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# The Good, the Bad, and the Ugly: Financial Markets and the Demise of Canada's Southam Newspapers

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## Introduction

In January 2003, the Southam name disappeared from newspapers of Canada's oldest and largest chain, officially ending what one former Southam News correspondent called "a long-lived experiment in quality daily newspapering." (Nagle 2003, p. B11) The former family-owned newspaper group was renamed CanWest Publications, after latest owner CanWest Global Communications, a Canadian television network with worldwide holdings. CanWest had in mid-2000 acquired the bulk of the Southam chain, which had been founded in 1897 by William Southam, from Hollinger Inc., which in 1996 had completed a gradual takeover of the company. Under Hollinger, originally a Canadian newspaper group that now includes the London Daily Telegraph, Chicago Sun-Times, and Jerusalem Post, the Southam dailies underwent a rigorous cost-cutting program. The belt-tightening accelerated in 1998, when Hollinger chairman and majority shareholder Conrad Black founded the upmarket National Post as a daily newspaper distributed across Canada in competition with Thomson's Globe and Mail. The expensive start-up drained Southam resources chain-wide, and Hollinger's stewardship of the Southam dailies ended abruptly in mid-2000 with the surprise sale to CanWest. The television network's ownership of the former Southam titles has seen in-

creased cost-cutting not only to offset National Post losses, but also to service its high debt load incurred in acquiring the newspapers at the top of an economic boom. It has also brought political controversy, as many journalists protested the centralizing of operational control at CanWest headquarters in Winnipeg in a reversal of the long-standing Southam policy of allowing

independence for local publishers. The Asper family that owns CanWest actively supports the federal Liberal Party and attempts to influence political coverage of their acquired newspaper chain have also come to light, in part prompting the Canadian Senate to commence hearings into the Canadian media in mid-2003.

This paper presents the Southam experience as a case study of the effect of financial markets on newspaper ownership and consequently on management practices. It examines the factors that contributed to the demise of family ownership of the Southam newspaper chain and resulted in radical changes in its operations. In so doing, it chronicles a change from publishing quality newspapers under Southam ownership (the good), to cost- and quality-cutting under the management of Hollinger (the bad), to the centralization and political partisanship seen under CanWest (the ugly).

## Abstract

*The impact of financial markets on media management practices is apparent in Canada, where public trading in newspaper company shares has contributed significantly to concentrated press ownership. Fluctuations in newspaper share values have often shaped firm strategies as a result. This paper presents the Southam newspaper chain as a case study of the impact of financial markets on newspaper management practices. Historical analysis is used to show how Canada's oldest and largest newspaper chain, which was known for its commitment to quality journalism and for allowing its local publishers editorial independence, made a fateful decision when it went "public" with a share issue in 1945. The increasingly widespread ownership of its stock led to Southam's gradual takeover in 1996 by Hollinger Inc., which cut costs and reduced staff chain-wide. Sale of the Southam newspapers in 2000 to CanWest Global Communications has seen editorial control centralized at company headquarters and partisan support shown for the ruling federal Liberal party, contrary to Southam's founding principles. As a result, the Canadian Senate began hearings into the media in 2003, bringing the possibility of government regulation to reverse the impact of financial markets on the management of media firms there.*

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## The Impact of Financial Markets

The impact of financial markets on media management practices was first brought to the attention of many by Bagdikian (1980, p. 64), who identified it as a factor that had been overlooked in understanding the impact of increased concentration of press ownership. He identified the stock bourses as a “third market” whose forces newspaper managers must account for, in addition to their acknowledged markets for readers and advertising.

