper against the influences of pressures from owners, advertisers and the sales department.<sup>35</sup>

Moreover, Stephensen said that his role was to support the employees and encourage them to achieve the goals of the paper, mostly the financial livelihood of the paper and the share of readership. The credibility and the reliability of the paper were important as well.<sup>36</sup>

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<sup>34</sup> „Ef að manni finnst að blaðamaðurinn sé með eina ótrausta heimild þá segir maður að siðareglurnar segi að við verðum í svona málum að hafa tvær heimildir. Eða þessi frétt hérna uppfyllir ekki það sem stendur í ritstjórnarstefnunni; að skrifa hana á mannamáli, það skilur hana ekki nokkur maður og ekki þú heldur. Skilurðu? Í öllum þessum litlu samtölum og litlu ákvörðunum reynir maður að framfylga þessu.“

<sup>35</sup> „[Fréttablaðið] er miklu meira blaðamannadrifið heldur en til dæmis Morgunblaðið er og hefur verið. Það er miklu minna af hugmyndum sem kemur frá stjórnendum og meira frá blaðamönnunum sjálfum. Ég tel nú að það séu betri blöð sem virka þannig. Maður þarf að sjálfsögðu að hafa ákveðið eftirlit með þessum ramma okkar, siðareglum, ritstjórnarstefnu og öðru slíku; fjölmiðlalöggjöf í seinni tíð, sé fylgt. Það eftirlitshlutverk er talsvert stórt. Standa vörð um þetta ritstjórnarlega sjálfstæði, til dæmis bara í tengslum við eigendur, auglýsingadeild, auglýsendur og annað slíkt. Maður er svona hliðvörðurinn í því.“

<sup>36</sup> „Og svona almennt leiðtogahlutverk; peppa fólk upp, hvetja það áfram, benda því á markmiðin og hjálpa því að ná þeim. [...] Þau markmið sem við horfum hér á fyrst og síðast eru auðvitað arðsemi og afkoma blaðsins, lestrarhlutfallið og svoleiðis. Markmiðið að halda því í 60 prósentum og gengur vel að halda því. Ég tel að það sé síðan undirstaðan fyrir góðri afkomu af rekstri. Við værum hvorki með þennan lestur eða þessa afkomu eða ef við tókum ekki trúverðugleika og áreiðanleika blaðsins í leiðinni. Þannig að allt svona fellur þetta nú saman.“

Einarsson of Stöð 2 said that quality meetings were held on regular bases where the code of ethics and the editorial policy were discussed. The purpose of these quality meetings was to go over, in a critical way, the ratings.

The meetings used to be every month or every two months or so, but the time between meetings had increased. Stöð 2 participates in Gallup's people meter and gets daily reports about the ratings. Einarsson said it allowed the channel to be closely connected to its audience. If they noticed a drop in viewership, he watched the newscast with his staff members with the intention of seeing how they could have done better; how they could have presented the news in such a way that people didn't feel like going to the bathroom or doing something else.<sup>37</sup>

In addition, the managing editors issued quality reports after the news broadcasts where the whole newscast was reviewed, i.e. technical details like camera work and editing, and the choice of interviewees, for example. This had meant in Einarsson's opinion that the employees were more careful in what they did.

At the time of the study, Edwald was also the head of the news division but he maintained it was purely for practical reasons, i.e. he was the acting managing director of the news division and did not interfere with the editorial work. Nevertheless, Stephensen said that Edwald occasionally commented on the "character of the medium", i.e. if he felt that the newspaper lacked trust and credibility.<sup>38</sup>

This claim was supported by a story by Edwald himself who recollected having a discussion about the responsibility of the newsrooms when it came to media coverage

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<sup>37</sup> „Þannig að við sjáum bara ef það er dropp í einhverju efni þá reynum við að skoða hvernig við getum gert það betur. Þá horfum við jafnvel á fréttina saman og hugsum: „Þessi frétt...hún droppaði og þessi, þessi og þessi, eða eitthvað svona. Af hverju var það? Hvernig hefðum við getað sagt þessa frétt betur þannig að fólk hafði ekki séð ástæðu til að fara á klósettið eða gera eitthvað, eins og það gerði?“ Þannig að við förum yfir svona hluti.“

<sup>38</sup> „Stundum, jú, kemur forstjórinn sem útgefandi á framfæri einhverjum sjónarmiðum um, hvað skal segja, karakter miðlanna. Ef honum finnst til dæmis, sem er sem betur fer ekki oft, að menn hafi eitthvað skautað út af línunni í áreiðanleika eða trausti, þá minnst hann á það.“

during the time of the unrest and mass demonstrations in the wake of the economic crash in the fall of 2008<sup>39</sup> (e.g. “Á annað þúsund manns”, 2008).

Einarsson mentioned the independence of the journalists. He maintained that to a certain degree, every employee was an independent contractor because everyone had his/her ideas and code of ethics. No one could tell a journalist, at least those he had worked with, what to think or do.

Einarsson brought up on his own accord the criticism that 365 miðlar ehf. had encountered through the years, and mentioned specifically Björn Bjarnason, former minister of education and also former minister of foreign affairs for the Independence Party (Alþingi, 2009), who wrote a book about the influence of Jón Ásgeir Jóhannesson and his family on their media (Bjarnason, 2011). Einarsson stressed that that they were nothing more than employees of the nation, their viewers, and those who watched their newscasts. As soon as they would start serving other masters than the viewers, their viewers and readers would reject them. Journalists could never have a hidden agenda for their owners or a specific ideology.<sup>40</sup>

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<sup>39</sup> „Eftir hrunið byrjuðu svona mótmælafundir og þá voru stundum fréttir af einstaklingum, þá gjarnan voru þeir að taka myndir af heimilum. Ég gerði alltaf athugasemd við þetta. Við vorum búnir að skrifa að það ætti að gæta friðhelgis einkalífs. Ég man t.d. eftir uppstandi. Það var verið að tala um einhverja sjóði tengda Björgólfsfeðgum og þá stóð blaðamaðurinn á hlaðinu á heimili Björgólfs Guðmundssonar og ég gerði strax athugasemdir við það því við erum ekki að flytja fréttir um viðskiptagjörtnina á þetta húsnúmer sem er einkaheimili. Og strax á öðrum eða þriðja laugardeginum eftir hrunið, þar sem var fundur á Austurvelli, þá sagði ég ... orðaði ég þetta þannig gagnvart ritstjóranum, að núna væru nokkur hundruð manns en reiðin færi vaxandi í samfélaginu og ef það þróaðist þannig að múgurinn léti sér ekki nægja að safnast saman á Austurvelli heldur færi að fara að heimilum. Mundi ekki láta sér nægja að kasta eggjum heldur færi að kasta steini og steinn færi í gegnum rúðu á einkaheimili og í hausinn á einhverju barni og það bara dræpist. Þá gæti fjölmiðillinn ekki sagt: „Já, við berum enga ábyrgð á þessu“. Því þetta væri nákvæmlega það sem þeir væru búnir að búa til og þeir yrðu að gera sér grein fyrir sinni ábyrgð. Þannig að ég hef alltaf sagt: Þeir sem hlýða þessu ekki og færu í trássi við okkar reglur að birta alltaf myndir af húsinu þar sem fjölskylda einhvers býr sem er til umfjöllunar, þá á hann ekki heima ... vill hann ekki starfa samkvæmt reglunum sem við erum búnir að marka.“

<sup>40</sup> „Við vitum það öll að blaðamenn eru fólk með miklar skoðanir. Að einhverju leyti [er] hver einasti maður sem vinnur hérna inni sjálfstæður atvinnurekandi af því að það eru allir með sínar hugmyndir og sínar siðareglur og allt það. Þannig að það er enginn sem segir blaðamanni, allavega ekki því fólk sem ég hef unnið með: „Þú átt að hugsa þetta eða hafa þessa skoðun eða gera hitt eða þetta.“ [...] Við erum

Einarsson added that he had never known a journalist who was solely company-minded. While the people over at the sales department identified themselves with the company and referred to themselves and the firm as “we”, the journalists did not.<sup>41</sup>

Einarsson said that journalists were like autonomous units within the firm. He said that after managing a large group of journalists, he could manage any other organization. Journalists were not the easiest individuals to control, especially the well-known ones. Einarsson maintained that it was necessary to respect the independence of the journalists. He said he never killed a story unless it was completely inaccurate.<sup>42</sup>

#### **4.2.1.8 Culture**

Interestingly, the managers of Fréttablaðið and Stöð2/Vísir both mentioned the importance of culture among their staff. Although Fréttablaðið, Stöð 2 and Vísir had merged into one company almost nine years before the interviews took place, the managers sensed a lack of unity and a tendency for each medium to isolate itself from others.

