

**TRANSMITTING DEMOCRACY:  
GOVERNANCE AND 'PUBLIC INTEREST' BROADCASTING**

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## **ABSTRACT**

*We consider the importance of the broadcasting sector to an economy by adopting the strategic choice approach to the governance of organisations. Such an approach identifies broadcasting as being of great importance to any economy because it not only enhances societal welfare through what it directly produces, but crucially, because its influence also permeates widely and deeply throughout other sectors. This leads to the development of a rationale for ‘public interest broadcasting’ that is distinct from the traditional rationale for ‘public service broadcasting’ associated with the standard market failure arguments usually applied to broadcasting. Our approach suggests a policy focus that is markedly different from traditional concerns with ownership, competition, and regulation. Instead we argue the importance of governance processes with respect to broadcasting activity: if appropriately governed, broadcasters might contribute to the opening of a Habermasian space for identifying ‘public interests’ across the economy, a vital public good for any democratic society. To illustrate the practical application of our theoretical arguments, we highlight various governance mechanisms employed by the British Broadcasting Corporation (BBC) and other broadcasters that may make them more or less able to pursue this public interest role. The aim is to uncover lessons that are applicable both in the broadcasting sector and more widely in terms of moving corporate governance in the direction of public interest governance. In turn, this identifies an associated policy agenda to guide economies as a whole towards governance processes that will deliver more democratically determined welfare outcomes.*

**KEYWORDS:** Governance, democratic capitalism, media, organizations, public policy, voice.

**JEL CODES:** D70 (Analysis of Collective Decision-Making);

L20 (Firm Objectives, Organisation and Behaviour);

L82 (Industry Studies: Entertainment, Media).

## I. INTRODUCTION

Ever since the commercial development of the radio in the late nineteenth century, broadcasting has been an important feature in the lives of an increasing number of people. Whilst the means of accessing broadcasts has developed with technological advances over time, broadcast content is relied upon for: news and information that shape views and perceptions of the world; political developments and discussion; weather/traffic updates and warnings that may impact directly on health/safety; and, not least, entertainment that has the potential to bring significant welfare gains. In short, the influence of broadcasting permeates widely and deeply. Indeed broadcasting is a ‘strategic’ sector, in a similar way to electricity, water, food, education or health; it fundamentally influences peoples’ engagement in economic activity more broadly.

In most (if not all) countries there is a clear recognition of the strategic importance of broadcasting. In the UK for instance, there is ongoing debate amid concerns around the independence of the media, foreign and cross ownership, the desirability of ‘public service’ broadcasting, the funding of public service broadcasting and the British Broadcasting Corporation (the BBC) in particular, the decline of advertising funding for commercial organisations, the integration of various broadcasting and media services, and broader competition issues in broadcasting and related markets. Such debates are common around the world, and the significance attached to them stems from an understanding that those who control the broadcast media have considerable power to influence people’s views and actions (for example, on voting behaviour or consumption patterns).

We contribute to the broadcasting policy debate by arguing for the analysis of the broadcasting sector (of any economy) from a ‘strategic choice’ perspective. Our analysis is founded on an application of the strategic decision-making literature on the theory of the firm, from the field of industrial economics (Cowling and Sugden, 1994, 1998). This literature stresses the significance of achieving the ‘public interest’ in economic activity through enabling more inclusive governance of firms’ strategic decision-making, and has stimulated an emerging literature analysing specific cases and issues (Bailey *et al.*, 2006; Branston *et al.* 2006a, 2006b; Cowling and Tomlinson 2000; Cowling *et al.* 2009; Sacchetti and Sugden, 2003; Sugden, 2004; Sugden and Wilson, 2005). We suggest that the analysis of broadcasting from this perspective is of particular interest because of its importance to the economy as a whole. In this regard we highlight the complex relationship between broadcasting and the public interest, emphasising its potential impacts in supporting and/or undermining the development of public goods throughout the economy. The policy concerns and associated governance reforms developed in this paper are therefore of significance both for current

debates in broadcasting around the world, and for analysis of the contribution of firms in society more generally.

We develop our analysis in general terms in the first part of the paper, and then in the second part make specific reference to UK broadcasting as a particular example of these more general points. We select the UK because it has a worldwide reputation for broadcasting, and because we can clearly identify three different types of major broadcaster that currently operate in the market and which illustrate our theoretical arguments. It is also very timely as the sector is strongly influenced by the BBC, a ‘public service’ broadcaster whose current Royal Charter (akin to a company constitution lasting for 10 years) is due to expire in December 2016, and hence there is a growing debate about the future of the sector as part of the Charter reform and renewal process.