*The impact of trading newspaper corporate stock on the stock market has meant that news companies must constantly expand in size and rate of profits in order to maintain their position on stock exchanges ... Instead of the single master so celebrated in the rhetoric of the industry – the reader – there are in fact three masters.*

Bagdikian expanded on this hypothesis in his book, *The Media Monopoly* (Bagdikian 1983). The expansion of newspaper chains in the United States during the 1960s and 1970s had come largely at the expense of family-owned enterprises whose third-generation owners could only escape heavy inheritance taxes by selling shares publicly. Increasingly these family newspapers became acquired by chains, which avoided paying tax on earned income by re-investing it in acquisitions. According to Underwood (1993, p. 41), increased corporate ownership of dailies resulted in two trends during the 1970s and 1980s: professional management of newspapers, often by executives with little or no background in journalism; and an increasingly bottom-line, market-driven orientation. He argued that both trends were largely the result of stock market influences. “Wall Street, as publishers have learned, can be insatiable in the demand for earnings growth and unmerciful in hammering a stock if earnings drop.” Ureneck (1999, p. 11) described

the effect of stock market trading in newspaper shares as an “uncoupling of newspaper ownership from accountability for community service.” The fiduciary responsibility of corporate directors, he pointed out, makes them legally responsible for focusing on profit, which can create a short-term, bottom-line orientation.

*There is accountability for profit, not for journalism, except as it affects the business plan. It isn't coincidental that two of the nation's leading newspapers, The New York Times and The Washington Post, have structured their stock so that family members retain control. These families have maintained an interest in their companies that goes beyond making money.*

By 2001, many of the ills of journalism were being laid at the feet of chain newspapers owned by publicly-traded corporations. Concluded one investigation (Kunkel & Roberts 2001, p. 6) of the state of the American newspaper: “The chains’ desperation to maintain unrealistic profit levels (most of these big companies now being publicly traded) is actually reducing the amount of real news being gathered and disseminated, most conspicuously at the local and state levels, where consumers need it most.” A survey of editors at publicly-traded newspaper chains in the U.S. published the same year (Cranberg, Bezanson & Soloski 2001) concluded that stock market influence has had such a negative effect on newspaper quality that federal regulations should be enacted to reverse the trend, despite First Amendment guarantees against government interference in the operations of the press. The move toward “market-driven” journalism seen in the 1980s and '90s, however, was taking place not just at publicly-owned newspapers, but also at many that were privately owned as well but similarly fighting for market share, as television had taken both readers and advertisers away from newspapers worldwide. (Underwood 1993, p. 56)

## The Newspaper Market in Canada

When Bagdikian raised the alarm in the U.S. in the early 1980s about the high level of concentration of ownership of the press, half that nation’s press was owned by fourteen newspaper chains. (Bagdikian 1983, p. 18) But by then, events in Canada had resulted in 58.7 percent of that country’s daily newspapers being owned by just two chains, Southam and Thomson. Dunnett (1988, p. 199) singled out Canada as the most noteworthy example of ownership concentration. “No developed country has so concentrated a newspaper industry ... In Canada the newspaper market is unusual in that it is still growing and could accommodate new entrants.” The high level of Canadian newspaper ownership concentration was a result of several factors, including the effective prohibition of foreign ownership, a lack of enforcement of competition laws, and widespread share ownership. (Edge 2002)

A major historical factor in shaping the newspaper industry in Canada was the trading shares of publicly-owned dailies and then chains of dailies. Buying up widely-held stock from second-generation owners of family newspaper companies was the main growth strategy of F.P. Publications, which in the mid-1960s was briefly Canada’s largest newspaper chain, even ahead of Southam. (Edge 2001) The Canadian-based international Thomson conglomerate in turn won a bidding war in early 1980 for F.P. Publications, whose stock had similarly become widely-held following the deaths of its founders. On August 27 of that year, a date which lives in newspaper industry infamy as “Black Wednesday,” the already-high level of concentration of Canadian newspaper ownership became increased with the simultaneous closure of Thomson’s Ottawa Journal and Southam’s Winnipeg Tribune. The closures created monopolies for the

respective chains in those markets as well as in Vancouver, where Southam bought the Sun from Thomson on the same day. Company executives claimed the closure decisions were arrived at independently, but a Royal Commission was called to look into the matter and a separate criminal investigation led to charges of conspiracy and monopoly being laid against Southam and Thomson.

