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**D'Arma, A.**

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# The Hollowing Out of Public Service Media: A Constructivist Institutional Analysis of the Commercialisation of BBC's In-house Production

Author: Dr Alessandro D'Arma, University of Westminster

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## Abstract

This paper examines the recent commercialisation of the programme-making activities at the BBC in the UK as a major instance of a wider tendency that sees a market logic becoming increasingly embedded in public service media (PSM) organisations. Drawing on ideational approaches to policy analysis, this paper seeks to explain how and why the BBC came to conceive of BBC Studios, a new commercial subsidiary bringing together the majority of BBC's in-house production units and free to compete in the wider market for programme commissions, as serving its long-term interests. It considers how BBC strategists engaged with dominant ideas in UK broadcasting policy on the economic value of the creative industries and the benefits of competition for creativity in television programme-making. It shows how changes to the institutional context over the past three decades, predicated on these very ideas, have constrained BBC's room for manoeuvre. The main arguments put forward – the BBC's growing reliance on economic arguments to justify its value and the path-dependent effects at work pushing the BBC towards advocating an institutional solution entailing the further hollowing out of its publicly-funded structures – are relevant to wider debates on the future role and organisational forms of PSM.

## Introduction

Facing budget cuts and operating within an expanding and ever-more complex media environment populated by a growing number of commercial rivals, suppliers and distributors, public service media (PSM) around the world are striving to remain fit-for-purpose by adopting new organisational models (see, e.g., Lowe and Berg, 2013). The solutions being adopted often entail the growing embedding of a commercial logic in their core operations. Non-commercialism has always been a difficult distinction to maintain for PSM organisations (see Moe, 2013; Cunningham and Flew, 2014). Many of these organisations have long supplemented the funding they receive from the state with income derived from either selling advertising or engaging in various ancillary commercial activities. Since the 1990s, however, PSM have arguably become integrated more deeply into the market. Several dimensions to this process can be identified, including the outsourcing of the programme-making function to private-sector suppliers and the more aggressive pursuit of commercial revenues in secondary and international markets to make up for declining public funding. Although the strategic and financial rationales behind these instances of PSM's encounters with the market are obvious enough, there are questions as to whether the growing encroachment of a market logic into PSM's core operations is in tension with the fulfilment of their public service remit and can ultimately undermine their distinctiveness and thus their very reason for being.

Against this backdrop, this paper examines the recent commercialisation of the programme-making activities at the BBC in the UK, the latest in a series of initiatives that have since the 1980s brought the BBC closer to the market (see Leys, 2001). In 2015, in the context of the negotiations with government for the renewal of its 10-year Royal Charter<sup>1</sup>, the BBC put forward a proposal to bring together its licence fee-funded programme-making departments under a new wholly-owned commercial subsidiary to be named BBC Studios. The new entity would operate freely in the market for commissions from third-party broadcasters. At the same time the BBC pledged to outsource to external private-sector production companies a much greater proportion of the programmes it commissions. These proposals were described as ‘arguably the biggest shakeup ever to the way [the BBC] operates’ (Conlan, 2015).

The analytical perspective adopted here is one that seeks to understand how the BBC as a strategic actor operating within a ‘densely structured context’ (Hay 2002: 213) came to conceive of the BBC Studios strategy as serving its long-term interests. Given the harsh financial realities faced by the BBC at the time (more on which below), the move to commercialise its in-house programme-making structures could appear as a ‘no-brainer’ at first glance. Setting up BBC Studios as a separate commercial entity would allow the BBC to get off its books the salary of around 2,000 in-house producers as well as bringing in extra commercial income by opening up a new stream of revenues. However, a moment’s reflection suggests that things are not as simple as that. For, in the very words of the BBC, programme-making has

been 'the beating heart of the BBC throughout its existence' (BBC, 2015a: 8). Turning this core activity into a commercially-run operation is another big step towards the blurring of BBC's 'publicness'. One of its unintended consequences could well be to undermine in the long-term BBC's case for retaining exclusive access to the TV licence fee (a tax levied on all TV households) against persisting arguments that this money should be made available to commercial broadcasters on a contestable basis (see Donders and Raats, 2015). From other perspectives too, BBC Studios could be seen as a self-defeating move. Question marks were raised over the commercial viability of BBC Studios, given that its salary costs at launch would be significantly higher than the sector-average and profitability was hence predicated on BBC Studios winning a large number of commissions. However, if the new commercial venture proved to be successful, the BBC then would likely face charges of market distortion and calls for the sell-off of BBC Studios to private investors. Finally, concerns were also voiced over the negative impact, if the BBC were to start to produce programmes for its commercial competitors, on public perceptions of the BBC brand's universality and distinctiveness.

Answering why the BBC came to see the BBC Studios strategy as serving its long-term interests is, then, not as straightforward as it might initially appear. Addressing this question requires adopting a theoretical perspective that sensitizes the analyst to the perceptual nature of interests and the centrality of ideas to an understanding of the relationship between actors and

the context in which their strategy is forged. As it will be discussed in the next section setting out the theoretical framework, Colin Hay's 'constructivist institutionalism' fits the bill. Drawing on documentary evidence, the remainder of the paper first outlines the background to the BBC Studios strategy and, then, seeks to make sense of it by tracing its origin in major ideational shifts and institutional developments unfolding from the 1980s onwards and by examining how the BBC sought to harness the energy of dominant ideas in UK broadcasting policy to promote what it saw, given the circumstances, as favourable policy outcomes for the next Charter period.