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aldrei annað en starfsmenn þjóðarinnar og áhorfenda okkar og þeirra sem neyta okkar fréttu. Um leið og við byrjum að þjóna einhverjum öðrum heldur en áhorfendum okkar, eða lesendum okkar, þá munu þeir bara hafna okkar. Við getum aldrei þjónað neinum öðrum og enginn blaðamaður, held ég, geti það [...] Miðlar sem fara í þannig verkefni, þeir verða að örmiðlum. Þannig að miðlar með svona útbreiðslu eins og við erum með – þetta er allavega mín nálgun á þetta – þeir geta aldrei verið í einhverju svona annarlegum verkefnum, annað hvort sem leiða fram hugsjónir eigenda sinna eða einhverja ákveðna hugmyndafræði.“

<sup>41</sup> „Ég hef aldrei kynnst blaðamanni sem að kannski er bara svona brjálæðislega company-minded. Skilurðu hvað ég er að meina? Þeir tala alltaf um, allir hérna inni og ég geri það örugglega sjálfur, fyrirtækið sem annan aðila. Þú getur kannski labbað hérna yfir í hitt húsið í söludeildina og þar byrjar fólk að persónugera fyrirtækið í sjálfu sér og segja: „Við hjá 365, við, við.“ Þú heyrir blaðamann aldrei gera þetta.“

<sup>42</sup> „Þetta eru svona sjálfstæðar einingar inni í fyrirtækinu [...] þetta eru erfiðar skipulagsheildir að vinna inn í [...] Ég hef alveg sagt það að eftir að hafa stjórnað svona stórum hópi blaðamanna gæti ég stjórnað hvaða vinnustað sem er. Af því að þetta eru ekki auðveldir einstaklingar og sérstaklega ekki fólk sem er mjög þekkt og allt það. Skilurðu? Það þarf að vera gott samkomulag og maður þarf að virða sjálfstæði blaðamannsins. Ég stoppa aldrei fréttir. Aldrei. Nema að hún sé bara algjörlega kolröng og þá er það bara gert í algjöru samstarfi [...] við kannski reynum að fresta því. Ég hef aldrei stoppað frétt.“

Stephensen said that when he was hired as an editor-in-chief, there had been a physical and mental wall between the editorial rooms of Fréttablaðið and Stöð2/Vísir. Among the first things he did was to have the wall torn down and increase the cooperation between the newsrooms.<sup>43</sup>

#### **4.2.1.9 Stakeholders and social responsibility**

Ari Edwald identified the stakeholders of 365 miðlar ehf. as being the company's clients, employees, owners and suppliers. The clients weren't only the subscribers but the nation as a whole because the company sold ears and eyes of the users of the free-of-charge media.<sup>44</sup>

In accordance with the profit orientation of a private company, Edwald of 365 miðlar ehf. said that it was consistent with social responsibility to make a profit since companies that were not profitable ended up closing their doors, thereby causing damage to stakeholders. Moreover, he stressed that it was important that the product wasn't hazardous to the public because if the product weren't safe, the company wouldn't do well and thus lose money. He added that it was imperative for a media company not to abuse its power in society.<sup>45</sup>

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<sup>43</sup> „Hér var veggur milli ritstjórnanna, bæði fysiskur og andlegur. Og það var eitt af mínum fyrstu verkum að láta brjóta hann niður og opna hérna á milli og auka samstarfið [...] Hér eru samankomnir fjölmiðar sem urðu til sitt í hvoru lagi í mismunandi fyrirtækjum og er steipt saman og auðvitað kannski – hvað á maður að segja? – er söguleg tilhneiging til að halda sig út af fyrir sig.“

<sup>44</sup> „Eyru og augu lesenda og hlustenda frímiðlanna eru náttúrulega sá gjaldmiðill sem við seljum.“

<sup>45</sup> „Ég tel að sú ábyrgð sé fólgin í því, eins og allra annarra fyrirtækja, að vera rekið með hagnaði sem er samfélagsábyrgð rekstrareininga númer eitt, tvö og þrjú. Því að félag sem er ekki rekið með hagnaði líður undir lok og allir sem eiga hagsmuna til að telja verða fyrir tjóni. Maður gefur sér það [...] Við getum sagt að samfélagsleg ábyrgð fjölmiðlafyrirtækis umfram öll fyrirtæki – því öll fyrirtæki séu rekin með hagnaði eins og ég segi – samfélagsleg ábyrgð fjölmiðlafyrirtækisins umfram það sé að fara varlega með þá áhrifastöðu sem það getur haft í samfélaginu. Að misfara ekki með þau áhrif. Ég held reyndar að slík áhrif séu þá bara til skamms tíma til að misfara með þau. Ég held að menn misfari með áhrifavald fjölmiðils þá muni það blasa við, hlustendum og áhorfendum ef ekki samdægurs þá a.m.k. til lengdar. Þá muni fjölmiðillinn líða undir lok. Menn hafa ekki trú á honum. Það hlustar enginn á fréttir sem hann heldur að séu ekki fréttir, heldur að sé bara einhver áróður og vitleysa.“

Einarsson of Stöð 2 agreed with this view and said that the media had the power to injure both people and businesses. Consequently, it was the responsibility of Stöð 2 to be objective in its news coverage. He remarked that they were going through some difficult times in this respect as a former colleague of many of the journalists was running for president of Iceland in 2012 (e.g. “Þóra býður sig”, 2012).

#### **4.2.1.10      *Applying agency theory to 365 miðlar ehf.***

Agency theory appeared to fit nicely with the management practices of 365 miðlar ehf., at least judging from the interviews with the three managers.

First of all, profitability was one of the company’s four core values. There was tight financial control and in recent years, the managers had been squeezed to the limit to cut cost by firing staff members and streamlining the operations of the newsrooms by having the employees work across platforms. This heavy emphasis on profit was congruent with the management of Jönköping-Posten in Sweden (Djerf-Pierre & Weibull, 2011).

Avoiding harm to the company at all cost was also underscored. Libel suits can be expensive and thus the editors-in-chief were required to sign a bonding contract, where they sacrifice a month’s pay if the company was sued. This reduced the monitoring cost of the company.

Furthermore, the code of ethics was used to keep the staff in line. The three managers of 365 miðlar ehf. repeatedly referred to the company’s code of ethics. It appeared that the code was used for social control; it was the “moral code of conduct [...] to restrict our conduct toward what we would choose if we bore our full cost” (Alchian & Demsetz, 1972, p. 791).

Bagdikian (2000) has said that the chances of the owners intervening are the greatest when their interests are at stake, and although Jóhannesson was not a registered owner of the company anymore, according to Stephensen and former employees he did voice his opinion when he felt that he hadn’t been treated fairly. A former assistant editor of Fréttablaðið once said that when Jóhannesson reacted to news stories about himself,

he did so by referring to the code of ethics and as the one who had the power to interpret the code (“Segist hafa verið ýtt”, 2013).

The code of ethics of 365 miðlar ehf. explicitly states that the newsrooms operate as agents of the board. Nevertheless, a former business editor of Stöð 2 and Vísir wrote in a public letter that the journalists of the company were really agents of the public and the board of directors should have nothing to do with editorial work and should not have any influence on it, whatsoever (M. Halldórsson, 2013). This is consistent with Wiseman, Cuevas-Rodríguez and Gomez-Mejia (2012) who said that the agent may act in the interest of a principal different from the principal whose interest he should be guarding. In this case, Halldórsson defined his principal as being the public but not the owners. Edwald refuted Halldórsson’s arguments and pointed out that the board of directors decided what kind of a medium was published (S. M. Jónsson, 2013b).