The Royal Commission on Newspapers held nationwide hearings and reported within a year, calling for limits on the number of dailies a chain could own. It also called for divestiture by Thomson of either its Globe and Mail, which was moving to national distribution by satellite from its Toronto base, or its other dailies across the country. (Canada 1981, p. 243) But despite owning a greater percentage of Canada's press – 32.8 percent compared with Thomson's 25.9 percent – Southam was not singled out for divestiture by the Royal Commission, even in Vancouver, where it owned both dailies. The Commission noted Southam's "concern for journalism," compared with Thomson's preoccupation with return on investment. (Canada 1981, p. 93) A watered-down Canada Newspaper Act, which contained limits on chain ownership weaker than those proposed by the Royal Commission on Newspapers, was tabled in 1983 but was never enacted. The criminal charges filed against Southam and Thomson came to trial in 1983, when chain executives testified the closure decisions were arrived at independently but announced simultaneously in order to minimize political fallout. Despite the evidence of shredded documents that suggested collaboration between the chains, they were acquitted. (Edge 2001, p. 324)

### **The Demise of Southam**

As a second generation of Southams prepared to pass leadership of the newspaper chain founded by their fa-

ther to younger family members in the 1940s, it sought a mechanism for more easily trading shares in company ownership while still preserving control over operations within the extended Southam clan. Some family members favored the public trading of only non-voting shares, while restricting ownership of voting shares to William Southam's descendants. But according to company historian Charles Bruce (1968, p. 204), securities traders on the Toronto Stock Exchange were only interested in voting stock.

The investment dealers held out for listing of voting common [shares] without restriction. They pointed out that in any event the future of the company lay in Southam hands; perhaps there was more danger in the possibility of private trading (for instance, in the case of family disagreement) than in open dealings on the market.

To allay the concern of some Southam family members that the company's guiding policy of "home rule" for its local managers might be lost on subsequent generations of shareholders, directors also issued a public statement in 1945. It codified the long-standing company policy of providing its publishers with decision-making authority "to preserve complete political independence and to present news fairly and accurately." (Bruce 1968, p. 207) When Southam went "public" with a share issue in 1945, about a third of the company's existing 100 shareholders were non-family members and together they held about 20 percent of its stock. (p. 206) The new shares were offered first to family members at \$10 and then to the public at \$13. Within days of public trading, the price hit \$15. By 1966, after a 4-1 stock split in 1960, the original shares were worth \$160. (p. 207)

By the mid-1980s, following its "Black Wednesday" dealings with Thomson, Southam fortunes declined and the

widespread ownership of its shares reduced family holdings to below 30 percent by 1983, down from an estimated 40 percent two years earlier due to stock sales by family members. (Dougherty 1983) The fourth generation of Southam ownership had less interest in the newspaper business than their predecessors had, which would prove critical to the company. (Best 1996) This dilution of company control made it vulnerable to a hostile takeover, and unusual trading in Southam shares in mid-1985 prompted speculation of such an attempt. (Enchin 1985) As Southam's share price soared amid the speculation, a special meeting of shareholders passed the defensive measure of a bylaw requiring a 50-percent quorum to approve transactions involving more than 10 percent of the company's shares. (Jorgensen, 1985) As trading in Southam shares became frantic by month's end amid renewed takeover speculation, a swap of shares was announced with Torstar Corp., publisher of Canada's largest daily, the Toronto Star. In exchange for a 30-percent interest in the smaller Torstar, Southam gave up 20 percent of its shares in a "near merger" that made its takeover a practical impossibility. (Assael 1993) The deal included a 10-year "standstill" period, during which Torstar could not increase its holdings in the larger company, but that was later reduced to five years after a legal challenge by minority shareholders. (Partridge 1988)

To bolster its defences against takeover, Southam management decided to rationalize its operations in an attempt to boost its stock price and make it a less-inviting target for acquirers. Instead of producing quality journalism, improving Southam's financial performance became a priority, with a declared target of a 15-percent profit margin. (Leach 1988) Southam management, then into its fourth generation, also looked in vain to the higher branches of the family tree for future leadership among the hundreds of

great-great-grandchildren of William Southam. Unable to find a suitable family candidate, the head of its Coles Books subsidiary was named CEO of Southam in 1992, but profits fell by 95 percent that year and its share price plunged, again making it a ripe takeover target.