### **Theoretical Framework**

This study is situated theoretically within approaches to political analysis that see policy-making as a struggle over the *interpretation* of policy problems, for social reality (in keeping with a social constructivist ontology) is presumed to be neither directly nor unambiguously accessible to actors (Fischer, 1998). This is an intuitive and yet important theoretical insight. As put by Craig Parsons (2015: 446), the basic claim is that 'how actors think about policy matters, and their thinking is not just a mechanistic function of uninterpreted conditions around them'. A focus on ideas, it is contended, provides 'richer explanations of politics', for 'ideas shape how we understand political problems, give definition to our goals and strategies, and are the currency we use to communicate about politics' (Béland and Cox, 2011: 3).

An important strand of ideational scholarship within political science has emerged out of new-institutionalism, a broad approach to the study of policy-making that, at the most basic level, seek 'to elucidate the role that institutions play in the determination of social and political outcomes' (Hall and Taylor, 1996: 936). Institutional arguments tend to be structural for they see institutions (broadly understood as the formal and informal rules of a polity) as external constraints that shape human behaviour and political outcomes. Yet, within new-institutionalism there has been a turn to ideas in recent times in order to explain phenomena that, it was felt, a focus on institutions alone could not explain. So much so that a new variant of new-institutionalism, variously labelled as ideational, discursive or constructivist institutionalism (see Hay, 2001, 2006; Schmidt, 2008, 2011) has claimed its distinctiveness from the three older ones (rational choice, sociological and historical institutionalism). According to one of the main proponents, its distinctiveness lies in the fact that while more conventional approaches to institutional analysis, notably historical institutionalism, see institutions primarily as constitutive of ideas, this newer new-institutionalism sees 'ideas as constitutive of institutions even if shaped by them' (Schmidt, 2011: 53). From this perspective, then, 'ideas are the foundation of institutions' and are embedded in their design and development (Béland and Cox, 2011: 9).

Here I draw in particular on Colin Hay's 'constructivist institutionalism' (see Hay, 2002, 2006, 2011). Hay sees actors (whether individual or collective) as being broadly purposeful and strategic, 'seeking to realize

certain complex, contingent, and constantly changing goals' (Hay, 2006: 63). The social constructivism of Hay's *constructivist* institutionalism is most apparent in his treatment of interests (see in particular Hay, 2011). Rather than being materially given as in positivist accounts of political phenomena, interests are seen by Hay as being discursively constituted. Actors' perceived interests are thus not a direct representation of their material interests. In the words of Vivien Schmidt (2011: 58), another leading exponent of this strand of new-institutionalism, 'interests cannot be separated from ideas about interests' and are best understood 'as subjective responses to material conditions'. Rather than a given, interests are then taken by discursive institutionalists as 'their subject of inquiry' (Schmidt, 2011: 58) – the *explanandum*. The strategies that actors pursue (and the interests informing those strategies) are, as Hay puts it, 'irremediably a perceptual matter' (Hay, 2002: 194) for actors cannot be assumed to be blessed with perfect information about the context in which they find themselves, and hence 'they must rely on perceptions of that context that are, at best, incomplete and that might often prove to have been inaccurate after the event' (Hay, 2006: 63).

It follows logically from this that within such a theoretical construct ideas are granted a crucial space. Understood as cognitive or normative beliefs, ideas provide 'the point of mediation between actors and their environment' (Hay, 2002: 209-210). Context and conduct (and thus the material and the ideational) are *dialectically* related. On the one hand, the context is selective of strategy, 'in the sense that, given a specific context, only certain courses of

strategic action are available to actors and only some of these are likely to see actors realise their intentions' (Hay, 2002: 209). The context also places constraints upon the *discursive* constructions of the context (that is, upon the ideas we hold about it). This is because 'for particular ideas, narratives and paradigms to continue to provide cognitive templates through which actors interpret the world, they must retain a certain resonance with those actors' direct and mediated experience' (Hay, 2002: 212).

However, the direction of influence is two-way. For if 'it is the ideas that actors hold about the context in which they find themselves rather than the context itself which informs the way in which actors behave' (Hay and Rosamund, 2002: 148), then through the strategic action they inform, ideas (no matter how ill-informed), 'exert their own effect upon the development of the context over time' (Hay, 2002: 214). Hay illustrates this central point in his theoretical construct by considering the material effects (cuts to corporate taxes) produced by dominant (but empirically challenged) discursive constructions of globalisation as an external economic constraint with attendant political imperatives (Hay and Rosamund, 2002). The conclusion, supportive of the claim that 'ideas matter', is that 'whether the globalization thesis is "true" or not may matter far less than whether it is deemed to be true (or, quite possibly, just useful) by those employing it' (Hay and Rosamund, 2002: 148).