Interestingly, Einarsson said that the journalists were independent people and no one could tell them what to do. More specifically, he said that the journalists perceived the media company as a separate entity from themselves, - which supports the findings of Russo (1998) who came to the conclusion that newspaper journalists had stronger attachment to journalism as a profession than to the media organizations that they worked for. Nevertheless, through staff evaluations and the quality reports, the profit orientation of 365 miðlar ehf. was aligned with the staff members’ values.

Agency theory assumes, in line with Friedman’s argument (1970), that the owners are the sole stakeholders and that the company’s only responsibility is to maximize the stakeholders’ profits. Edwald, CEO of 365 miðlar ehf., recognized the fact that by making profit for the owners and keeping the company afloat, other stakeholders, for instance the employees and users of their media, reap the benefit as well. Without satisfied customers and without the public’s trust and confidence, the organization wouldn’t survive.

This is consistent with Boatright’s arguments (2006) who said that advocates of stakeholder theory failed to recognize “that a business organization in which managers act in the interest of the shareholders can also be one that, at the same time, benefits all stakeholder groups.” (p. 107).

## **4.2.2 Árvakur hf.**

### **4.2.2.1 External factors**

According to Óskar Magnússon, publisher of Morgunblaðið and Mbl.is at Árvakur hf., the economic situation, the business environment, competition and politics were the main forces that affected the organization. In terms of politics, he said that in its opinion pieces, Morgunblaðið had a particular stand on many subjects – a stand that was to some people's liking and others didn't like. Consequently, those who liked the policy of the paper subscribed to it. Others did not.

In addition, Magnússon said the organization was against allowing concentration of media ownership to such a great extent. He pointed out that it was unclear how the Competition Authority would enforce its authority to deal with the issue of ownership.

Haraldur Johannessen, editor-in-chief of Morgunblaðið, elaborated on the effect of competition by saying that Morgunblaðið was competing with a newspaper that was given away.

### **4.2.2.2 Profit orientation and financial control**

Wealth maximization is not overt at Árvakur hf. but Magnússon did say that the owners wanted a reasonable return on their investment.

There is, however, tight financial control at Árvakur hf. Magnússon required all employees, who had any financial responsibilities, to submit monthly financial plans. He said that he asked people whether they could do better. If they couldn't, - that particular person had to leave because he was dissatisfied or the person thought he/she could do better and managed to convince him that his/her plan was feasible. From the point of view of Magnússon, journalists were "cost centers" as they can't sell what they write. Magnússon recognized that by making people responsible for their own budgets, transferral of power occurred.<sup>46</sup>

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<sup>46</sup> „Ég segi bara: „Geturðu gert betur?“ Ef þú getur það ekki, þá annað hvort verður viðkomandi að fara því ég er óánægður með það eða hann telur sig geta gert betur og sannfærir mig um að það sé eitthvert vit í því. Það hefur líka gerst að maður hefur lækkað áætlanir hjá mönnum sem er bara einhvers staðar í skýjunum í einhverri vitleysu. En síðan eftir það þá heldur maður bara fyrir eyrun þegar menn kvarta og segja: „Sko heyrðu, það er út af þessu, út af hinu.“ Þá segi ég bara: „Ég gerði ekki þessa áætlun. Þitt



#### **4.2.2.3 Control of the board of directors**

At Árvakur hf., the board of directors met six to eight times a year but Magnússon and the chairman of the board met once a week for informal meetings, usually for lunch, so the connection between the board of directors and the company was clear. Also, the board of directors received interim reports of the status of the company, outside of scheduled board meetings, if necessary.

Magnússon was adamant that he did not manage firms that were “governed by committees”. Either people trusted him or they found someone else.

#### **4.2.2.4 Owner-manager duality**

Óskar Magnússon owns approximately one fifth of Árvakur’s shares. He said that he did not distinguish between his role as an owner and a publisher; that the publisher didn’t necessarily have to be an owner but that his feeling was that the dual role was a good thing. By calling himself a publisher rather than a CEO, he said he was sending the message that he had something to say about the content of the paper.

#### **4.2.2.5 Strategy and editorial policy**

Magnússon said that when he took over Árvakur, he used the same methods as he had used previously at other companies in forming the strategy. The strategy is formed by 12 or 15 key players at the company under the supervision of American consultants. A thorough analysis of the firm was conducted. The whole organizational structure of the company was then based on what problems needed solving. Magnússon emphasized that he never hired people for particular positions at the company until the

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vandamál.“ Og það þarf að gefa fólki frjáltsræði, láta það í friði, kásast ekki upp á það meðan það er að gera sína hluti því um leið og ég fer að stjórna því með einhverjum afgerandi hætti, þá segir fólk: „Bíddu þá næ ég ekki áætlaninni minni. Þú heimtar að ég geri svona. Ég hafði hugsað mér að gera svona.“ Maður verður að skilja það líka að í þessu felst ákveðið valdaafsal að minnsta kosti svona í efri lögum.“

organizational chart had been drawn. In his mind, people should fit into the organizational chart, not the other way around.

Magnússon said that Árvakur's strategy was to run a reliable and high quality media company as had been done for a century or since Morgunblaðið was founded, and later Mbl.is. Furthermore, he said that the work at the organization should be conducted professionally by the most qualified individuals. The company should, however, yield an acceptable return for its owners.

Magnússon underlined that they had to be careful that the news production wasn't harmed by the views and opinions of the owners and the editors. He had sensed that some worried about this point and he emphasized that the owners weren't fools. If they caused harm to the news presentation of Morgunblaðið or Mbl.is., they would be destroying a company they had put a lot of money into.<sup>47</sup>

#### **4.2.2.6 Hiring of editors**

Magnússon acknowledged that there was inherent power in the hiring of the editors-in-chief. He said that because he had the power to hire the editor-in-chief, he could let him

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<sup>47</sup> „Stefnan er að reka vandað og ábyrgt fjölmiðlafyrirtæki eins og gert hefur verið hér í næstum því 100 ár undir nafni Morgunblaðsins og síðar líka Mbl. Ástunda hér sem sagt faglegustu vinnubrögð sem þekkjast, að minnsta kosti hér á landi, og hafa hér á að skipa hæfasta fólki sem við höfum. Af þessu öllu saman þá viljum við skila ásættanlegum arði. Við teljum okkur gegna hér þjóðfélagslegu hlutverki og höfum gert það í gegnum tíðina með mismunandi hætti. Við gerum það í dag og við hyggjumst gera það áfram. Við þurfum samt að gæta að því að hlutleysi okkar eða fréttaflutningur okkar skaðist ekki af skoðunum sem að við eða ritstjórar kunna að hafa, og já, það er í sjálfu sér augljóst mál að sumir hafa haft af þessu einhverjar áhyggjur. Ég hef sagt: „Það er ástæðulaust, við erum ekki vitleysingar.“ Og ef við förum að skaða hinn vandaða fréttaflutning blaðsins og Mbl þá erum við bara búnir að skaða það sem við vorum að gera í heild sinni og þá missa menn tiltrú á því og þá hverfa menn á braut. Þá leggst þetta af allt saman hjá okkur og rís ekki undir sér og við vitum það manna best að við verðum að gæta að þessu. Annars eyðileggjum við bara fyrirtækið og það hyggjumst við ekki gera. Við erum búnir að setja í þetta mjög mikla peninga.“

have his way when they disagreed or he could fire him. That is what he meant when he famously said that the publisher always had the last word.<sup>48</sup>

Magnússon said that he hired the editors-in-chief who had the same agenda as he and the other owners have or want the paper to have even though they don't have the same views themselves.