The remainder of the paper is organised as follows. In section II we introduce the concept of ‘strategic failure’ and discuss its relationship with the ‘public interest’. In Section III we analyse the broadcasting sector from a strategic choice perspective, developing a rationale for public service broadcasting that differs from the commonly-used market failure arguments, and which suggests the sector has a key role in supporting the development of public goods across the economy. Section IV highlights these issues in the context of UK broadcasting, and in doing so identifies some innovative governance mechanisms that are potentially in line with the policy implications of our analysis in section III, and which seem to be broadly applicable. Finally, our conclusions are presented in section V.

## **II. STRATEGIC FAILURE AND THE PUBLIC INTEREST**

There is a growing body of literature that analyses the development of economies from a ‘strategic choice’ perspective (Bailey *et al.*, 2006). This work has its roots in Cowling and Sugden’s (1987, 1994, 1998, 1999) analysis of the transnational corporation (TNC) and its relationship with local economies. They build on Coase’s (1937) distinction between in-firm planning and outside-firm market co-ordination, and Zeitlin’s (1974) observations on corporate governance, to define the TNC as “the means of co-ordinating production from one centre of strategic decision-making when this co-ordination takes a firm across national boundaries” (Cowling and Sugden 1987, 12). They suggest that the concentration of strategic decision-making in TNCs will result in ‘strategic failure’ in economies as a whole. This is because, in the context of imperfect markets, ‘the few’ who

control TNCs are able to make decisions despite potential resistance from ‘the many’ in society who may be impacted on by those decisions. Hence socially inefficient outcomes are likely.<sup>5</sup>

A primary implication of this strategic choice approach is that for economic development to be efficient, in the sense of meeting the aims and objectives of the people within an economy, there must be fundamental concern with how economies are governed.<sup>6</sup> More specifically, the democratisation of economies in various ways is required to avoid what Cowling and Sugden term strategic failure. This is an argument that is supported by certain findings in the increasingly influential literature around the economics of people’s happiness or well-being (See for example Frey and Stutzer, 2000, 2009). Frey and Stutzer (2000) for instance find that individual well-being is systematically raised by institutional factors in the form of direct democracy and local decision-making autonomy. From different starting points and perspectives, both streams of literature imply the need to examine how the institutions that comprise economies are governed in their activities. These processes of governance will collectively determine an economy’s development path, and ultimately the well-being of its people. Such a focus is strongly related to the notion of governing in the ‘public interest’. This term is frequently used to refer to something (a decision, such as allowing or preventing a merger, for example) that is thought to be, in general, in the interest of the broad ‘public’. However, significant challenges arise in determining ‘who’ constitutes the public, what is the general ‘interest’ of this public, and through what ‘process’ is this interest determined.

Branston *et al.* (2006a) and Sacchetti and Sugden (2007) draw on Dewey (1927) (and Long’s (1990) subsequent analysis of his work) in arguing that strategic actions/decisions have consequences for both the ‘private’ interests of those actors directly involved, and potentially also for a range of ‘public’ interests that are affected by the action/decision. Branston *et al.* (2006a, 195) apply this distinction to the activities of firms, defining “the public interest in a corporation’s activities in general and in its strategies in particular as the agreed upon, evolving concerns among all of those indirectly and significantly affected by those activities and strategies” (Branston *et al.* 2006a, 195). Other analyses of public interest have stressed instead the relationship between government and society. For example, Habermas’s (1964, 116) influential notion of the ‘public

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<sup>5</sup> Cowling and Sugden (1994, 127-32) develop this in terms of “three sets of interrelated systematic deficiencies: transnationalism, centripetalism, and short-termism”. Their analysis is strongly related to Hymer’s (1972) theory of uneven development, by which he identified a “*correspondence principle* relating centralization of control within the corporation to centralization of control within the international economy” (123).

<sup>6</sup> In particular, with *how* strategic decisions at the top of decision-making hierarchies are made. See Pitelis and Sugden (1986) for a discussion of different types of decision. See also Bailey *et al.* (2006) for a discussion of how the concept of governance relates to the strategic choice perspective.

sphere' as "the realm of our social life in which something approaching public opinion can be formed" has been interpreted as "the space between government and society in which private individuals exercise formal and informal control over the state: formal control through the election of governments and informal control through the pressure of public opinion" (Curran 1991, 29).