At this point, however, the question arises as to how actors come to think what they think. Hay's answer is to acknowledge both 'ideational agency' and

'ideational structures' (providing actors with cognitive and normative filters through which they come to see the world). Actors operate within the terms of the political discourse prevailing at any given time and place, lending greater legitimacy to certain social interests over others and shaping what actors perceive to be 'feasible, legitimate, possible, and desirable' (Hay, 2006: 65). However, in a move that tempers the structuralism of this position, Hay acknowledges that 'it is actors, after all, who fashion understandings and offer legitimations of their conduct, even if they do so in discursive circumstances which are not of their own choosing' (Hay and Rosamund, 2002: 151).

Finally, it is important to note that a theoretical perspective that rejects the notion of material interests and accords ideas a more central role in explanations of political outcomes is *not* at odds with one that concedes that actors may appeal to ideas disingenuously in order to legitimise policies pursued for quite distinct ends. This eventuality is consistent with the notion that ideas 'matter'. Glossing over the methodological problems in seeking to establish whether the public statements of political actors reflect their genuine beliefs, Hay argues that ideas matter not only when they are genuinely held by actors but also in situations likely to be characterized by actors' strategic appeal to ideas, for appealing to certain ideas, as in the illustration of the globalisation thesis, can render politically more viable policies that might not otherwise be deemed legitimate (Hay and Rosamund, 2002: 165).

As a framework for analysis, Hay's constructivist institutionalism sensitizes the analyst to the dialectical relationship between the material and

the ideational, to the perceptual nature of interests and strategy, to the mediating role of ideas and their institutional embedding. Informed by this theoretical understanding, the paper will examine how the BBC as a strategic actor seeking to secure its future in the next Charter period on the most possible favourable terms accessed the 'densely structured context' (Hay 2002: 213) in which it found itself. Before doing that, however, the next section outlines the BBC Studios Strategy in greater detail and considers it in relation to the core funding issues faced by the BBC.

### **The BBC Studios Strategy in Context**

In the last thirty years, funding, more than governance, has arguably been the main battleground for the BBC in the fight to secure its future. (For historical accounts of UK broadcasting policy see, among others, Goodwin [1998]; Hardy [2012]; Potscha [2012]). BBC strategists have conceded ground on the issue of how the BBC should be held politically accountable (its system of governance having undergone several changes in recent times in the direction of placing the BBC under ever closer external scrutiny). However, on the issue of funding they have tried to hold the line. Securing the continuation of the licence fee on the most favourable possible terms has been a central plank of BBC's strategy at least since the Peacock Committee, appointed by Prime Minister Margaret Thatcher in 1986 to advise on the future funding of

the BBC, recommended that the UK television system should move in the long run to a subscription-based funding model. As a corollary to this strategy, the BBC has also firmly opposed periodically resurfacing proposals to turn the licence fee into a contestable scheme, claiming exclusive access to this source of income (Donders and Rats, 2015). The BBC's 1992 Royal Charter manifesto stated that 'the licence fee will remain the most appropriate way of funding the BBC's core services' (BBC, 1992: 66). Ten years later, in the subsequent round of Charter renewal, the same conclusion was reached: 'the licence fee funding remains the best way of paying for the BBC for the foreseeable future' and 'the superficial attractions of competition for licence fee funding are heavily outweighed by its drawbacks' (BBC, 2004: 112). Thus, central to BBC's sense of its own self-interest has been the preference accorded to the licence fee as a mechanism to finance its core services over alternatives such as subscription – a position that has so far continued to command sufficiently large support across the political spectrum.

There has been, however, another major plank in BBC's funding strategy. Ever since the early 1990s, the BBC has sought to supplement the licence fee with commercial revenues generated primarily through the exploitation of BBC's intellectual property (IP) in secondary and international markets. The BBC has justified this strategy on the ground that its commercial activities maximise the value of the licence fee investment in programmes, and that any profits generated are re-invested in its public service activities for the ultimate benefit of licence fee payers. The bulk of BBC's commercial income is

generated by BBC Worldwide, a wholly-owned commercial subsidiary running subscription-based channels both domestically and internationally and selling BBC TV programmes around the world. Though successful in securing the continuation of the licence fee scheme, for most of the past three decades the BBC has experienced a decrease in real-value terms in the level of the licence fee. Commercial activities have thus come to be seen by the BBC as providing a much-needed source of extra income. Successive governments have endorsed and in fact openly encouraged the BBC to grow commercial revenues, especially through international activities (Steemers, 2001). In turn, a fast-growing and globalising media market has provided the BBC (leveraging its international reputation) plenty of commercial opportunities to do so.

During 2014, under the new leadership of Director-General Tony Hall, the BBC began to unveil its strategy for the next Charter period (2017-2027). On the question of funding, the BBC's position had not changed. The licence fee was still seen as the best mechanism to finance the BBC's core public service activities. The BBC also continued to regard the ability to generate commercial revenues as vital, given the unlikelihood of any future government according the BBC a generous increase in the level of public funding. Indeed, within weeks of winning the general elections of May 2015, the incoming Conservative government imposed a harsh licence fee settlement on the BBC for the five-year period from 2017/18, entailing a cut in real-value terms of around 10 per cent in the BBC budget (BBC, 2015: 88).