He said that when the new owners bought Morgunblaðið, they had disagreed with its editorial policy on many important issues. Thus, they hired new editors-in-chief. It was the goal of the owners to have the editorial policy presented in such a way that people noticed it.<sup>49</sup>

Magnússon brought up the fuss that people made about the hiring of the former prime minister Oddsson as an editor-in-chief of Morgunblaðið. He pointed out that people seemed to have forgotten that Oddsson is one of the most independent spirits in Iceland and asked if they really thought Oddsson would allow the owners to take away his independence.<sup>50</sup>

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<sup>48</sup> „Hann ræður ritstjóra og raunveruleikinn er sá að ef að þeir eru ósammála þá geta þeir tekist á um það og útgefandinn getur ákveðið það að hann ætli að láta ritstjórnann fara sínu fram, en ef hann ákveður að gera það ekki þá segir hann honum upp. Og það er það sem hefur gerst. Í því felst að hafa síðasta orðið.“

<sup>49</sup> „Það sem okkur eigendunum þótti var að í fyrsta lagi vorum við ósammála ritstjórnarstefnunni í óþægilega mörgum stórum málum, af því er virtist [...] En þegar það lá fyrir stefna í ýmsu – og við skulum segja að ég hafi, og eigendurnir, verið sammála henni jafnvel – þá skiptir miklu máli ef þú ætlar að vera það afl sem að blað á að vera; okkur finnst að það eigi að vera, hvernig hún er sett fram. Þannig að eftir henni sé tekið og mark á henni tekið, og það er það sem ég á við, að mér fannst þetta vera svona dauflega gert, ekkert illa, ekki illa skrifað eða eitthvað þannig. Heldur bara svona máttleysislega. Og blaðið svona lét ekki finna fyrir sér með þeim hætti sem það hafði afl til og þess vegna sigldum við því út í brimgarðinn með nýjum ritstjórum. Og þar erum við og þar erum við sem sagt að láta í okkur heyra. Síðan stefnum til hafs en ekki til lands. Það er það sem ég á við, stefnum út á hið víða haf til frekari afreka en ekki í höfn.“

<sup>50</sup> „Þegar Davíð Oddsson var ráðinn hér þá varð ægilegt uppnám og ég segi bara á móti: „Bíddu, er þetta ekki ein öruggasta leiðin til að tryggja ritstjórnarlegt sjálfstæði frá eiganda, að ráða einhvern sjálfstæðasta og mest afgerandi mann umdanfarinna áratuga hér á Íslandi til þess að reka blaðið? Halda menn það að hann láti vaða ofan í sig og taka frá sér eitthvert sjálfstæði af eigendum?“ Þetta gleymdist bara.“

#### **4.2.2.7 Staff alignment**

Magnússon said that his role was to monitor that the newspaper was the way it was supposed to be. If he saw that the paper was turning into DV, for example, he intervened. That did not mean that he interfered with the news content itself. He defined his role as a publisher as having active quality control to secure that the paper was to his standard. He stressed that the editorial room was completely autonomous as he had one of the most independent editors-in-chief in the country.<sup>51</sup>

Johannessen said the editorial policy was implemented mostly through the news editors, as they were closer to the news production itself, and in discussions between the editors-in-chiefs and the news editors. He defined his role as forming the editorial agenda as it was presented in the newspaper's editorials. Moreover, he said that a large part of his job was purely business oriented.

#### **4.2.2.8 Stakeholders and social responsibility**

Magnússon identified the stakeholders of Árvakur as being the employees, the suppliers and the owners, and the nation as a whole.

Furthermore, he said that Morgunblaðið had great social responsibility. To clarify, he said that once people were aware that he and his business partners were thinking of buying the company, he could sense how much people demanded of the newspaper. He said that trust was the key issue. People trusted them. When there was breaking news, when volcanoes erupted, people came to them for information. Since the online news

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<sup>51</sup> „Við skulum taka sem dæmi ef að ég sé að Morgunblaðið er smátt og smátt að þróast yfir í það vera DV þá gríp ég inn í það. Í því felst ekki inngrip í einstakar fréttir í sjálfu sér heldur svona heildarmyndina. Ég hef skoðanir á því hvernig blaðið er, hvort blaðið er gott eða vont, eins og hver annar lesandi reyndar. Ég geri athugasemdir við það eða hrósa eftir atvikum. Við skulum segja það að í útgefandatitlinum felist allavega það að ég hef svona mjög virkt gæðaeftirlit með blaðinu á alla kanta, hvort sem það er ritstjórnarlega eða bara rekstrarlega [...] Ritstjórnin er fullkomlega sjálfstæð enda er ég sennilega með einn sjálfstæðasta ritstjóra á landinu og þó víðar væri leitað.“

site, Mbl.is, was introduced, people knew that it would provide them with accurate news of events.<sup>52</sup>

#### **4.2.2.9 Applying agency theory to Árvakur hf.**

Wealth maximization did not seem to be the prime objective of the owners of Árvakur hf. Rather, it appeared that their investment in Morgunblaðið was based on political motives, i.e. their wanting the paper to present a particular political agenda to the readers of the newspaper. Thus, the newspaper's value was not measured in terms of a monetary amount but political influence. This was, for example, reflected in the hiring of Davíð Oddsson as an editor-in-chief and in the hiring of young active members of the Independence Party as journalists (“Þrír formenn sjálfstæðisfélaga”, 2013). These hiring practices secured almost perfect ideological alignment of the staff members and the newspaper.

Ólafur Stephensen, a former editor of Morgunblaðið and the current editor of Fréttablaðið, pointed out that management of Morgunblaðið was top-down. Hence, journalists of Morgunblaðið and Mbl.is had less leeway in their work, and thus there was less chance of indiscretion and more ideological control.

Page (1996) has maintained that owners of media companies do not have reasons to intervene with editorial work on daily basis because they pick their editors carefully. In all probability, this was the case at Árvakur hf. By hiring Haraldur Johannessen, a former editor-in-chief of the business paper Viðskiptablaðið, and Davíð Oddsson, the former

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<sup>52</sup> „Bara um leið og það fréttist að við hugðumst kaupa félagið eða reyna það; þá fann maður fyrir þjóðfélagslegum eða samfélagslegum áhrifum af því. Traustið, það er lykilatriði. Við höfum traust hjá þjóðinni. Í því felst að bera svona ábyrgð og láta það sjást að við berum þannig ábyrgð. Í því felst að við birtum ekki glannalegar, sjokkerandi, viðbjóðslegar fréttir þó við segjum fréttir [...] Þegar einhverjar stórfréttir verða, þegar eldgos verða, þá kemur fólk hingað. Og eftir að við settum upp Mbl [...] fer fólk fyrst þangað. Það eru slíkir yfirburðir. Vegna þess að það er traustið og ábyrgðin sem það veit að við höfum. Það veit að þar fær það réttar upplýsingar og þar fær það fljótt. Það getur verið að menn séu einstöku sinnum mínútu seinna eða fimm heldur en einhvers staðar annars staðar en þær eru réttar.“

mayor of Reykjavík and a former prime minister for the Independence Party, the owners secured that a certain editorial policy was presented in the paper.

Agency cost was reduced at Árvakur as Magnússon owned a considerable share of the company and was also the publisher. Thus, his interests were perfectly aligned with the interests of the company. There was, of course, asymmetry in information as he had considerable more knowledge of the company's operations than other shareholders but keeping in mind the size of Magnússon's share in the company, other shareholders were not likely to distrust him.

### **4.2.3 DV ehf.**

#### **4.2.3.1 External factors**

Reynir Traustason, editor-in-chief of DV, said the main goal of the newspaper was to avoid the power blocks in the country and to be an independent medium. It was, however, important for the newspaper to be financially independent.