In general, it is the formation of 'public opinion' that is key, where a 'public' is seen to exist precisely because the actions of certain actors (firms, government) have wider impacts that require some form of interaction in the exercise of strategic choices. Indeed, building on Curran's (1991) interpretation of Habermas (1964), and the Dewey influenced analysis of Branston *et al.* (2006) and Sacchetti and Sugden (2007), we can conceptualise *a space between firms, government institutions and society in which the actions of the former two groups imply wider societal impacts that create 'publics' within society who have an interest in the decision-making processes around those actions.* Moreover, interpretation of 'firm' in a wide sense, to incorporate the organisation of production with different objectives, gives scope to include the whole range of potential 'public interests' in society.

As identified by Dewey (1927), however, a fundamental issue remains: how do those affected people identify themselves as 'publics' and organise themselves so as to determine and express their 'interest' in decision-making processes? Related to such questions, there is an important strand of literature in democratic theory stressing the significance of deliberative forms of democracy. For Elster (1998, p. 8) deliberative democracy incorporates two elements: "collective decision making with the participation of all who will be affected by the decision or their representatives"; and "decision making by means of arguments offered *by* and *to* participants who are committed to the values of rationality and impartiality". Bohman (1998) suggests that this literature 'came of age' in the mid-1990s because it started to adopt a new emphasis on feasibility. This is reflected in a switch from pure rejection of aggregative mechanisms (such as voting and majority rule) to an interest in making these mechanisms more deliberative, in greater concern with examining and comparing different settings and procedures, and in increased stress on the process of deliberation itself. Dryzek (2002) also points to the strong deliberative turn in democratic theory in the 1990s, although he argues for the need to move beyond this by (re-)establishing a critical stance towards established power structures, a development that he labels 'discursive democracy'.

While it is beyond the scope of this article to provide a detailed discussion of literature on deliberative or discursive democracy,<sup>7</sup> we suggest that strong parallels can be drawn between their analysis of essentially government-‘public’ relations (the ‘public sphere’) and an analysis of firm-‘public’ relations. An implication of Cowling and Sugden’s (1987, 1998) interpretation of Coase (1937) is that the strategic planning that takes place inside firms, in the context of the power implied by imperfect markets, signals a need for forms of deliberative democracy also in the space between firms and society. In turn there is strong justification for our concern with broadcasting as a strategic sector. In the *space between firms, government institutions and society* there is potential for deliberative processes to determine and express ‘public interests’. The realisation of this potential, however, is dependent in significant part on broadcasting (and other media) providing an appropriate environment for this deliberation; in other words, providing support for the development of ‘information’ and ‘deliberation’ public goods with potential impacts right across the economy. Moreover, the ability of the broadcasting sector to play this role is critically dependent on how the firms within it are themselves governed. We explore these arguments in detail in the following section.

### **III. THE BROADCASTING SECTOR**

#### *III.i Strategic Failure and Broadcasting*

The broadcasting sector is critical in any economy because of its function in communicating news, politics, fashions, etc., and its roles in educating and providing entertainment. Like all economic sectors it has potential to directly enhance societal welfare through what it produces. However, unlike most it also has considerable power to shape people’s ideas, perceptions, preferences and behaviour in ways that extend far beyond the confines of the sector, to all areas of the economy. This is widely recognised, particularly with regards the political sphere. Sen (1999), for example, links the notion of a free media sector in a democratic society to the process of holding elected politicians to account. Furthermore, he suggests that this helps avoid problems such as famine, and more broadly facilitates the success of development.

The notion of the freedom of media is far from straightforward, however, and warrants careful analysis. While the influence of broadcasting might be perceived to be fairly benign by the average person, or at least to be obvious and explicit to all, some of its power is likely to be unconsidered or imperceptible to those being reached by the broadcasts. Indeed, it might be argued that under

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<sup>7</sup> Other important contributions include Bohman (1996), Dryzek (1996), Habermas (1989, 1996), Nino (1996) and Rawls (1993).

certain circumstances broadcasting can be an insidious influence. This relates, for example, to the analysis of Fromm (1942) on freedom and the manipulation of wants. He argues that “*the right to express our thoughts ... means something only if we are able to have thoughts of our own*” (207), suggesting that in fact “modern man lives under the illusion that he knows what he wants, while he actually wants what he is *supposed* to want” (218). At worst, broadcasting can be used as a tool to manipulate people according to the interests of group(s) that are able to control the content of broadcasts. Such propaganda is easier to identify where there is explicit government control over the media, but much more difficult to discern in the context of a privately-owned media sector. This is the starting point for Herman and Chomsky’s (1988) “propaganda model”, which sets out a series of ‘news filters’ within privately-owned media systems that enable government and private ‘elites’ to control content. One such filter is the concentrated ownership and profit orientation of media firms, a characteristic that is in line with the strategic failure analysis of Cowling and Sugden (1987, 1998). The propaganda model itself has polarised opinion and been dismissed by some as a ‘conspiracy theory’, but recent years have seen a revival of interest (Klaehn 2002; Corner 2003). In particular, there has been significant critique of the reporting of the conflict in Iraq following the US-lead invasion to oust Saddam Hussein’s regime (Boyd-Barrett 2004; Dimitrova and Strömbäch 2005; Lehmann 2005; Rampton and Stauber 2003).