### **Taking Southam Over**

After failing to outbid Thomson for the F.P. Publications chain in 1980, Conrad Black's Hollinger Inc. was again an interested buyer when Southam became vulnerable to takeover in 1985, purchasing five percent of its stock. Following Southam's share swap with Torstar, Hollinger sold its holdings at a profit and used the proceeds to start an international newspaper empire instead. It first bought the money-losing Daily Telegraph in London for a bargain price and joined a non-union movement out of Fleet Street, by 1993 cutting almost three-quarters of the paper's 1986 workforce. (Siklos 1996, p. 383) Soon the Telegraph's annual earnings exceeded the original purchase price paid by Hollinger, and it became the profit engine that drove the newspaper chain's expansion to become the third-largest in the world by 1997. (Jones 1998) In the mid-1980s, Hollinger began buying newspapers in the U.S. through a regular classified ad in the trade publication Editor & Publisher. By 1997 its subsidiary American Publishing Co. had grown, through 100 separate deals, into the second-largest newspaper chain in the U.S. as measured by number of titles, although it did not even place in the top ten by circulation. (Siklos 1996, p. 170) Its 340 newspapers were mostly smaller dailies and weeklies, but they also included the 500,000-circulation Chicago Sun-Times. In 1989 Hollinger bought the financially-ailing Jerusalem Post and not only imposed a cost-cutting regime in its newsroom, installing a time clock on which journalists were required to punch in and out, but it also imposed a radical change to its once-lib-

eral politics. (Frenkel 1994, p. 160) The reputation Hollinger gained was for both instituting sharp cost-cutting measures at its acquisitions and for imposing a neo-conservative editorial stance on its newspapers.

But despite its growing international empire, Hollinger had been shut out of the newspaper market in its Canadian home base, except for minor purchases. According to biographer Richard Siklos (1996, p. 311), Black set his sights on Southam after the "standstill" agreement expired in 1990, making repeated offers to Torstar for its stake in the chain, which had since been increased to 22.5 percent. Frustrated by rising Southam losses of \$153 million in 1991 and \$263 million in 1992, Torstar also faced capital expenditures of \$400 million for new presses. Finally in November 1992 it sold its holdings in Southam to Black for \$18.10 a share, or a 15-percent premium over market value. Horrified Southam family members quickly sought a counterbalance to the man they had earlier prevented from taking over the family firm with the 1985 Torstar share swap. One of the few Canadian businessmen with the resources to match Black was Montreal businessman Paul Desmarais, whose Power Corp. held an estimated \$27 billion in assets, including a chain of 41 newspapers in the province Quebec. Approaching Desmarais to sound out his feelings toward the traditional Southam values of quality newspapering, directors found Desmarais sympathetic. Falling Southam share prices had created a problem for the company with its bankers due to its increased debt-to-equity ratio, and raising cash by issuing shares from its treasury to Desmarais would solve that problem in addition to diluting Black's ownership to less than 20 percent and creating an equal shareholder.

When Black learned of Southam's plan to sell Desmarais \$200 million in stock at \$13.50 a share, he protested to the board that the price was too low and

he managed to lobby directors to vote the deal down. According to Siklos (p. 307), this backroom dealing sowed the seed of Southam's demise and allowed Black to eventually take the company over. Black and Desmarais owned neighboring vacation homes in Palm Beach, Florida, noted Siklos, and the two men "shared a fascination with Southam and had discussed their respective ambitions to own it over the years." It was in Palm Beach that Black and Desmarais agreed to their equal ownership of Southam, including voting and board parity and the first right of refusal for each should the other decide to sell his shares. While between them they owned less than a majority of Southam shares, their combined stakes gave them effective control of the company. Together Hollinger and Power Corp. owned 37.6 percent of Southam stock, each retained the right under company regulations to increase their holdings to 23.5 percent, and each was entitled by the size of its shareholdings to appoint three of the company's 14 directors. After the deal to issue Desmarais 13 million shares for \$14 each was announced in March 1993, Black told reporters: "With forty-seven percent of the stock if you can't control a company you should join a monastery or something." (p. 318)