Traustason claimed that business tycoons tried to use their financial clout to control the media. He mentioned that a group of business people had bought media to be able to present their own points of view.<sup>53</sup>

#### **4.2.3.2 Profit orientation and financial control**

The editor-in-chief of DV said: "The company has the responsibility to be financially viable and do it honestly [...] It is like a freezing plant. You have to buy cheap and sell at a profit". Furthermore, he said that financial independence was the prerequisite for a

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<sup>53</sup> „Hlutverkið er ekki síst að forðast valdablokkir í landinu, forðast ytri áhrif, heldur vinna sem óháður fjölmiðill [...] Það sem hefur áhrif á alla fjölmiðla er náttúrulega fjárhagsstaða þeirra. Þess vegna er mikilvægt fyrir DV að geta staðið fjárhagslega sjálfstætt. Það eru þættirnir sem hafa áhrif á alla fjölmiðla. Það er þekkt í íslensku samfélagi að viðskiptajöfrar reyna að nota peningana til að stýra fjölmiðlum. Stjórnmalahreyfingar reyna að beita þrýstingi og ofbeldi til að stýra fjölmiðlum í sína þágu. Við erum með dæmi um það að heil samtök auðmanna hafa keypt fjölmiðla til að koma sínum sjónarmiðum á framfæri. Það er þekkt, það er að gerast í nútímanum og hefur verið að gerast áður, að menn telja að það þjóni hagsmunum þeirra best að kaupa fjölmiðil og stýra honum. Fjölmiðill sem er undir hlutleysisflaggi en er þá orðinn að svona afli í þágu viðkomandi stéttar.“

strong and independent medium – and clearly, if the medium was financially strong, he himself was financially strong as well.<sup>54</sup>

#### **4.2.3.3 Control of the board of directors**

There were monthly board meetings at DV ehf. and Traustason was one of the board members. Thus, it may be argued that no one at the organization was as informed about the operation of the company as he was.

The board of directors hired and fired the editors-in-chief. Traustason said that the editors worked for the board and as agents of the board.

#### **4.2.3.4 Owner-manager duality**

Reynir Traustason, editor-in-chief of DV, held nearly 30% of the company's shares (DV ehf., n.d.). He said that as an employee he had to make sure that he didn't abuse his position for his own benefits. His own interests as an editor and the interests of the company should fit perfectly together. He added that he wasn't overly excited about owning a mass medium. He wasn't against it but he wouldn't have cared if he were just an editor without any financial stakes. He didn't think owning a medium was an exciting investment opportunity.

He stressed that as an editor-in-chief he had to be careful in not harming the medium, thereby diminishing the readership.<sup>55</sup>

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<sup>54</sup> „Fyrirtækið hefur bara þá skyldu að standa undir sér fjárhagslega og gera það samt með heiðarlegum hætti [...] Þetta er bara eins og frystihús. Þú verður að kaupa inn ódýrt og selja þannig að þetta standi undir sér [...] En til þess að fjölmiðill verði sjálfstæður, sterkur og öflugur þá verður hann að vera fjárhagslega sjálfstæður. Þá verður hann að standa undir sér [...] Ég kem á nákvæmlega þeim forsendum að ég vil að þessi fjölmiðill verði fjárhagslega sterkur. Það auðvitað hjálpar mér um leið. Það er auðvitað augljóst. Því ef fjölmiðillinn er fjárhagslega sterkur, þá er ég fjárhagslega sterkur, en ég hef engar aðrar ambitioner aðrar en þær að fjölmiðillinn fái að vinna áfram á grundvelli hlutleysis.“

<sup>55</sup> „Ég hlýt sem ritstjóri að passa mig á því að láta ekki eignarhaldið, eða eigendahlutann á málinu neitt trufla mig umfram það sem er nauðsynlegt. Ég þarf að passa upp á sem ritstjóri að við séum ekki að skaða fjölmiðilinn. Við séum ekki að missa lesendur eða að við séum að fjölga lesendum. Við erum að gera það á heiðarlegan hátt. Og þetta fer alveg saman, hlutverk ritstjórans, hlutverk eigandans. En aðalatriðið er

#### **4.2.3.5 Strategy and editorial policy**

The editorial policy of DV is largely based on the newspaper's code of ethics that was revised in 2008. The main purpose of the paper was to work for, and in the interest of, the public, and to publish news that the public was interested in. The policy was formed by the editors and confirmed by the board of directors.

#### **4.2.3.6 Staff alignment**

The policy of DV was implemented on a daily basis through the general managing by the news manager and the editors-in-chief. If the managers felt that news stories were slanted, they were recalled and altered.

#### **4.2.3.7 Stakeholders and social responsibility**

Traustason stressed that it was the social responsibility of the newspaper to not let people down. It was the responsibility of the paper to inform the public about things that mattered to them, including immorality and crimes. Consequently, Traustason said the public was the paper's main stakeholder group. However, he did mention the owners as well and the importance of the ownership being dispersed.

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hvers vegna er ég eigandi. Ég er ekki útgerðarmaðurinn á Akureyri sem kaupir fjölmiðil til þess að hann fjalli fallega um útgerðina mína. Ég er ritstjórinn sem er eigandi að fjölmiðli til þess að tryggja að hann fúnkeri áfram sem óháður [...] Og sem starfsmaður þá verð ég að passa að verða ekki uppvis að því að vera að nota mér aðstöðu mína í þágu eigin hagsmuna. Enda eiga hagsmunir mínir sem ritstjóra og hagsmunir fyrirtækisins að fara algjörlega saman [...] Ég er ekkert rosalega spenntur fyrir því endilega að vera eigandi að fjölmiðli en það hefur svona bara þróast þannig. Það gefur mér ekkert frekar, ég hef ekkert á móti því en mér hefði verið alveg sama þó ég væri bara ritstjóri án þess að eiga beinlínis fjárhagslega hagsmuni í fjölmiðlinum. Enda er þetta er ekki spennandi fjárfestingartækifæri.“



Traustason mentioned that DV had its own niche in the market. It was a relatively healthy medium in a terminally ill media environment that was being controlled by the interests of the fishing industry and other business interests.<sup>56</sup>

#### **4.2.3.8 Applying agency theory to DV ehf.**

Profitability is recognized at DV ehf. Nevertheless, ownership of the newspaper was not driven by the need for wealth maximization. Instead, it appeared that the purpose of owning DV was first and foremost the internal drive to keep the medium alive and out of the hands of businessmen.

As was the case of Árvakur hf., the owner-manager duality of Traustason reduced agency cost and aligned his interests with the interests of the company. In addition, Traustason was also a member of the board of directors. This triple role within the media company put Traustason in a position to acquire information about the firm that other owners couldn't easily access. It was unlikely, however, that he would harm the company with his behavior as the stakes were too high for him. On the contrary, Traustason placed great emphasis on not harming the company.

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<sup>56</sup> „Almenningur. Bara númer eitt, tvö og þrjú; almenningur, og svo auðvitað allir hluthafar. Þess vegna er svo mikilvægt að hluthafahópurinn sé sæmilega breiður. Hluthafar hafa hagsmuni í því að fjölmiðillinn sé ekki rekinn með tapi, að hann sé í plús. Og almenningur á hagsmuni í því að fjölmiðillinn fái að lifa. Það er að segja, ég hugsa að það séu flestir sammála um, að við erum algjörlega á okkar stað í fjölmiðlaflórinni og það er fullt af fjölmiðlum sem er ástæða til að vantroysta á Íslandi af því að fjölmiðlaumhverfið hérna er mjög sjúkt. Það stjórnast af viðskiptahagsmunum, það stjórnast af hagsmunum útgerðarinnar sum part, það stjórnast af alls konar hagsmunum og við höfum látið þetta viðgangast, þ.e.a.s. þjóðin heldur áfram að kaupa fjölmiðla sem eru mjög sjúkir. Við erum tiltölulega heilbrigð og vonandi bara alveg heilbrigð en auðvitað er það þannig að við erum ein að berjast, sum part, í því að halda hreinleikanum, heiðarleikanum, en við fáum alls konar svona ... það er reynt að ýta í okkur, það er reynt að koma okkur á kné. Og við erum búin að lifa það af fram að þessu.“

## 4.2.4 RÚV ohf.

### 4.2.4.1 External factors

Although factors such as the economy and the competition affect RÚV's operations, Páll Magnússon, director general of RÚV, emphasized that the actions of the government concerning RÚV affected the organization the most. The government was the shareholder on behalf of the nation, but its interference caused uncertainty about RÚV's financial status and its independence.<sup>57</sup>