Advertising, another of Herman and Chomsky’s filters, provides a specific avenue for broadcast media to manipulate views. These dangers were addressed in the seminal work of Packard (1957) on the subliminal influence of broadcast advertising in the US, and are reflected more generally in the regulation of advertising standards in many countries. In particular, advertising to children, who are at early stages in forming preferences and thus particularly attractive targets for advertisers, is an extremely contentious area. Cowling’s (2006) analysis is also interesting. He explicitly links the power of advertising (and other societal pressures) with one of the most fundamental economic decisions, that of how much to work: “the market investment of modern capitalism, with American capitalism as its extreme form, can drive people away from their meta preferences, their underlying preferences, towards longer hours (and lower savings)” (p.379).

That broadcast media, with its significant spillovers into other aspects of economic life, can be manipulated in these (and other) ways to serve certain interests underlies in part our categorising broadcasting a ‘strategic’ economic sector. However there is also a positive element to the argument. Broadcasting has the *potential* to provide a powerful positive stimulus for open deliberation and debate, contributing to a strengthening of capacity to engage in strategic choice

processes. As such we might consider that broadcasting has a strong and wide-reaching public good element. Its provision of information and facilitation of deliberation can contribute to the enhancement of public awareness and consideration of key issues in diverse areas of the economy and society.

This view is in line with an emerging literature in public choice theory that considers broadcasting and indeed the mass media in general within the context of how it influences economic outcomes within society more broadly. Authors contributing to this literature essentially link the ownership and freedom of the media to possible capture or influence by incumbent politicians for their own ends (Djankov, 2003; Besley and Prat, 2006; Leeson 2008). In addressing such possibilities contributors link the media sector to a country's success (or otherwise) in its wider development or transition (Sen, 1999; Coyne and Leeson 2004; Leeson and Coyne, 2007), and indeed, to more specific issues such as the role of media as a mechanism for institutional change (Coyne and Leeson, 2009), media influence on voter knowledge and participation (Leeson, 2008), and media influence on the choice of public policy adopted by elected politicians (Stromberg, 2004). The general thread running through all of these contributions is that a free private media is preferable to state control because it helps avoid the problem of incumbent politicians being able to "distort and manipulate information" to entrench their own positions (Djankov, 2003:342). As such this body of literature tends to bypass concerns with the direct welfare of consumers of the media, which is the general focus of the public interest theory contributions to the literature that are discussed in the next section on public service broadcasting. Furthermore, the public choice theory largely ignores the possibility that those private groups controlling a so-called 'free' broadcasting sector might also distort and manipulate provision to suit their own interests. The strategic choice framework that we propose for application to broadcasting allows these two bodies of literature to be reconciled. Indiscriminate in principle between public and private interests, it urges a holistic consideration of 'who' is in position to influence strategic choices and 'how' they can do so. It is thus primarily concerned with analysis of alternative governance *processes* (whether private or public in ownership) and their impacts on overall welfare outcomes.

With regards economic decision-making this emphasis on process is related to Hirschman's (1970) distinction between the mechanisms of 'voice' (the articulation of interests to improve a situation) and 'exit' (the withdrawal from that situation). The possibility of strategic failure implies that the development of 'voice' is important to avoid over-reliance on 'exit', an argument in the economic

sphere that is in line with the rationale for deliberative forms of democracy in the political sphere.<sup>9</sup> Yet voice is not a straightforward alternative: “while exit requires nothing but a clear cut either-or decision, voice is essentially an *art* evolving in new directions” (Hirschman 1970, 47). Sugden and Wilson (2005) have argued that the ability to express voice in economic decision-making requires long-term processes of learning.<sup>10</sup> They suggest the significance of an environment in which people and communities continually learn how to democratically express themselves, and the firms, governments and other organisations that make up societies learn how to develop appropriate mechanisms to facilitate and co-ordinate this input. Central to these learning processes is people’s ability to inform themselves of relevant issues and to interact with one-another in forming and evolving their (individual and collective) views.