This is the context in which the BBC Studios strategy came into being. The idea was first floated by BBC Director-General Tony Hall in a speech at City University in July 2014 (Hall, 2014; see also Hall, 2015). Professing a strong belief in the ‘entrepreneurial spirit’ and in competition as a force for good, Hall launched what he described as a ‘competition revolution’ at the BBC, a key element of which was a pledge to introduce ‘proper competition in programme supply’ by lowering the existing guarantee threshold for BBC’s in-house productions (more on which below), as part of a wider ‘compete or compare’ strategy designed to improve BBC’s efficiency and deliver greater value for money. Importantly, in exchange for offering external producers greater opportunities to compete for BBC programming slots, Hall argued that BBC producers should be allowed in future to pitch ideas not just to the BBC (as under the existing framework) but also to third-party commissioners. Only then, he contended, a level playing field would be created and the full benefits of competition realised.

The plan to set up BBC Studios as a commercial subsidiary was spelled out in *BBC Studios: Strengthening the BBC’s Role in the Creative Industries* (BBC, 2015a), published in September 2015 shortly after the release of the government’s Green Paper on the BBC setting in motion the Charter review process (DCMS, 2015). The BBC sought approval for a plan to merge the majority of BBC in-house production units (excluding news, current affairs, sports and children’s, which would all remain within the publicly-funded corporation) into BBC Studios, a new wholly-owned commercial subsidiary

operating in the wider market for programme commissions from broadcasters (and online video providers) in the UK and around the world. Any profit generated by the new commercial venture would be returned to the BBC and used to fund BBC's public service activities. In what was openly presented as a *quid-pro-quo*, the BBC also confirmed its pledge to open up around 80% of the BBC's overall TV network slate to competition from external suppliers (excluding news, current affairs, sports and children's)<sup>2</sup>.

The report argued that the set up of BBC Studios in tandem with the lowering of the BBC in-house guarantee would help 'sustain the flow of new British talent, creativity and story-telling in a global supply market' (BBC, 2015a: 9) and thus be beneficial to BBC's audiences and licence fee payers as well as to the UK creative industries. The proposal was 'at its heart' about 'greater creative freedom, with fewer caps on creative ambition for internal and external producers' and 'greater competition, building on the growth and vibrancy of the UK creative industries' (BBC, 2015: 9).

The BBC Studios strategy was in essence BBC's response to the problem of how to reinvigorate its struggling in-house operations. 'Maintaining a vibrant wholly-owned production unit' (BBC, 2015a: 7) was identified as an essential condition in order for the BBC to be able to continue to operate successfully in commercial markets. For, as stated in the *BBC Studios* report, BBC in-house productions provide 'BBC's only source of wholly-owned intellectual property, which is the engine of BBC Worldwide and generates significant financial returns for licence fee payers' (BBC, 2015a: 5).

Regulatory changes since the early 2000s had contributed to weakening the position of BBC in-house productions. Under the Communications Act 2003, external suppliers were allowed to hold on to more of the IP to the programmes commissioned from the BBC (more on which in the next section). Then in 2007, a system known as the Window of Creative Competition (WoCC), opening more of BBC's commissioning spend to competition from external suppliers, had come into effect. Under the new system, BBC in-house productions were guaranteed 50% of BBC's television commissions each year (excluding news and repeats); 25% was reserved, as it had been since 1990, to 'qualifying' independents (i.e., production companies *not* owned by groups with UK broadcasting interests); from now on, however, the remaining 25% of BBC commissioning hours, previously effectively going to the in-house teams, would be set aside for competition between in-house and 'external' producers – both qualifying and non-qualifying (i.e., vertically-integrated companies). Ever since coming into effect in 2007, external suppliers have consistently won the majority of BBC's contestable commissions in the WoCC and their share has grown over the years (from 72% in 2010/11 up to 78% of WoCC hours in 2014/15).

In a White Paper unveiled in May 2016, the government provided 'in-principle support' for the BBC Studios proposals subject to 'them passing the appropriate regulatory tests and requirements' (DCMS, 2016: 83). The White Paper, however, went further than what the BBC had proposed by urging it to introduce a system of *full* competition for its commissioning, thus

recommending that the BBC's in-house guarantee be *removed* across all genres, with now the *only* exception of news and news-related current affairs. The government's recommendations were arguably the culmination of a process that started in the 1980s, involving, similarly to the experience of other UK public services, the growing hollowing out of BBC's publicly-funded structures and the growing encroachment of a market logic into its core operations. Tellingly, this latest change to BBC's institutional framework originated from a BBC's own proposal. As discussed, both BBC Studios and the new 'compete or compare' approach were core planks of the BBC's strategy ahead of the start of negotiations with government for the Charter renewal

Given the theoretical perspective adopted here, one that emphasizes the perceptual nature of interests and strategy, it is important to note that there were alternatives to the BBC Studios strategy available to the BBC. Conceivably, BBC strategists could have sought to keep the BBC's in-house production units within the publicly-funded corporation and called for the government to maintain the *status quo* or even raise the in-house guarantee above the existing 50% level. In order to win support from government, the BBC could have pointed to industry consolidation in the television production sector and increased foreign ownership and vertical integration between broadcasters and producers (see next section). The BBC could have then built a plausible case that these trends were contributing to a gradual rebalancing of market power in the independents' favour vis-à-vis

broadcasters thereby weakening the main public interest rationale for the WoCC.