### **The Effect on Management**

Even before Black bought into Southam, company management had instituted a cost-cutting program aimed at tightening up operations and boosting share price as a defensive measure against takeover. In late 1991 Southam sold off its printing and graphics division and in July of 1992 it sold its shares in Torstar. In October of that year the company moved out of its long-time suburban Toronto headquarters into less expensive premises. A three-year job-cutting program was instituted in 1991 with the aim of trimming \$75 million from the payroll by 1994, and it saw 679 employees leave

the company in 1992. The job cuts were made across the board, and many employees left with divisions that Southam sold off, but a “buy-out” program saw many senior journalists also leave with attractive severance packages.<sup>1</sup> With Black, Desmarais and their appointees on the Southam board by the company’s May annual meeting, the *Globe and Mail* (Enchin 1993, p. B1) quipped that shareholders might be excused for “wondering whether they’ve walked into the wrong room” given the scale of the changes.

*A whole new cast of characters has taken control of the company ... and they have stacked the board of directors with their own kind. The gentlemen’s club ... has been overthrown by financiers determined to extract the highest possible return even if it means hacking off a limb or two.*

But despite their combined holdings, Black and Desmarais grew increasingly frustrated over the next few years at the slow pace of change at Southam. The sale of Coles Books in 1995 brought some improvement to the company’s bottom line, and in early 1996 another 750 jobs cuts were announced. The company payroll by then stood at 6,400 following the departure of more than 1,000 employees from continuing operations since 1993, in addition to those who departed with discontinued or divested divisions. A move to cut the second major newspaper cost saw the narrowing by 2.5 inches of published pages size at the Southam papers, with the aim of saving \$10 million annually on newsprint. But when Southam announced in February 1996 a loss of \$53.4 million for 1995, largely as a result of the \$120 million cost of severing 750 more employees, Hollinger president David Radler labeled the results “totally inadequate” and observed that his company could have done better by investing in bonds. (Mahood 1996, p. B7) According to Siklos (1996, p. 404), Southam executives refused to provide Hollinger and Power Corp.

board members with detailed financial reports because they were considered industry competitors. Animosity on the Southam board built, bringing old guard directors into conflict with the bottom-line experts brought in by the company’s newest and largest shareholders. “Southam’s philosophy was that they were in the business of delivering news,” explained Jack Boulton, Hollinger’s vice-president of finance, at one point. “We’re in the business of selling ads.” (Urlocker 1995, p. 33) Soon the unworkable arrangement led longtime neighbours Black and Desmarais to seek a way out of their partnership. Black offered to buy out Desmarais, who countered with a proposal to break up the Southam chain, with Black taking ten of its smaller dailies in exchange for his minority ownership. But independent directors on the Southam board blocked that move, citing a forecast that the sell-off would drop Southam share price from \$16 to \$11, prompting Black to label them an “obdurate rump.” (Hutchinson 1996, p. 36) Finally Desmarais agreed in frustration to sell his shares to Black for \$18 apiece and a total of \$294 million in May, giving him 41 percent ownership of Southam.

Black’s gaining of effective control over Southam came on the eve of Hollinger’s 1996 annual meeting, at which he made comments that alarmed many Canadians who had again become concerned about the increased level of concentration of ownership of the country’s press. In his speech to shareholders, Black both pointed to the reasons behind the demise of family control of the Southam newspapers and pointed out his opposition to its traditional operating philosophy. “Southam management long accepted inadequate returns for the shareholders, published generally undistinguished products for the readers and received exaggerated laudations from the working press for the resulting lack of financial and editorial

rigour.” He criticized Southam management for panicking in 1985 at the takeover rumors that prompted the share swap with Torstar which ultimately proved its undoing. “If Southam management had been a little more courageous, it might still be a family-controlled company.” (Miller 1998, p. 62) Black then fired Ardell as Southam CEO, took over operations of the company himself, and called a special meeting of shareholders to oust the “obdurate rump” of old-guard Southam directors who stood in his way. “They don’t believe in corporate governance,” said Ronald Cliff, one of the five Southam directors with a collective 81 years on the board who were voted off. “They think they have the right to do it because they own 41 per cent of Southam.” (Ferguson 1996, p. F3))  
Taking Southam Private