It follows clearly that there is a strategic role for broadcasting in the development of an effective balance between the mechanisms exit and voice throughout the economy. A considerable amount of time is spent watching television and/or listening to the radio. Whilst much of this takes the form of pure entertainment, people are also exposed to news, background knowledge and stimulus for discussion of current societal issues.<sup>11</sup> This exposure is likely to contribute significantly in many people’s development of knowledge, helping them to form, question and evolve their views on key issues. In turn there is a potentially positive impact on people’s ability to participate in the governance of different economic processes (whether this is through ‘exit’ or ‘voice’), as they become better informed and are opened to a spectrum of different views. In this context we argue that a strategic choice perspective gives us a new insight on the strategic importance of broadcasting, which in turn has policy implications that diverge from those associated with traditional arguments around public service broadcasting.

### *III.ii Rationales for Public Service Broadcasting: Market Failure vs Strategic Failure*

Debate around public service broadcasting is traditionally market centred, and heavily influenced by Coase’s analysis of broadcasting in the UK and the US during the 1950s and 1960s (Coase 1950,

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<sup>9</sup> While exit as a mechanism is not inconsistent with democratic choice processes under certain circumstances, it poses significant problems if it is over relied upon. Firstly, there is not always an exit from a given circumstance; markets are characterised by imperfect competition. Secondly, it is a ‘closed’ mechanism that does not enable the interaction between parties that can generate superior solutions.

<sup>10</sup> This is not learning in the sense of bridging specific knowledge gaps, but rather in a Deweyan (1916, 7) sense: “any social arrangement that remains vitally social, or vitally shared, is educative to those who participate in it”.

<sup>11</sup> Indeed, the boundaries between entertainment and news/background knowledge/discussion are not so clear. Many programmes are likely to bridge these boundaries, with issues featured in dramas or soap operas, for example, corresponding to key contemporary issues, and thus providing stimulus for thought, discussion and formation of views.

1959, 1965, 1966).<sup>12</sup> Coase (1966, 446) recognised the existence of market failures in television broadcasting that was funded by advertising: “the person who pays for the broadcast of a program is the advertiser. It follows that the programs broadcast are those which maximise the profits to be derived from advertising. The market for broadcast programs is one from which the consumer is barred; what he would pay has no part in the determination of programs.” It is often argued that this presents a rationale for public service broadcasting, so as to ensure that the interests of the whole range of (potential) viewers are represented in programming, including minority groups. Coase was clear, however, that a preferable solution would be to develop the market approach of ‘pay-television’. This is in fact where much of the debate around the future of public service broadcasting lies today, as new technologies have enabled a wide range of channels and opened the scope of subscription funding (Armstrong 2005; Hargreaves Heap 2005; Cave *et al.* 2004; CMSSC 1999).

Armstrong (2005, p.283), for example, builds explicitly on Coase to argue that “in a world where advertising funding is the sole method of commercial provision, there is a clear rationale for public policy to improve the quality and diversity of programming (as well as to diminish the nuisance of excessive advertising); but in a world where viewers can be charged directly for viewing and where spectrum is more plentiful, the benefits of substantial intervention probably outweigh its costs.” Commenting on the UK, Armstrong concedes that there is a remaining rationale for intervention “linked to externality and ‘citizenship’ concerns”, but concludes that “intervention at, or anywhere near, the current level is no longer appropriate” (2005, p.292-293). In line with this, a ‘competition policy’ perspective has dominated analysis of the broadcasting sector in the UK, where there has been a particular focus on the competition impacts of the publically-funded BBC and other concentrations of market power.

A market or competition centred analysis of broadcasting policy is essentially built on the assumption that ‘exit’ is the appropriate mechanism for ensuring that the sector produces what is in the public interest. Within the market, price becomes a powerful signal of preferences (in line with Coase). However, each consumer’s interaction with the firm is in terms of accepting or rejecting a particular offer at a particular price. The corresponding policy focus is hence on ensuring that markets are characterised by balanced competition rather than monopoly power, primarily through

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<sup>12</sup> There is a minority literature that does adopt other perspectives on various aspects of broadcasting. Froud (2006), for example considers a business model approach, whilst the work contained within Cowling and Tambini (2004) contains a number of different views.

the tool of regulation. A reading of the strategic choice literature, however, would suggest that the (complementary) development of the mechanism of voice offers significant advantages, particularly in key sectors such as this.