In order to explain why the BBC Studios strategy was preferred over this alternative, the next section turns to a consideration of the wider ideational and institutional context within which the BBC Studios strategy must be situated, drawing on the theoretical framework outlined earlier. It considers how the BBC as a strategic actor engaged with the context in which it found itself, a context shaped by three decades of 'market-driven politics' (Leys, 2001) and shows that there were strong path-dependent effects at work that came to delimit the realm of what the BBC conceivably saw as politically feasible.

### **Ideas, Institutions and the BBC as a Strategic Actor**

The radical restructuring of programme-making as a function within the UK television industry value chain needs to be seen as part of the wider process of marketization of the entire television system underway since the 1980s (Leys, 2001; Freedman, 2008). The context within which this process has unfolded has been one characterised by dramatic technological change unleashing global market forces on the one hand and by the ascendancy of neo-liberalism as the dominant political ideology on the other. It is argued here that three policy ideas in particular are central to understanding the context within which the restructuring of programme-making has taken place

and with which the BBC has had to strategically engage in seeking to secure its position in the next Charter period. First is the argument that as a major policy intervention in the market the BBC inhibits or ‘crowds out’ private investment. The second idea singles out the ‘creative industries’ as a key engine of growth for the whole of the UK economy. Third is a belief in competition as a driver for creativity and innovation in television programme-making. These ideas are arguably all part of a neo-liberal Weltanschauung underpinning the market-driven policies that have shaped this policy domain since the 1980s. As it shall be discussed in this section, they have been influential for they have underpinned changes to the regulatory framework and institutional setting of UK television in the last thirty years. They have thus become normalised and institutionalized, framing the parameters of the politically feasible and desirable.

The idea that BBC ‘crowds out commercial investment’ has become over time the most common argument voiced by commercial rivals and free-market advocates against the Corporation. In the first phase of UK broadcasting marketization in the 1980s and 1990s, pro-market arguments were primarily framed in terms of commercial media widening consumer choice and heralding a new era of consumer sovereignty thereby rendering public service broadcasting obsolete. This was against the backdrop of what was then a fast growing and financially thriving domestic commercial sector. Since the early 2000s, however, in the context of a maturing industry and a more financially challenging environment, the main argument has been

reframed into one portraying the BBC as too powerful within the domestic market, and hence exerting an adverse impact on private competitors by hampering their commercial growth and reducing their financial returns. The policy prescription, however, has remained very much the same: a scaled-down BBC focussing on its core broadcasting activities, and on 'market-failure' or 'at-risk' genres, its level of public funding reduced accordingly.

The BBC has rejected the 'crowding out' argument by deploying three counter-arguments. First, in a number of reports the case was put forward that rather than 'crowding out' private investment high levels of public funding, as in the UK, set in motion a 'race to the top' between public and commercial broadcasters (BBC, 2013). Secondly, challenging the notion that it has become a sort of behemoth in the market, the BBC has been at pains to demonstrate that in relative terms, vis-à-vis transnational media groups and a new generation of mighty Internet companies (the likes of Google, Facebook and Netflix), its size has in fact decreased over the years.

Most importantly, however, the BBC has urged to conceive of its market impact in a positive light. Starting in the early 2000s, it began to challenge increasingly widespread perceptions of its activities as inhibiting private sector expansion by placing growing emphasis on its *enabling* role in the growth of the wider creative sector. In doing so, it established a link with what had by then become a fashionable discourse on the creative economy. Under Tony Blair's New Labour in the late 1990s, the sectors that had traditionally been referred to as the 'cultural industries', namely broadcasting, film, publishing

and recorded music, were submerged together with the arts into the 'creative industries', a new policy category encompassing a wide range of other activities, from architecture to fashion, from software design to related computer services. The creative industries, thus broadly conceived, were singled out by New Labour as key growth driver for the UK economy as a whole. The subsuming of the media and the arts within the creative industry policy contributed to the growing influence of discourses emphasizing the economic as opposed to the cultural and democratic contributions of the media and the cultural sectors (on New Labour's creative industries policy see Garnham, 2005; Hesmondhalgh et al., 2014).

In BBC's 2004 Charter manifesto, *Building Public Value* (BBC 2004), economic value was identified as one component of the broader notion of 'public value'. The BBC claimed to make a positive contribution to the wider media economy 'through its creative investment, its stability of funding through fluctuating economic cycles and its risk-taking' (BBC, 2004: 40). First and foremost, it was noted in the report, the BBC is a leading investor in the UK's creative economy investing in 2003 almost £1bn in the creative industries, including over £300m spent with external producers. The BBC further claimed that its positive impact on the wider media economy far outweighed the negative 'impact it might have in reducing audiences for some commercial services', thus producing 'a strongly positive net contribution to the commercial health of the UK media sector' (BBC, 2004: 41).