Magnússon mentioned that RÚV's legal framework was constantly being revised. It seemed to him that politician's pined for the days when the radio council had more power and they could call their member of the radio council to complain. Hence, when the law on RÚV came under revision, politicians wanted to increase their power and revise and amend other things as well.<sup>58</sup>

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<sup>57</sup> „Hinn stóri og æpandi ytri þáttur sem hefur áhrif á RÚV en ekki aðra fjölmiðla, það sem sker RÚV frá, eru samskiptin og viðfangið við stjórnvöld. Það er að segja, stjórnvöld representera þá eigandann, eigandinn er samkvæmt skilgreiningu þjóðin sem á RÚV. Með hlutabréfin fyrir hönd þjóðarinnar fara stjórnvöld [...] En, dóminerandi utanaðkomandi ytri þáttur RÚV sem veldur mikilli óvissu, bæði um sjálfstæði RÚV, um efnahag RÚV, er eiginlega aðkoma stjórnvalda á hverjum tíma.“

<sup>58</sup> „Það er alltaf verið að endurskoða lög um RÚV [...] Var ekki einhvern tímann sagt að það verður einhvers konar metnaðarmál allra menntamálaráðherra að þurfa að endurskoða grunnskólalög, ekki endilega vegna þess að þau kalli á endurskoðun? Það vilja allir eiga það legacy að þetta eru lögín mín um grunnskólana. Þetta eru lögín mín um RÚV. Núverandi menntamálaráðherra hefur þó mjög klára – eigum við að segja afsökun – fyrir að endurskoða lögín um RÚV vegna þess að, það er að segja, Eftirlitstofnun ESA gerði stjórnvöldum það að ... miklu ríkari kröfu um ríkari aðskilnað þess sem þeir vilja kalla markaðsstarfsemi og hitt sem er almannaþjónustu heldur en gert var, að þetta sé formlegara aðgreindara í bókhaldi og svoleiðis. Af þeirri ástæðu verður að breyta lögum um RÚV, ef menn ætla að forðast það að ESA kæri fyrir ólöglegan framgangsmáta við að reka almannaþjónustuútlarp. Svo í leiðinni nota menn tækifærið og vilja breyta ýmsu öðru líka. Það er náttúrulega ákveðin tilhneiging í öllum flokkum, til dæmis á Íslandi, að þeir sjá svolítið eftir gamla útvarpsráðinu og gamla fyrirkomulaginu. Þeir sjá svolítið eftir að eiga ekki sína menn inni í RÚV og þú merkir það á þeim öllum að þeim fannst kannski svolítið lag núna, þegar allt hrundi hérna og fór til fjandans. Þá myndaðist ákveðið lag – eigum við að segja fyrir stjórnlynda þingmenn í öllum flokkum – að vilja taka til baka eitthvað af þeim völdum og áhrifum sem þeim fannst þeir hafa tapað. Og það fannst þeim sannanlega um RÚV. Það var ekki lengur hægt að hringja í sinn mann og koma á framfæri einhverjum kvörtunum, eða sjónarmiðum eða einhverju svoleiðis. Það hafði allt saman breyst. Það eru ekkert allir ... sumir, margir stjórnámálamenn vilja frekar fara til hins fyrra

Magnússon recalled that the radio council didn't guard the interests of the organization but worked on behalf of the political parties and those who appointed them to the council.<sup>59</sup>

#### **4.2.4.2 Profit orientation and financial control**

As a public broadcasting service, any profit that RÚV turned had be used towards its role as a public broadcaster. However, it became quite evident in the interview with the director general of RÚV that he felt it was crucial for RÚV's independence that it received the full license fee. He said there was an unbreakable cord between financial independence and editorial independence. If you removed the financial independence, you ruined the editorial independence. He recounted that when Alþingi came into session in the fall of 2010, there was a mass demonstration in Austurvöllur, the square in front of the parliament building (e.g. "Um 8000 manns", 2010). While RÚV was broadcasting live from the protest, a member of parliament called him to complain that RÚV was igniting riots against the country's legally elected government. The unnamed member of parliament reminded the director general of RÚV that the budget committee would in the upcoming week decide on RÚV's budget. In short, that

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fyrirkomulagsins þar sem til dæmis var hér útlvarpsráð sem var hagsmunagæsluaðili flokkanna gagnvart RÚV en ekki ... en stóð ekki í hagsmunarekstri fyrir RÚV."

<sup>59</sup> „Útlvarpsráð sem var þá hin eiginlega stjórn stofnunarinnar eins og þetta var þá hafði ekki það hlutverk að gæta hagsmuna RÚV. Hún hafði það hlutverk að gæta utanaðkomandi hagsmuna gagnvart RÚV. Það er að segja, þeirra sem kusu þá til þess eða skipuðu til þess, það er að segja stjórnmalaflokkanna. Útlvarpsráð, sem sagt, sat hér; þetta hefur ekkert með það að gera að þetta var fínt fólk og allt svoleiðis, en það breytti því ekki að útlvarpsráð var ekki hér til að gæta hagsmuna RÚV heldur stjórnmalaflokkanna gagnvart RÚV og það sátu menn og gerðu. Mældu hér með skeiðklukkum tíma sem stjórnmalaflokkar fengu, greiddu hér atkvæði um ráðningu fréttamanna. Þetta er – þegar þú horfir aftur – er þetta náttúrulega forkostulegt fyrirkomulag.“

particular member of parliament was trying to use his financial control to directly influence RÚV's content.<sup>60</sup>

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<sup>60</sup> „Það er óslítanlegur þráður á milli fjárhagslegs sjálfstæðis og ritstjórnarlegs sjálfstæðis. Ef þú tekur fjárhagslega sjálfstæðið burtu þá ertu að skemma ritstjórnarlega sjálfstæðið. Og ég skal taka dæmi vegna þess að núna fyrir þremur árum þá var þetta góða í formbreytingunni 2007 eyðilagt. RÚV var de facto tekið inn á fjárlög. Það var litið á útvarpsgjaldið eins og hverjar aðrar tekjur ríkissjóðs og síðan kom hluti af þeim til baka. Þrisvar sinnum hefur, sem sagt, ríkisvaldið ákveðið að taka hluta af útvarpsgjaldinu og nota til annarra þarfa ríkissjóðs. Þá er fjárhagslega sjálfstæðið farið og þá er stutt í að það að þetta ritstjórnarlega fari líka [...] [Haustið 2010] voru mikil mótmæli fyrir utan Alþingishúsið. Þúsundir manns, sex, sjö, eða átta þúsund manns. Ég man ekki hvað það var, og það var sjónvarpað frá þessu. Og fyrir um daginn, eða sem sagt, eftir því sem leið á daginn þá voru mótmælendur að safnast þarna niður á Austurvöll og það var mikið tilstand. Þá hringir í mig þingmaður þáverandi – já, sem eru núverandi stjórnarflokkar – og er mikið niðri fyrir. Þetta er síðdegis þennan sama dag, klukkan er þrjú eða eitthvað svoleiðis, og þessi þingmaður segir mjög óðamála við mig: „Gerirðu þér grein fyrir því útvarpsstjóri að RÚV er að efna til uppþota gegn löglega kjörnum stjórnvöldum landsins.“ „Nú,“ segi ég, „hvernig má það vera?“ „Jú þið eruð í fréttum og svona að auglýsa það bara, og nánast að hvetja fólk til að mæta hérna niður á Austurvöll.“ Og ég svaraði því til: „Þetta er nú dálítið fyndið að ég skuli fá þetta símtal frá þér við þessar aðstæður vegna þess að ég átti sams konar, alveg eins samræður með sömu orðunum. Þegar búsáholdabyltingin var í gangi, þá hringdi í mig ráðherra þáverandi hjá Sjálfstæðisflokknum og sagði nákvæmlega þetta sama. „Þú gerir þér grein fyrir því, Páll, að þið eruð að efna til uppþota gegn löglega kjörnum stjórnvöldum landsins.“ „Nú, hvernig?“, spurði ég þá líka. „Jú, með því að hvetja fólk til að mæta hérna niður á Austurvöll.““ Það var önnur ríkisstjórn, annar stjórnarmeirihluti, sama sjónarmiðið um það að við ættum helst ekki að vera segja mikið frá mótmælunum niðri á Austurvelli. Þetta kann að vera allt í lagi og ekki væri ég að æsa mig yfir þessu. Þingmenn mega alveg hringja í mig og skammast eins og hverjir aðrir, bara sem almennir borgarar. En nú kom hins vegar punch-ið í þessu: „Þú gerir þér grein fyrir því Páll,“ sagði þessi þingmaður, „að það er í næstu viku sem tekjur RÚV verða ákvarðar fyrir næsta ár í fjárlaganefndinni.“ Og ég spyr þingmanninn: „Ertu að segja mér að það séu tengsl á milli þessi hvernig tekjur RÚV verða ákvarðar í næstu viku og fréttaflytningu RÚV á því sem er að gerast niður á Austurvelli núna?“ „Nei, ég var ekki að segja það,“ sagði þingmaðurinn. „Jú, þú varst að segja það. Þess vegna talaðir þú um þetta í þessu samhengi.“ Og ég sagði við þennan þingmann. „Þín vegna þá ætla ég að láta þessu samtali lokið núna en ég mun hins vegar rifja það upp við seinni tækifæri og tilgreina hver þú ert, ef ég þarf. Þú ert sem sagt að hóta RÚV. Þú varst að segja eftirfarandi: „Ef RÚV hagar sér ekki í samræmi við það sem við viljum núna, stjórnarmeirihlutinn, þá mun stjórnarmeirihlutinn refsa RÚV í næstu viku með lægri tekjum en það hefði annars fengið.““ [...] Nú var þetta bara episode og ég hlusta ekki á þetta og hefur auðvitað engin áhrif á mig, það fer bara inn um annað og út um hitt [...] Af þessari ástæðu á RÚV ekki að vera inni á fjárlögum. Af þessari ástæðu á tekjustofn RÚV að vera sjálfstæður.“