Black quickly moved to gain majority control of Southam, first offering shareholders \$18.75 a share in a bid to acquire enough stock to give him more than 50 percent ownership, then increasing the offer to \$20 when that proved insufficient. The acquisition of 8.5 million shares as a result gave Hollinger 50.7 percent of the company in November 1996. (Fitzgerald 1997) Black then moved to buy up all remaining company stock, first using his majority control in April 1997 to distribute the firm’s accumulated cash reserves in a \$2.50 per share “special dividend.” (Dalglish 1997) This enriched Hollinger most of all, by \$47 million, and enabled it to one week later to make a \$923-million bid to buy out Southam’s other shareholders. It was not accepted by enough shareholders to enable Black to take Southam “private” again by having it de-listed from stock exchanges, as only 15.6 percent of Southam’s minority shareholders accepted it, giving Hollinger 58.6 percent ownership. (Mahood 1997)

The following year, Black acquired a key block of more than 8 million

Southam shares from the Franklin mutual fund for \$31.68 each, a premium of 22 percent above the market price, raising his ownership of Southam to 69.2 percent. (Mahood 1998) That set the stage for his second bid for the remainder of Southam shares in December, which was again made with the benefit of creative financing. First, Hollinger used its majority control of Southam to declare a special dividend of \$7 a share, to be financed by borrowing \$532 million. Then it offered \$22 a share for the remaining Southam stock in a bid that was largely financed by the special dividend. (Dalglish 1998) That offer was rejected by independent members of the Southam board, but when Hollinger increased it to \$25.25 early in 1999, they voted to recommend it. (Dalglish 1999a) When the offer expired two weeks later, more than 90 percent of the 22 million remaining Southam shares had been tendered, raising Hollinger's ownership of the company to 97 percent. (Shecter 1999) Under Ontario securities law, that paved the way for Black to force the remaining shareholders out and de-list the company that Southam family members had taken public 54 years previously. (Dalglish 1999b)

### **The Emergence of CanWest**

Black then turned his attention to starting up a second national newspaper in Canada, in competition with Globe and Mail. The launch of his National Post in October 1998 exceeded expectations for circulation, quickly soaring to sales of 272,000 daily, although critics pointed to the large number of heavily-discounted sales that inflated figures. More significantly, advertising linage lagged below projections, resulting in editions often including only 20 percent advertising content. (Wilson-Smith 1999) An all-out "newspaper war" resulted in Toronto, where Black had hoped to establish a beachhead in a market dominated by

the Toronto Star, Canada's largest daily with a circulation of 458,000 on weekdays and more than 700,000 on Saturdays. The Globe and Mail circulated 330,000 copies nationally from its Toronto home, where it also published a Metro edition with local news. The downscale end of the market was dominated by the tabloid Sun, which sold 240,000 copies daily and more than 400,000 on Sundays. The Post's operating losses of \$44 million in its first year proved a drain on Hollinger, whose share price fell almost 20 percent during the period. In a bid to ease the company's \$2.4 billion in debt, Black announced he would sell up to half of his accumulated Canadian publishing empire, offering the smaller publications for sale. In response, Hollinger share prices immediately jumped 26 percent. (Sheppard & Chisholm 1999)

Black's motives were mixed, however, due to a dispute that had begun in mid-1999 with Prime Minister Jean Chretien, who had blocked the Daily Telegraph owner's appointment to the House of Lords by citing an obscure rule prohibiting Canadians from accepting foreign titles. (Freeman 1999) Black, a dual Canadian and British citizen and resident of London, countered with a lawsuit against Chretien for "abuse of process," claiming \$25,000 in damages for "public embarrassment," but the lawsuit was dismissed in March 2000. (Abbate 2000) Black could only accept his seat in the House of Lords by renouncing his Canadian citizenship, but that would make him a foreign owner of the press holdings in his native land, and under Canadian tax law advertisers would no longer be allowed to claim as an income-tax deduction the expense of purchasing space on his pages. (Scofield 1999)