In contrasting the strategic failure and market failure approaches to broadcasting policy, we highlight two key arguments. Firstly, the strategic choice perspective sees each sector both in isolation and in relation to the development of the economy *as a whole*. As we have argued, this is particularly critical in the case of broadcasting, which has especially wide influence and can potentially enhance (or damage) the capacity for ‘voice’ throughout the economy. Thus failures in broadcasting have implications that extend well beyond the sector, and need to be considered and analysed as such. A market failure approach is restrictive in this sense. Focusing primarily within-sector (or obviously related sectors), it fails to adequately consider this wider context. Thus even in a case where carefully designed regulation corrects market failures within sector, a narrow focus on market relationships is likely to leave shortfall in terms of the wider strategic role of the sector in other areas of economic life.

Secondly, a strategic choice approach is distinctive in highlighting the need for appropriate *governance processes*. This can be applied equally to the economy as a whole as to individual sectors and institutions. Thus ensuring effective governance processes within the institutions (public and private firms, regulatory bodies) that constitute the broadcasting sector are argued to be the key to ensuring broadcasting outcomes that are themselves in the ‘public interest’. The ability of the broadcasting sector to play a role in supporting ‘information’ and ‘deliberation’ public goods throughout the economy is in essence determined by the very processes of information and deliberation that underlie the governance of the sector itself.

Contrast this with more orthodox market failure perspectives, which lead potentially to recognition of the need for public service broadcasting or a sector free from government capture in the light of political or market failures, but then focus on static issues of ownership, competition and regulation. We would suggest that these are side issues for achieving the public interest, however defined. In the absence of perfect competition, it might be argued that the public interest may be achieved using appropriate forms of regulation, for example. This argument is refuted in Branston *et al.* (2006a) on the basis that economic democracy gives rise to uncertain outcomes because preferences will be shaped *by the democratic process*. Regulation in contrast is about applying fixed rules to adjust outcomes along specific lines. In the absence of ‘voice’ we have no way of knowing what public

interest outcomes would be chosen, and thus they can't be regulated for ex-ante. Indeed, Coase himself (1966, 441-442) recognised that regulation was no solution to public interest broadcasting, noting that "we cannot expect a regulatory commission to act in the public interest ... it must inevitably adopt certain policies and organisational forms which condition its thinking and limit the range of its policies".

Without the development of inclusive mechanisms for voice to feed into decision-making processes, the spectre of strategic failure will be embedded within the sector, and indeed within regulatory solutions. Thus how decision-making within the sector is governed is a fundamental policy concern, regardless of the balance of public/private ownership, and regardless of the regulatory framework. Building on our earlier analysis, an implication is that effective public broadcasting should *generate a (Habermasian notion of) space between the institutions that produce broadcasting output and the societies in which they operate*. This might be described as a move from 'public service broadcasting' as traditionally defined in a market/regulatory context, to a form of 'public interest broadcasting'.

Ownership, regulation and competition issues are not the central concerns with regards public interest broadcasting, therefore, although different alternatives may make it easier or more difficult to facilitate effective processes for identifying public interests. Indeed, it is in this respect that we see potential lessons from the case of the BBC, which is neither privately nor government controlled in a traditional sense. As a consequence, it is characterised by a governance structure notably different from that of most other broadcasters. The next section of the paper undertakes an initial exploration of some of the governance processes that have developed in this context, and that may offer broadly applicable hints for public interest broadcasting in the light of the theoretical arguments developed in the previous two sections. It is not intended to be an exhaustive piece of an analysis on the functioning of BBC governance mechanisms but rather seeks to raise ideas and possibilities that warrant further consideration.

#### **IV. GOVERNANCE IN UK BROADCASTING**

The BBC is akin to a large firm operating in an oligopolistic market, but it represents a distinct way of organising production in this context. While other firms in the sector operate along typical commercial lines, subject to certain regulatory constraints, the structure, governance and objectives of the BBC differ markedly from those of a typical large corporation. It is therefore of particular

interest in understanding the possibilities for different forms of governance within the firm and the processes behind the explicit pursuit of objectives in the ‘public interest’.