By 2015, these economic arguments found a noticeably more prominent place within BBC's public statements. Tellingly, the two key policy documents produced by the BBC in the context of the negotiations for the renewal of its Royal Charter in 2015 carried the words 'creative' and 'creative industries' in their respective titles (BBC, 2015b, 2015a). And while in *Building Public Value* the BBC had felt it necessary to clarify that contribution to the economic health of the UK should rightly *not* be seen as the BBC's primary goal, which is 'to serve people as individuals and as citizens' (2004: 40), in *British Bold and Creative* ten years later it placed the creative industries discourse centre stage from the outset. The Director-General's preface to the report framed the key issue at stake in the renewal of BBC's Royal Charter as one of making the right choices so that 'Britain can have a BBC that excels globally—a BBC that is a powerhouse for creative and economic growth for the whole of the United Kingdom' (BBC, 2015b: 4). A central plank of *British Bold and Creative* was then to demonstrate the positive economic impact of the BBC. The manifesto cited a study commissioned to PricewaterhouseCoopers modelling the impact on the creative sector of licence fee investment. The study had concluded that 'for every £1 increase in licence fee revenue, the BBC would generate about 60p of extra economic value' (BBC, 2015b: 98). Updating the figures cited in *Building Public Value*, the BBC reported that it had invested around £2.2bn of licence fee income directly in the creative sector in 2013/14, £1.2bn of which outside the BBC, and around £450m in small and micro-sized creative businesses. It concluded that 'investment in the BBC is investment in

Britain's creative industries' (BBC, 2015b: 7) and that 'less BBC spend means a smaller creative industry' (BBC, 2015b: 98).

The third policy idea that is essential in order to understand the context within which the BBC Studios strategy was conceived is the idea that market competition – more specifically, the outsourcing of broadcasters' programme-making function to external suppliers – stimulates creativity and innovation in programme-making (as well as delivering better value for money). This idea has become over time a common-sense assumption in policy circles and has largely gone unchallenged. Major institutional and regulatory changes in UK broadcasting policy implemented since the early 1980s have been predicated upon it. The introduction in 1982 of Channel 4 as a 'publisher-broadcaster' with no in-house production capacity of its own 'was an important first step in fostering the development of a fledgling independent television production sector' (Doyle and Paterson, 2008: 19). Whereas the creation of Channel 4 was primarily motivated by a desire to promote cultural diversity and serve minority tastes, competition and industrial policy goals featured more prominently in subsequent policy interventions, which further strengthened the position of the independent television production sector vis-à-vis broadcasters. The Broadcasting Act of 1990 introduced a 25% quota for 'qualifying independents' at the BBC and ITV further raising levels of market demand for programmes produced externally to the vertically-integrated broadcasters. The arrival of Channel 4 and the 25% independent production quota led to the rapid development of a sector that, by the mid-1990s, was

comprised of around 800 independent television production companies, mostly small or medium-sized enterprises (Doyle and Paterson, 2008: 21). Contextually, PACT, the trade association representing the interests of the 'indies', established itself as powerful institutional actor within the broadcasting policy arena. In particular, PACT was instrumental in securing improved terms of trade with broadcasters in 2003. This was a major lobbying success, giving 'qualifying' independent producers greater control over the exploitation of the rights to their programmes in international markets, and contributing to the rapid growth of the sector and to a long cycle of consolidation, vertical integration and international acquisitions over the next decade, during which time a small number of 'super-indies' emerged and several were subsequently acquired by major global media companies, mainly from the US (see, e.g., Chalaby, 2010; Esser, 2016)<sup>3</sup>. As already mentioned, the introduction in 2007 of the WoCC at the BBC, allowing external companies to compete for a further 25% of the BBC's commissioning hours, was the latest in a series of regulatory changes designed to boost the independent production sector (Nicoli, 2012).

In 2005, the Work Foundation was asked by the BBC to assess the likely impact of the proposed WoCC on BBC in-house production, also in light of the new terms of trade between broadcasters and producers and wider market trends (growing consolidation within the sector). The report warned that at some point in the next decade the BBC was likely to reach 'a tipping point at which it will find it very difficult to justify in-house production capacity on even

its reduced relative scale' (Work Foundation, 2005: 7). It painted a bleak picture:

The BBC risks a serious hollowing-out as a creative organisation by a rapidly growing and newly empowered independent sector who will be obliged to poach its talent because of the paucity of its own training, while driving a hard bargain over both programme provision and re-use of content in service provision. The independents will increasingly dictate the terms over what kind of programmes they want to make within the quota and WoCC constraints (i.e., low-risk programmes in long-run formats), so that an important section of BBC output will look indistinguishable – despite its claims for public value creation – from other commercial channels (Work Foundation, 2005: 7)

The report urged the BBC to resist these trends, but it argued that 'that is exactly what the current architecture is disabling it from doing' (Work Foundation, 2005: 8). For the BBC to maintain in-house production at a critical mass of capacity, the report recommended that greater regulatory safeguards for BBC in-house production be introduced.

In the following decade, the BBC tried (somewhat timidly) to make the case that it should be allowed to retain more IP either by producing more in-house or through more favourable terms of trade with independents. However, the political tide was moving very much in the opposite direction. Since the coming into effects of the WoCC, PACT vociferously called for the BBC to open up more of its commissioning slots to external suppliers – its ultimate vision being that of a BBC turned 'publisher broadcaster', on Channel

4's model (Oliver and Ohlbaum, 2014). The success of external suppliers in securing the majority of commissioning hours in the 25% WoCC boosted PACT's case, for PACT could argue that a point had been reached at which BBC's 50% in-house guarantee was effectively 'acting as a barrier to further creative competition' (Sara Geater, PACT, cited in WMF, 2015: 11).

