The media's role in corporate accountability

Business journalists themselves feel very little accountability to anyone, but they perform an important role in the accountability of public corporations. David Uren, who was editor of BRW for nine years, explains.

Business generally regards the media as a necessary evil.

Although there are some individual journalists who command respect in business, the business media in general does not. Most in business believe that the media is inaccurate and that it can be capricious in its coverage. Its power is recognised and, because it is not respected, the power is resented. Among many in corporate life, the media engenders fear.

One of America's best business journalists is Thomas Stewart, who covers management issues for Fortune magazine. He writes that corporate governance is a menage a ***trois*** among the CEO, the board and the shareholders, each of whom wonders what the other gets up to when they are not around.

At the risk of over simplification, the media's role is to find out and tell them. The media is, in this sense, one of the means whereby the CEO and the board are held accountable. It is a role which is implicitly acknowledged in company law, with requirements that financial journalists maintain registers of securities they own or have interests in, and in the restrictions which apply to the media, equal to brokers, over the publication of information about capital raisings prior to the issue of a prospectus.

The accountability which the media brings to the process of corporate governance bears no legal weight, but it is real nonetheless. Corporate governance is 99% about faith and trust and 1% about the law. Most directors and executives do not behave correctly because they the law compels them to, but because they believe in the system and they trust the integrity of the relationships which the system establishes.

It is incredibly rare for the media to bring to light a legal infraction, although it does happen. The media operates at the level of faith and trust. It says that company X's excuses for poor performance are not believable, or that company Y's success engenders trust in its plans.

There is an eerie aspect to working in the media. One of the most common questions a journalist is asked is "do you get much feedback". The answer is that unless a journalist has done something incredibly stupid, hardly ever. From their editorial pulpit, they address a group of people, all of them interested in business, that may be three times the size of an MCG grand final crowd. And yet the words disappear into the crowd with barely a ripple coming back.

The lack of feedback, however, does not mean that the words have no import. They sink in and help to form the consciousness in the business world about companies and their governance. It is because of this ability to address the mass that the media forms part of the system of accountability.

However the journalists, themselves, feel very little accountability to anyone other than, perhaps, their editor. Journalists sit on the 'cost' side of the ledger in a newspaper and feel no responsibility for the newspaper's revenue. Most journalists will tell you that they write for themselves and for their contacts. They do not write with any consciousness that their role is to help their readers in any way or deliver a benefit.

The changing role

The media's role has changed over the years. It has become more concerned with strategy and less deal oriented. Journalists are better educated than they used to be, although MBAs are a rarity. Direct experience in business is rarer still, and experience at an executive level is almost unheard of.

Until the aftermath of the Poseidon boom in the sixties, the prevailing view was that you couldn't claim to be a real financial journalists unless you had your own funds committed to the market. You had to put your money where your mouth was. This ended in tears with the Poseidon boom, when it was revealed that many journalists been involved in ramping (not to put too fine a point on it), stocks in which they held positions.

Newspapers responded by imposing restrictions on journalists' ownership of shares. In most newspapers, you could not write about companies in which you owned stock and the ownership of stock was generally discouraged. Another development in the wake of the Poseidon boom, which changed the relationship between the media and the public companies, was the significant increase in the levels of disclosure required. Telex machines in business newspaper headquarters started pouring forth a fountain of information, the like of which business journalists had never seen. Until then, journalists used to poke around at both the stock exchange and at corporate affairs offices, looking to pick up annual reports.

By the late seventies, nobody visited corporate affairs any more. A level of investigation was lost, as journalists found themselves battling their way through a mountain of information, rather than having to scratch about for crumbs.

In the seventies and eighties, the number of small shareholders was dwindling and the market seemed destined to be taken over by the institutions. It was easy to form the view that if small shareholders did not exist, finance editors would have had to have invented them. The mistreatment of the small shareholder was the leverage point for the daily columns of Terry McCrann in the Age, Robert Gottliebsen in the Financial Review, Barrie Dunstan at The Herald and Bryan Frith in The Australian.

As the eighties progressed, the concern for the small shareholder was supplanted by the daring-derry of the entrepreneurs as they conquered the globe. CEO's were not only public figures of importance, they were personalities. Holmes a Court's top hat, John Elliott's identification of Fosters with angel's tears, Christopher Skase's blue marble executive suite and so on. The cult of personality levered business journalists away from their concern for the small shareholder.

The media displayed none of the overt corruption during the eighties that had characterised the late sixties. Australia had nothing like the Winnans case in the US, where the author of the Wall Street Journal's Herd on the Street column was jailed for insider trading. Even today, very few business journalists own shares. There was no recorded case of journalists writing favourable articles about companies in which they had been offered pre-float allotments. That was not because the offers weren't made.

The corruption which still persists was more subtle, in the form of the privileged leak. Privileged access – the confidential discussions with senior writers that are based on an understanding that the source will never be disclosed – has both benefits and costs. The off-the-record discussion is a way of explaining something to a journalist without putting the company's name into the limelight on a matter that may not benefit it. To be able to check a story with somebody off-the-record is a way of improving the accuracy of business reporting.