In order to highlight how distinctive the BBC is in this respect, it is useful to make a brief comparison with a privately-owned commercial broadcaster, with our focus being on the governance processes that sit behind the programming and services they offer. An obvious comparison is ‘Sky television plc’, the commercial satellite broadcaster which dominates the subscription TV markets in the UK with 11.5m subscribers (see <https://corporate.sky.com/>.) The governance of a large shareholder-owned company such as Sky is, in some respects, relatively simple. Shareholders own (a fraction of) a company and employ directors/managers to look after their interests, which is interpreted to mean maximising shareholder value. Different countries have different legal restrictions in place which inevitably limit the scope of policy options available, but in essence shareholders and shareholder value lie behind the various different mechanisms of corporate governance. This can be seen clearly in the Sky 2007 annual report (BSkyB, 2007), which acknowledges other stakeholder groups, but says that “the management of the company ... see itself ... (as) being accountable for the pursuit of its objectives primarily for the benefit of the Company’s owners” (p.39). Given our earlier analysis and that presented elsewhere, it is clear that such forms of governance can give rise to strategic failure: A subset of those with an interest will be able to exert control of the organisation despite resistance from others. Other interest groups such as employees or consumers have little or no voice in strategic decision-making processes. In the case of Sky we can observe that the organisation is controlled by its largest shareholder, Rupert Murdoch’s 21<sup>st</sup> Century Fox (previously News Corporation before the spinoff of the entertainment interests), and that decisions are taken in the interests of this shareholder, despite the contrary views of other interest groups such as the other shareholders or employees.<sup>16</sup>

The BBC in contrast “exists to serve the public interest” (DCMS 2006b, point 3.1). This purpose, together with the structure of the organisation, is determined by its Royal Charter, which is essentially a constitution for the organisation. While the Charter guarantees the BBC’s operational independence from government, its financial independence is guaranteed through funding by a licence fee that all UK television users are required to buy. This unusual funding model is very useful to the BBC in terms of freeing it from the need to generate other streams of revenue from its

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<sup>16</sup> For example, consider the surprise 2003 appointment of Rupert Murdoch’s son, James Murdoch, as BSkyB CEO. This appoint was said to have caused “considerable whinging among shareholders” who felt it was a case of nepotism rather than the best man for the job. See *The Guardian*, 5<sup>th</sup> November 2003, “Rupert and the Joys of nepotism”.

activities, but should not be taken as a binding requirement for the unusual governance mechanisms we highlight in the remainder of this Section.

Given the aforementioned public interest purpose of the BBC and the fact that all TV viewers in the UK are required to buy a licence, the licence fee payers are in essence the BBC's audience and the BBC is structured to have the interests of this audience at the heart of its decision making. The relationship with this audience is clearly very different to that of its commercial rivals, with significant implications for the governance of the organisation. The audience of commercial broadcasters is in essence a means to the end of maximising profit; satisfying audiences is necessary to attract subscription fees and revenues from advertisers, so as to meet the ultimate aim of satisfying shareholders. In contrast, the audience of the BBC is its core concern *per se*; it does not have another, conditioning, *raison d'être*. Thus there are necessary and inherent differences in the governance mechanisms that are employed, and these are of broad interest in understanding how 'public interests' might be identified and pursued in key sectors such as broadcasting. Indeed, we might think of this specific case as being akin to any organisation being run (at least partially) in the interests of all of its actual and potential customers rather than the shareholders or other owners of the organisation.<sup>17</sup>

In some ways the top management of the BBC is like that in any large company, and as such has a similar structure to Sky. There is a professional senior management team (the Executive Board), lead by a Director General. This team is responsible for the day-to-day operation of the BBC, its services and its various divisions. However, where the governance of the organisation differs is that these managers are held to account not by shareholders, but by the BBC Trust. The Trust consists of a Chairman, Vice-Chairman and 10 ordinary members whom are appointed by the British Monarch on the advice of ministers, and who are designated to act as "independent trustees acting in the public interest" (BBC 2006a, p.9). Furthermore, the charter explicitly states that "the main roles of the Trust are in setting the overall strategic direction of the BBC, including its priorities, and in exercising a general oversight of the work of the Executive Board" (DCMS 2006b, section 7). It is clear, therefore, that strategic decision-making within the BBC is explicitly designed to reflect the public interest, a stark contrast to strategy formation in most modern companies, including other broadcasting companies such as Sky. However, while this may appear to work

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<sup>17</sup> Funding is therefore only an issue inasmuch as companies run in the public interest without a licence fee type funding source would have to treat revenue generation as one concern amongst many, rather than the core goal we see in the typical shareholder-run company.

towards negating the threat of strategic failure in theory, the true test of any process is how it works in practice. As Branston *et al.* (2006a) highlight, company law often includes provision for more than shareholder interests, but in practice these have little real impact. Therefore the key issues are if and how the ‘public interest’ is able to feed into the decision-making process of The Trust, and if and how The Trustees determine what constitutes the real (and likely evolving) public interest.