By 2014, a government-mandated reduction of BBC's in-house guarantee looked a very likely prospect. PACT's case was received with sympathy in policy circles and the idea that competition and outsourcing drive creativity in television production, in spite of inconclusive results of research on the determinants of organisational creativity (see, e.g., Lee, 2011), went largely unquestioned, except for few voices<sup>4</sup>. Harnessing the energy of that idea (while at the same time leveraging the creative industries discourse), BBC Director-General Tony Hall then promised 'a competition revolution' at the BBC, calling for 'a less regulated system' in order to create 'a level playing-field between BBC producers and independent ones' (Hall, 2014). In order to achieve this, Hall argued, BBC producers should be allowed to pitch their ideas outside the corporation, for the problem for the BBC under a system of 'managed competition' was that 'BBC Production has only one buyer – BBC Commissioning – which inevitably constrains its opportunities'. More importantly, Hall went on, it had become difficult for the BBC to retain talented people moving to the more lucrative commercial sector, people 'who grew up with the BBC but who now feel they have the freedom to be more creative and competitive elsewhere'.

Tony Hall's 2014 speech is strongly suggestive of the internalisation of a pro-market and pro-competition ideology at BBC's top management level. The alternative course of action – to keep BBC production departments within the publicly-funded corporation and to call for the *status quo* or for even greater regulatory safeguards to BBC in-house production (as recommended by the Work Foundation ten years earlier) – was seen as politically a non-starter. The opening up of BBC's spend to external suppliers also chimed with the 'big idea' put forward by the BBC in its 2015 Charter manifesto – that of 'an open BBC', a BBC which would become 'Britain's creative partner' and 'a platform for this country's incredible talent' (BBC, 2015b: 6) so that 'that the investment in the licence fee is not just an investment in the BBC' (BBC, 2015b: 55). Supporting 'a thriving independent production sector' was the clearest illustration of how, the report claimed, this was already happening (BBC, 2015b: 55).

## Conclusion

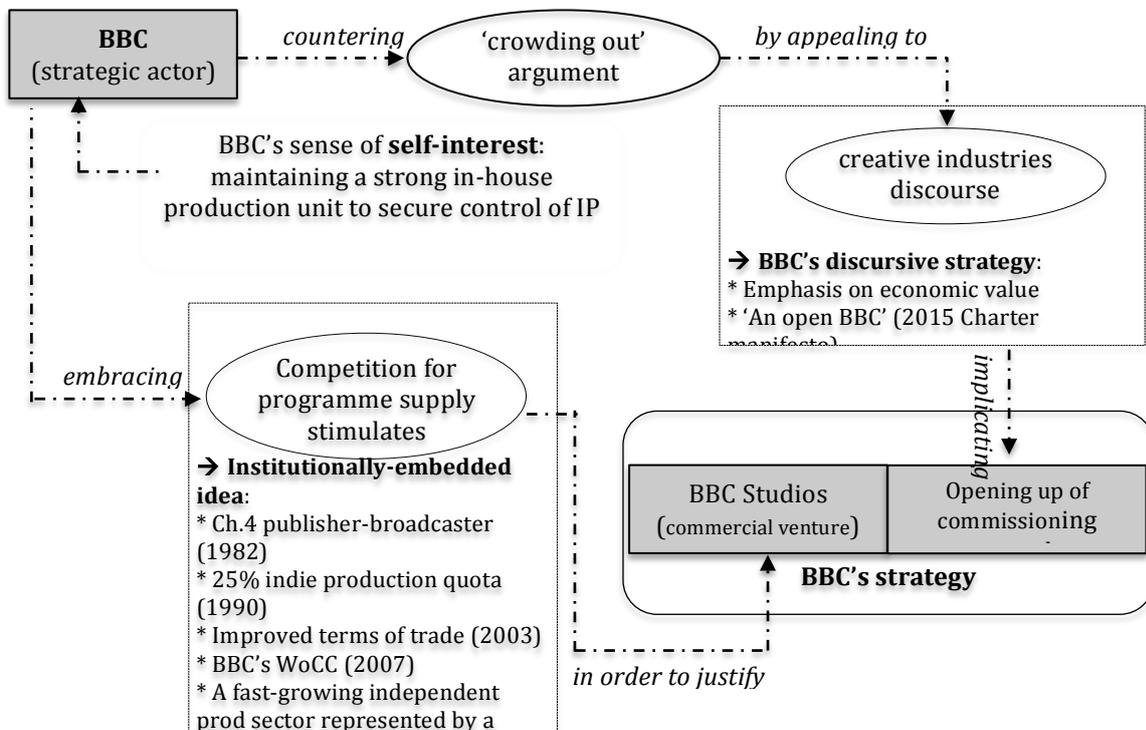
Ever since the 1980s, UK broadcasting policy has arguably been informed by a market-conforming notion of public service broadcasting. In the words of Des Freedman (2008: 169), the BBC has come to be seen 'not as an autonomous proponent of public service values but as an organisation that is part of an increasingly competitive, marketised environment and needs regulating according to that logic'. As discussed, one prominent aspect of the