Magnússon criticized the planned restrictions on RÚV's advertising. He pointed out that there was a duopoly in broadcasting advertising in Iceland. RÚV and 365 miðlar ehf. had 95% share of the market. Thus, by restricting RÚV's ability to advertise, the government was transferring ISK 300 million from RÚV and to 365 miðlar ehf.<sup>61</sup>

#### **4.2.4.3 Control of the board of directors**

The role of the board of directors of RÚV is legally defined. Magnússon considered his relationship with the board to be good but he added that different chairmen had different agenda. The governing structure was changed in 2007 and the first chairman of the board of directors had business background. Consequently, there was heavy emphasis on turning the operations of RÚV around and spending more on programming and less on the superstructure.

#### **4.2.4.4 Strategy and editorial policy**

The programming policy of RÚV is defined by the legal framework for RÚV and the four-year service contract between the organization and the minister of culture and education, where the role of RÚV is stated more clearly. In addition, a formal strategy had been formed in cooperation with the employees, according to Magnússon. The goal was that every staff member had the opportunity to provide input into the strategy process, either through meetings or through an online internal community.

Óðinn Jónsson, news director, said that RÚV's editorial policy evolved in the daily routine. The policy was evaluated at staff meetings, at editorial meetings and at seminars where the entire news staff participated.

According to Jónsson, RÚV's editorial policy was more aggressive and critical now than it had been for the past quarter of a century.

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<sup>61</sup> „Við núverandi markaðsaðstæður á Íslandi er duopoly, það er bara tvíkeppni hérna. Það er duopoly í auglýsingum á ljósvakamarkaði. RÚV og 365 eru með 95 prósent af þessum markaði. Hinir með samtals með einhver 5 prósent og skipta engu máli í stærra samhengi hlutanna. Hver einasti niðurskurður á RÚV, á auglýsingatekjum RÚV, er bara tilfærsla beint yfir til 365.“

#### **4.2.4.5 Staff alignment**

Both Magnússon, director general of RÚV, and Jónsson, the news director of RÚV, mentioned that the company policy had mostly been informally implemented through socialization processes.

Magnússon said that over the years, processes and customs had evolved informally at the organization. Consequently, answers hadn't come easily when new staff members had asked if these things were written down somewhere. Thus, the organization had increasingly tried to document some of the in-house rules and regulations and published them on RÚV's website.<sup>62</sup>

Magnússon pointed out that the organization also used performance measures to gauge to what extent the organization was achieving its goals, for example in terms in audience viewing and listening.

As Jónsson said: "There is a vast array of unwritten rules that are manifested in what we say: 'We don't do it like this at RÚV' or 'We do it like this at RÚV' ".<sup>63</sup>

#### **4.2.4.6 Stakeholders and social responsibility**

Magnússon and Jónsson both stated that the public was the sole stakeholder of RÚV. Magnússon said that RÚV's only purpose was to create informative and entertaining programming of the highest quality. Everything else was beside the point. He stressed that the organization should never forget that its duties were first and foremost to the users. The interests of others must come second.

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<sup>62</sup> „Hér til dæmis á RÚV hafa orðið til ýmsar venjur, verklag, framgangsmáti með alls konar hluti sem hafa skapast á áratugum og svoleiðis. En ef það kemur nýr maður að, eða utanaðkomandi, og spyr: „Stendur þetta einhvers staðar?“ Þá gæti orðið færra eða ekki eins mikið um svör. Og við höfum verið stöðugt núna á undanförunum misserum að bæta. Við höfum verið að setja verklagsreglur inn á netið, og öllum sjáanlegar, fréttareglur, reglur um fréttar- og dagskrárgerðarmenn, bæði vinnureglur hérna og svona hlutir sem við ætlumst til.“

<sup>63</sup> „En það eru ótal reglur sem eru óskrifaðar líka, sem eru bundnar bara í því sem við segjum: „Svona gerum við ekki hjá RÚV, eða svona gerum við hjá RÚV“.“

To Magnússon, RÚV is a democratic safety valve in the public sphere. He pointed out that in Iceland only two broadcasters had newscasts, i.e. RÚV and 365 miðlar ehf., and one had to keep in mind that 365 miðlar ehf. was twice the size of RÚV.

#### **4.2.4.7      *Applying agency theory to RÚV ohf.***

As a public broadcasting service, RÚV's mission is not to maximize profits for its owners. The director general stressed this fact by pointing out that RÚV allocated a prime-time slot to a television program on literature.

According to Buchanan (1996), the public is the main principal in the case of government bureaucracies. He said:

...bureaucracies can be characterized as including complex webs of principal/agent relationships, with bureaucrats acting as agents for both external and internal principals. Typically, persons in such organizations stand as principals to some individuals in the organization (their subordinates, assistants etc.) and as agents to others (their bosses, supervisors, etc.). Often an individual serves as the agent of two or more principals (p. 421).

If one takes for granted that ownership of RÚV is dispersed among the general public, separation of ownership and control is much greater for the public broadcaster than the privately owned media firms and this may cause several agency problems.

First of all, so long as parliament has financial control of RÚV's budget, individual members of Alþingi, like Vigdís Hauksdóttir, the chairman of the budget committee, and the anonymous members of parliament who called Magnússon to complain, can use their power to try to influence RÚV's content in their own interest – even though these interests may be in conflict with the public's interests.

Since the board of RÚV derives its power from the public through the political parties, there is always the risk of mismanagement by the board for political purposes. This political influence can be indirect, for example, through the hiring of the director general; and through him, the hiring of other staff members.

The owners, i.e. the public, have no direct mechanism to monitor the behavior of the board of directors of RÚV, the company's management or the employees – except by

reading the company's annual report. The public can, however, exercise general quality control by monitoring RÚV's programming and its news operations.

To complicate matters, it should be pointed out that the individuals who make up the general public who own RÚV may have very different and conflicting interests. Hence, trying to work in the public's interest may prove to be a futile effort in the first place.