This resulted at the end of July 2000 in the sale, not of Hollinger's smaller Canadian newspapers, but of its 13 largest and 130 smaller titles to CanWest Global Communications for \$3.5 bil-

lion. (McCarthy 2000) Announcement of the deal sent Hollinger stock, which had languished near \$10 in April, soaring 11 percent to close at \$16.25. The deal put the bulk of the former Southam newspaper chain in the hands of Israel Asper, a former president of the Liberal Party in his home province of Manitoba who had founded Canada's third television network in 1977 and since expanded it to include networks in Australia, New Zealand and Ireland. Black (2000, p. B1) attributed his selloff, in a column in the National Post and other Southam dailies, to the "conframathematical disparity" between the worth of Hollinger shares "and the value attributed to them on the stock markets." In an analysis, Black biographer Siklos (2000, p. A13) agreed, noting that due to its high debt load Hollinger stock had risen an average of only 6.9 percent annually since its 1994 IPO on Wall Street. "The real story behind Mr. Black's 'retreat' from Canada is that he missed out on the biggest bull market in history ... despite all the improvements Hollinger has made, and several Wall Street analysts decrying its low valuation, Hollinger stock has been what they call 'dead money.'" Black then renounced his Canadian citizenship and assumed his peerage as Lord Black of Crossharbour.

### **Convergence and Partisanship**

CanWest soon faced debt problems of its own, first in raising sufficient funds to even complete its purchase of the former Southam empire. In November 2000 it canceled a planned \$800-million bond issue, unwilling to pay the estimated 12 percent return required to attract the needed capital after failing to attract investors at rates of 10-10.5 percent. But of more immediate concern to its bottom line were the growing losses of the National Post, of which CanWest had acquired only a half-interest, with Black retaining a partnership in and assuming the publisher's chair of the daily he had

founded. Post losses in the first nine months of 2000 had come in at \$36 million, bringing the total since its inception two years earlier to \$133 million. (Damsell & MacDonald 2000) With its share price at \$16, CanWest announced to stock analysts at the end of November a plan to reduce \$60 million in costs company-wide through synergies and cutbacks. (Damsell 2000) By mid-2001, CanWest shares had dropped to \$12.50, and third-quarter earnings came in 73 percent lower than the previous year, due largely to a 13.7-percent drop in profit at its new Southam Publications division. (Ferguson 2001)

In August, as National Post losses reached an estimated \$190 million, CanWest bought Black's remaining half-interest in the newspaper. (Damsell 2001a) With its stock trading at \$11.35 in mid-September, the company announced it would suspend payment of its annual dividend to shareholders to save \$53 million. It also announced the layoff of 120 employees from the National Post, or 20 percent of its workforce, news of which boosted CanWest's share price by 85 cents. (Flavelle 2001) Declining advertising revenue in a slumping economy and rising debt-servicing costs more than doubled CanWest's fourth-quarter loss for fiscal 2001 to \$37 million. (Damsell 2001b) In a bid to trim more costs, it announced in November cancellation of the long-running Southam Fellowships, which since 1962 had provided mid-career education for journalists from all media across Canada. (Moore, O. 2001)

Soon, however, CanWest's financial problems seemed tame compared to the firestorm of journalistic criticism that erupted as a result of the new editorial policies it imposed on the former Southam dailies. In December 2001, CanWest ordered chain-wide publication of editorials written at its head office in Winnipeg, prompting reporters at its Montreal Gazette to withdraw

their bylines for two days in protest. (Church 2001) In early 2002 a long-time Halifax Daily News columnist quit because he said his columns had been changed "to match the owner's point of view." The Daily News editor then resigned after admitting interference from CanWest headquarters in Winnipeg in newspaper's content. (Miller 2002) The Columbia Journalism Review (Moore, A.J. 2002, p. 11) reported that in addition to imposing national editorials, one such CanWest column arguing that Canada should back Israel no matter how it responds to Palestinian suicide bombings "without the usual handwringing criticism about 'excessive force'" even came with a no-rebuttal order. "Papers in the Southam chain were told to carry neither columns nor letters to the editor taking issue with that editorial, according to journalists at two Southam papers, who said the order came via a conference call."