wider process of marketization in this sector has been the gradual hollowing out of BBC's in-house production and the outsourcing of the programme-making function to a fast-growing independent production industry that in recent years has consolidated, falling in the hands of transnational media groups. Arguably, the move to open up the majority of BBC's commissioning hours to competition from external suppliers (running counter the trend in the private sector of growing broadcaster-producer integration), and, relatedly, BBC's plan to commercialise its programme-making operations under the BBC Studios banner, are the culmination of a 30-year-long process. This paper has examined how the BBC as a strategic actor has engaged with dominant ideas in UK broadcasting policy in a bid to preserve its position in the next Charter period. The BBC has countered the influential 'crowding out' argument by appealing to another fashionable discourse – on the creative economy. Portraying itself as 'a great enabler for the creative industry' (Hall, 2015), the BBC has thus increasingly turned to economic arguments in order to justify its wider societal value, thereby validating a reductive, but increasingly accepted notion of the licence fee as an industrial policy tool – 'a venture capital fund for creativity' (Work Foundation, 2005: 6).

Whether genuinely or quite possibly out of a strategic calculus, the BBC has also embraced another powerful discourse influencing the policies implemented in this domain since the 1980s – the idea that competition in television programme-making stimulates creativity. Drawing on Hay's constructivist institutionalism, it was argued that changes to the institutional

context over the past three decades predicated on this idea created strong path-dependent effects constraining BBC's room for manoeuvre. Conceiving of its long-term interests as best served by a strategy ensuring continuing control over IP in order to maximise returns from commercial activities in the face of real-value cuts to the licence fee, the BBC has embraced the idea that competition drives creativity in order to build the case for the set up of BBC Studios as a separate commercial entity free to compete with other production companies in the wider market for programme commissions. In tandem with the further opening up of BBC commissioning hours to the independent sector, this move was heralded by BBC Director-General (Hall, 2015) as marking the transition from an era of 'managed competition' to an era of full competition. Figure 1 below summarises the main argument of the paper.

Figure 1: A diagrammatic representation of the main argument



The influence of a market-conforming notion of public service broadcasting resulted in a policy debate dominated by concerns voiced by PACT and other sections of the industry about the risks of market distortion posed by a commercially-operating BBC Studios with a focus on attendant issues of transparency, fair trading and cross-subsidies. By contrast, objections about the potentially negative impact on public service programming hardly figured at all. Some of the trade unions and media campaigning groups (VLV, Equity) as well as BBC's main commercial rival, ITV (self-servingly no doubt) voiced concerns that a for-profit BBC Studios would face strong economic incentives to produce programmes with broad commercial and international appeal, which could jeopardise 'the current non-commercial policy benefits delivered by the BBC's in house production activities' (ITV, 2015: 12). Such concerns, however, were dismissed by Ofcom in its advice to government (Ofcom, 2015b: 15) and were ignored by the government in its White Paper of May 2016 endorsing the BBC Studios plan (DMCS, 2016).

The set up of BBC Studios as a separate commercial entity and the move to a system of full competition for BBC's commissioning spend (with the exclusion of news) is informed by a notion that equates PSM with the *commissioning*, over and above the *making*, of television programmes. This increasingly given-for-granted notion might well in future lend greater weight

to arguments (strongly opposed by the BBC) that licence fee money should become available to commercial broadcasters on a contestable basis.

The two main arguments put forward in this paper – the BBC’s growing reliance on economic arguments to justify its value and the path-dependent effects pushing the BBC towards advocating an institutional solution entailing the further hollowing out of its publicly-funded structures – are likely to be relevant to wider debates on the future role and organisational forms of PSM, not the least because innovations in UK PSM policy have in the past transferred to other countries.

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<sup>1</sup>The BBC is established under a Royal Charter. The current Charter, the ninth in BBC's history, came into effect on 1 January 2017 and will expire on

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31 December 2027. The process for its renewal started in July 2015 with the release of the government's Green Paper on the future of the BBC (DCMS, 2015).

<sup>2</sup> Further, in December 2015, the BBC agreed to tender at least 40% of its *returning* in-house series by 2018 (instead of transferring them automatically to BBC Studios). This concession was made by the BBC to win support from the independent television production sector, initially hostile to the prospect of BBC Studios – 'Britain's first publicly owned mega indie', in the words of Sara Geater from PACT, the industry trade association (WMF, 2015: 11) – entering its core market.

<sup>3</sup> In its 2015 review of the television production sector, Ofcom, the UK communications regulator, cited the following figures to highlight growing levels of consolidation: by 2014 the top ten producers accounted for an estimated 66% of all UK producer revenue, up from 45% in 2003; six of the ten largest producers were now owned by broadcasters; and seven of the ten largest UK producers had fallen under the ownership of large foreign media corporations (Ofcom, 2015a: 17).

<sup>4</sup> In her submission to BBC Trust's review of BBC's content supply arrangements, Sylvia Harvey, a scholar and campaigner, argued that 'the culture of production, if nurtured in-house, can provide fertile ground for innovation, a reliable source of supply and critical engagement with the public purposes of the BBC – as well as the retention of IP value' (Harvey, 2015: 2).

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Other submissions from media advocacy groups (VLV) and sectoral unions (NJU) raised similar objections as well as concerns over the negative effects of outsourcing on investment in skills development and training, given the independent sector's heavy reliance on freelancers.