## 5 Discussion

Ownership of the three privately owned media companies, which were examined in the present study, is highly concentrated. This should have been expected, as it has previously been argued that media products have “amenity potential”, i.e. a non-profit related utility to their owners (Demsetz & Villalonga, 2001; Demsetz & Lehn, 1985). Moreover, in most cases the media owners’ wealth originated in other industries, for instance in the fishing industry (Árvakur), retail (365 miðlar ehf.) and art (DV ehf.) (c.f. Picard & Weezel, 2008).

Preliminary findings from a study of Icelandic journalists indicate that almost nine out of 10 participants feel that the owners of the media companies, for whom they worked, had little or no influence on their work. Furthermore, 77% reported that the media company’s profit orientation had little or no influence on their work (Kolbeins, 2012b). The results from the present study reveal, however, that these factors, i.e. owners’ influence and profit orientation, may be covert and indirectly exercised on the staff through the management. That would be congruent with a classic study from 1955 which examined how the policy of media owners was implemented among journalists in the newsroom (Breed, 1955; Reese & Ballinger, 2001).

According to Bagdikian (2004), hiring and firing of editors is “the most definitive mechanism of control possible” (p. 199). Again, this is consistent with the interviews with the CEO of 365 miðlar ehf. and the publisher of Árvakur hf. It became clear that the hiring of the editors is one way for the owners to exert influence on the policy and the content of the media. As Bogart (1973) argued, the ultimate power lies with the owner and even the most indifferent owner will assert his rights when his interests are threatened.

In all three cases of the privately owned media companies, managers were part owners as well. This increases the alignment between ownership and management and reduces the agency cost. However, this governing structure may be the cause of asymmetry in information as the owner-managers have access to greater information

about the organizations than other shareholders. The editor-in-chief of DV was aware of this fact and emphasized that he had to be careful in not abusing his power as an employee and as an owner. Picard and Weezel (2008) have maintained that private ownership of newspapers is the most effective ownership form when one takes into account agency costs and asymmetry of information, among other things.

At Árvakur hf. there was tight financial control and although the owners bought the company to be able to have an impact on the newspaper's editorial policy, the managers felt that they had a tremendous obligation to the public. Of the three privately owned companies, DV ehf. appeared to lean the most toward stakeholder theory – with its emphasis on exposés in the public's interests.

The public is the owner of RÚV and it was quite clear in the managers' minds that only the public had any stakes in the company, even though special interest groups and others put tremendous pressure on it. However, the separation of ownership and control, especially the separation of ownership and financial control, can lead to agency problems. When Alþingi decides RÚV's budget, the company becomes vulnerable to attacks by politicians who hold the financial power and want to use the company for their parties' benefits. Also, the director general pointed out that the law on RÚV was constantly being changed and it seemed that each new minister of education and culture wanted to leave his mark on the National Broadcasting Service Act. According to him, many politicians pined for the good old days when the board had more power and board members looked out for the interests of the political parties.

All of the interviewees mentioned the public as being a stakeholder in their companies and in four cases out of eight, the public was the first thing that came to their minds. Other stakeholders were identified as being clients, employees, owners and suppliers.

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

However, the nature of the social responsibility varied. The managers of RÚV defined social responsibility as telling the public truthfully what was happening and not allowing special interest groups to abuse the medium. The director general maintained that RÚV was a democratic safety valve.

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

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

Organizational behavior is complex and dynamic. Thus, agency theory alone cannot capture the intricacies of management practices within firms. Nevertheless, the present study has found some evidence for media organizations in Iceland being managed in the spirit of agency theory.

## **5.1 Power as an alternative approach**

As an alternative approach, it is proposed that power is the main underlying social construct in agency relationships and that it may provide a good theoretical framework for understanding how organizations are affected by internal and external factors. The problem, however, is that “defining power has long been a murky business” (Turner, 2005, p. 5), not least because power emerges in social interactions and is context-specific (Astley & Sachdeva, 1984; Emerson, 1962).

Power has been defined as “the ability or potential to influence” (French & Raven, 1959, as cited in Fiol, O’Connor & Aguinis, 2001), as “the deployment of means to achieve intended effects” (Cobb, 1984, p. 483), and Turner (2005) defined it as:

...the capacity to affect the world, including others, through influencing and controlling people to carry out one’s will, to act on one’s behalf, as an extension of oneself. It is social power in the sense that it is a peculiarly social means of having an impact, not because the impact... (p. 6).

He further goes on and distinguishes between influence (through persuasion), control (through legitimate authority) and coercion.

Moreover, Salancik & Pfeffer (1977) said: “The basis for power in an organization derives from the ability of a person or a subunit to take or not take actions that are desired by other” (p. 7).

Theories that view the firm as a nexus-of-contracts have paid surprisingly little attention to the power concept. Nevertheless, it has been pointed out that power is related to information asymmetries and that chances of opportunism increase when the transaction is considered unequal (Martin, 1993). Others maintain that agency theory deals with how principals can control their agents and they see power as essential for stakeholder theory (Mitchell, Agle & Wood, 1997), and it has also been pointed out that power differentials between the agent and the principal can affect the nature of the contracts (Hill & Jones, 1992).

Agency theory assumes that principals and agents have conflicting interests. To solve this problem, Pfeffer (1992) has simply stated that to get things done, one needs power.

The literature on power is especially relevant in the case of RÚV. Firstly, politicians have control over its funding and this dependence causes uncertainty and unpredictability for the organization. Its relationship with the government fulfills three important power criteria, i.e. RÚV has no alternative sources for funding (except for limited advertising), the government regulates RÚV’s access to financial resources, and it exercises tight control of these resources (e.g. Pfeffer, 2010; Pfeffer & Salancik; 1978).

Secondly, the state has legislative power over RÚV and through regulations it also controls the privately owned media companies. This perspective of power is related to the idea of coercive power within neo-institutionalism. Interestingly, it has been

maintained that the power dimension of DiMaggio and Powell's classic paper (1983), where coercive isomorphism is introduced as a way for governments, for example, to homogenize organizations, was ignored for decades (Greenwood & Meyer, 2008). Beckert (2010) claimed that coercive power may not necessarily lead to homogenization but rather support variation. This is consistent with the fact that the government does not apply the same legislation to RÚV as to the privately owned firms.

Also, by affirming the concept of editorial autonomy, the government employs its own legislative power to transfer power from media owners to journalists; thereby causing internal conflict between the media ownership and the editorial room. Organizational conflict is not uncommon within media firms (Djerf-Pierre & Weibull, 2011; Picard, 2005) but media owners can buffer their loss of control by using their power to hire top-level managers that work in their interests, i.e. they could take the advice of Salancik and Pfeffer (1977) and put allies in key positions.

## 6 Conclusion

It is important to realize, at the outset, that all theories are false. They are, after all, just words and symbols on pieces of paper, about the reality they purport to describe; they are not that reality. So they simplify it. This means we must choose our theories according to how useful they are, not how true they are (Mintzberg, 2007, p. 355).

It is generally acknowledged that agency theory is the dominant paradigm in financial economics (e.g. Hill & Jones, 1992); and as stated earlier in this thesis, it has been criticized for being self-fulfilling. Ferraro, Pfeffer and Sutton (2009), for example, argued that theories like agency theory matter because they can become self-confirming (see Felin & Foss, 2009, for a rebuttal). If that is the case, one cannot exclude the possibility that the present study was bound to detect the application of agency theory within the media organizations because the managers, of whom some are business school educated, have adopted management practices that are under the influence of agency theory.

Mintzberg (2007) said above that theories simplified reality and that all theories were false. The truthfulness of agency theory has certainly been debated in the literature but maybe the longevity and the popularity of the theory has more to do with the theory being interesting rather than being true (e.g. Davis, 1971). Either way, an attempt has been made in the present thesis to show that agency theory is useful for the analysis of media management and for our comprehension of the factors that impact media firms. Because of its qualitative nature, the study made no attempt to quantify or gauge any conceivable agency problems within the media organizations.

To conclude, the present study is unique in its approach because it is based on interviews with top-level managers and part owners of media companies in Iceland. Further studies on this subject are necessary, preferably more extensive ones with a larger sample size.

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