But it can corrupt the objectivity of the business media. Christopher Skase received a honeyed ride in the financial media, partly because he knew some of the senior financial journalists since his days in the business media. Many of the most eminent business journalists in the country regarded Skase as a "mate" and were much less assiduous in their pursuit of him than they were in chasing Alan Bond. Bond had few business media mates, other than an aficionado of the America's Cup. To be beguiled by the entrepreneurs was the greatest failing of the business media in the eighties.

Apart from this ever present, and never disclosed risk of "mates", the media rarely presents a vested interest. Advertisers may complain and if the offence is great enough (ie, for a big advertiser to cancel its campaign in protest), the editor might get to hear about it. But the editor would rarely apply the least pressure for any favourable coverage (unless, of course, the story was wrong).

The regulators also played the game of privileged access. The National Companies and Securities Commission made up for a tenuous funding base by a powerful use of the media, with well targeted, and always 'off-the-record' leaks.

When the nineties struck with vengeance, the heroes were transmogrified into villains. The moral dialectic of good and evil became the principal axis of business journalism. As the nineties advanced, this passed. There was a subtle change in the nature of business journalism.

The power of ideas

In the sixties and seventies, the business sections of newspapers regarded themselves as journals of record for shareholders. If you had shares in a company, and it made an announcement, you should be able to read about it the next morning.

This was quietly abandoned. Articles became longer and more discursive. The selection of what stories to run became more discriminating. As part of a broader response by daily newspapers to the impact of television, newspapers started shifting into territory traditionally occupied by magazines. Instead of confining themselves to the day's events, they started writing stories based upon ideas.

This trend was led by John Alexander, first as finance editor of the Sydney Morning Herald and, later, as editor in chief of the Australian Financial Review. It brought greater focus to the feature story than to the news. This approach was later adopted by The Age, which has not had a recognised business journalist editing its section for almost a decade.

Business in Australia in the nineties was not marked by the kind of mega-deals that had been the hallmark of the eighties, and that were still taking place in the US. In a more magazine type environment, journalists became less concerned with deals and the intricacies of corporate law and more interested in strategy.

This change was assisted by the development of online data-base libraries. Newspapers had always maintained quite good clippings libraries, but the power of keyword searching enabled stories to be better researched. Research was also facilitated by the introduction of services such as Bloomberg.

However, the business media has been curiously slow to make use of the internet, a medium that many expect to transform the industry. At the News Corporation, most business journalists still do not have desk-top access to the internet, although there will be a shared terminal that may be used. They do not have their own email addresses.

There is still a large gulf between information technology journalists and business journalists, that the growing importance of information technology in business strategy has done little to narrow.

An adverse development has been the introduction of voicemail. This has made it much more difficult for the public relations industry to intermediate relations between companies and journalists. Voice-mail is used by journalists to filter their calls based upon what they imagine the content of the calls to be.

The principal sources for business journalists have changed little over the last decade, although information services are now electronic rather than paper based. The clippings library, the stock exchange information service, the stock broking analyst and such corporate management as the journalists can gain access to provide the vast majority of their information.

Journalists view of governance

So what do journalists think about corporate governance? These comments are, perforce, generalisations. First, they have been to too many annual general meetings not to believe that shareholder democracy is a sham. The annual general meeting is seen as a ritual performance, no more. There is a view that institutions are lily livered, with the Yannon case at Coles Myer taken as an example.

There is genuine admiration for the execution of a good corporate strategy. CEO's who do well, like an Alan Jackson or a Don Argus, can arouse an admiration in the media, which sometimes dulls its critical edge.

However, journalists believe that most chief executives will lie if it suits them. Most journalists regard CEO's pay as obscene, which is the flip side of them seeing their own pay as a pittance.

Boards are a bit of a mystery to the business media. Their proceedings are behind closed doors and rarely leak out to the media. Journalists rarely seek to use non-executive directors as a source in their stories. The body of directors is seen as a club. It is a perception underlined by the number of cross directorships and by the homogeneity of the group.

When the board actually does something autonomous, such as get rid of the CEO, it is usually regarded as having acted either precipitously, as in the case of Don Mercer, who was popular with the media, or too late, as in the case of Geoff Kells at CSR.

Generally, business journalists are pro-business: although in the conflicts with environmentalists, unions or consumer groups, there is a suspicion that businesses will put their own interests ahead of those of the community. Membership of the Media Alliance is almost universal.

Journalists like to see conflict and they like secrets. Secret documents are gold to a journalist, but are incredibly rare. Very few internal documents ever wind up in the hands of journalists. Most of their stories come from press releases, formal interviews and casual discussions with contacts.

In general, a good story has either a mystery or a moral. If the media gets a "set" against you, no amount of shuffling public relations managers will make a difference. The media likes a simple story: heroes and villains is something everyone can relate to. In the absence of personalities, stories of success or failure will do.