In March, reporters at the Regina Leader-Post went on byline strike after they claimed a story quoting a speech at the local journalism school about CanWest's national editorial policy was re-written to remove a reference to "censorship." (Damsell 2002a) In April, CanWest's second-quarter results showed a loss of \$21.7 million due to flagging ad revenue at the Southam papers, which sent its share price down 25 cents to \$11.20. (Pitts 2002) In June, 40 former Southam executives took out a full-page advertisement in newspapers not owned by CanWest, criticizing the company's national editorial policy and calling on the federal government to enact measures to ensure local editorial independence. (Damsell 2002b) The controversy heightened later that month when Russell Mills, the long-time publisher of the Ottawa Citizen, was fired after his newspaper called for the resignation of Prime Minister Jean Chretien as a result of a growing patronage scandal. After politicians across Canada renewed calls for an inquiry into the press and more than 500

Citizen subscribers cancelled home delivery, CanWest shares slipped to a six-year low of \$8.50. (Damsell 2002c) The Vienna-based International Press Institute issued a statement calling the firing of Mills "an attack on press freedom by an unholy coalition between politics and big business." (Lunman & McCarthy 2002) Televised debates in Parliament were dominated for days by Opposition party accusations that the prime minister had ordered the Citizen publisher's firing personally, over dinner with Israel Asper the previous evening. (Krauss 2002) On July 2, workers at CanWest's Vancouver Sun and Province went on strike, dropping its shares to \$6.98. (Damsell 2002d)

CanWest began dumping assets in a desperate attempt to pare down its debt and boost its share price, selling its dailies in Atlantic Canada for \$255 million. (Ferguson 2002a) In September it quietly abandoned its policy of imposing national editorials on its newspapers. (Estok 2002) The moves could not stem the slide of CanWest shares on the Toronto Stock exchange, however, where they closed on October 4 at a low of \$3.32. (Ferguson 2002b) By month's end, however, CanWest stock had rebounded to \$6 a share when it reported a fourth-quarter loss of \$104 million. (Cash 2002) In January, the Globe and Mail (Damsell 2003, p. B2) reported what it described as "this country's most aggressive attempt to centralize editorial operations across a newspaper chain" when it revealed an internal CanWest memo setting out plans for a centralized news desk in Winnipeg to co-ordinate coverage at the former Southam dailies across Canada. The following month Senator Joan Fraser, who had been editor of the Montreal Gazette when Conrad Black first bought into Southam almost a decade earlier, announced that the Committee on Transport and Communications she chaired would hold public hearings on the media starting later in 2003. (Block 2003)

## Conclusions

The most notable feature of the Southam case is the marked change in its management practices following the firm's takeover by Hollinger in 1996 and its subsequent sale to CanWest in 2000. Deep cuts in staffing levels resulted from a new focus on the financial bottom line at the expense of quality journalism as traditionally emphasised under Southam family management. This change of direction was both caused by and exacerbated by stock market forces. The widespread distribution of Southam shares allowed its gradual takeover by Hollinger, well-known for operating its newspapers on a very tight budget. But the debt burden incurred in acquiring the Southam empire in turn put pressure on Hollinger's stock. This made further cost-cutting necessary to reduce its losses in order to keep share prices from falling further, and it finally necessitated the sale to CanWest. The television network's acquisition of the former

Southam dailies at the top of the stock market boom in 2000 proved unfortunate timing, as the scenario of increased debt reducing share values repeated itself, with the result again being increased cost and quality cutting.

But the effects of stock market influence on the Southam newspapers can be traced back even earlier than the actual change in company control to the 1980s, when the threat of a hostile takeover first affected the company's management practices. Even under family control, emphasis had to be shifted from quality journalism to quarterly earnings in order to keep Southam's stock price from falling and prevent it from being bought up by bargain hunters looking to acquire the historic firm below its true value. To those who prize quality journalism, the situation went from good to bad as a result, but it did not get truly ugly until the long-publishing newspapers became acquired by owners with overt political motives.

The listing for sale to the public of voting stock, as the Southams had agreed to in 1945, had a perhaps inevitable consequence in eventually locating company ownership and control increasingly outside their family, thus making its management practices ever more subject to market forces. The radical change in operating philosophy that resulted was of such national significance that the Canadian Senate again began inquiring into the operations of the press, bringing the possibility that long-threatened regulations might finally be implemented in Canada to limit concentration of press ownership. Thus the inexorable effect of stock market trading on the management practices of a nation's press might prove so great as to result in state intervention to reverse the impact.

## Endnote

1 Including the author, after 16 years of employment.

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