There are several mechanisms though which public interests have opportunities to feed into the decision-making process, many of which are built into the Charter. A first point to note is that the Charter explicitly requires the Trust to “adopt and publish... a detailed framework within which the Trust will discharge its functions” (DCMS 2006, Section 25) and to operate to “high standards of openness and transparency” (DCMS 2006, Section 23.f). Both of these measures mean that the actions of the Trust are not secretive and/or divorced from the public that is supposed to be served, and thus allow the Trust themselves to be held to account by the people they represent. Furthermore, the Charter also requires that “the Trust (acts) actively to seek the views of, and engage with, licence fee payers” (DCMS 2006, Section 26).

Another point to note is the make-up of the BBC Trust itself. There are designated Trust members for the different constituent parts of the UK (Scotland, Wales and Northern Ireland), each required to be “suitably qualified by virtue of (a) his knowledge of the culture, characteristics and affairs of the people in the nation for which he is to be designated, and (b) his close touch with opinion in that nation” (DCMS 2006, Section 14.3). Furthermore, these trust members chair ‘national broadcasting councils’ for the region of the UK they represent, whose function is to “advise the Trust on how well the BBC is promoting its Public Purposes from the perspective of licence fee payers, and serving licence fee payers, in different parts of the UK”. These councils have themselves a variety of design features which seek to incorporate a wide range of interests from the ‘bottom-up’ (see DCMS, 2006).

The basis provided by these structural governance features appears to be further strengthened by the range of consultation activities that take place. In addition to the direct work of the Trust, independent research and surveys are also commissioned to learn from licence fee payers what they think about aspects of the BBC or its services. As such, the Trust seems to recognise that direct and open contact with the public they are tasked to serve is important, and has established various mechanisms to ensure this.

Mechanisms for the public to contribute to the BBC's decision-making process are not limited to the BBC Trust. The BBC maintains that "interacting directly with our audience is important to us" (BBC 2006/07b, 53) and in line with this employs a range of techniques to enable input from the general public. BBC facilities are located across the country, often with care taken to place them in busy city-centre locations, to provide visibility as to their operations and to facilitate public interaction, through drop-in events or (free) tickets to be studio audiences for example.<sup>22</sup> The BBC website is an extremely widely used resource, and contains considerable space devoted to informing the public about its activities and enabling them to comment and feedback, both in general and on specific programmes. Feedback and comments can also be provided via the telephone or written letters, ensuring a wide range of channels through which opinion can be expressed.<sup>23</sup> Indeed it would seem that these mechanisms are fairly successful: during the 2006/07 financial year the BBC handled over 1 million contacts from the public, 70% of these being unsolicited (i.e. not a response to a call to action trailed after a particular programme) (BBC, 2006/07b, 53), which is roughly one for every 60 people living in the UK.

This range of interaction mechanisms with the audience is in stark contrast to those available with respect to Sky, for example. Their TV website is almost exclusively devoted to the publicity of the various services provided by Sky, alongside attempts to entice existing subscribers to upgrade the services they receive. There is only very limited capacity for feedback and this is of the type generally found on any corporate website, rather than part of a process for the exercise of voice on the part of the public.<sup>24</sup> Furthermore, the nearest that Sky appears to come to consultations with their audience is through the regular downloading of their subscribers viewing habits from their satellite decoder box. Given the lack of transparency and exclusivity inherent to this process, it appears to be a mechanism for preventing exit (by ensuring the broadcast of the programmes that gain the right type and quantity of viewers) rather than a process to encourage the real exercise of voice. This is in line with ensuring continued profits for shareholders rather than seeking to orient their activities towards a broader public interest.

Thus far we have paid great attention to the audience of the BBC, suggesting that this group alone constitutes the public interest. Whilst an undoubtedly important feature of the public interest in this

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<sup>22</sup> For example, the BBC has recently re-located its significant West Midlands operations to a busy city-centre retail and leisure development in the heart of Birmingham, and a similar facility has been established for its East Anglia operations in Norwich.

<sup>23</sup> See [www.bbc.co.uk](http://www.bbc.co.uk) and particularly <http://www.bbc.co.uk/complaints/> on the matter of complaints (both accessed on 19<sup>th</sup> June 2008).

<sup>24</sup> See the Sky TV pages available via [www.sky.com/](http://www.sky.com/) (accessed on 28<sup>th</sup> March 2015).

case, there are other groups that are impacted on by the activities of an organisation such as the BBC. Zeitlin (1974, 1091-92), for example, frames strategic decisions in terms of questions around “what relationships must the corporations in an oligopolistic economy establish with each other? with the state? with foreign governments? with the workers? with sources of raw materials and markets?” In line with this thinking, the audience of the BBC is not the only stakeholder group that is explicitly mentioned in the current BBC Charter. The BBC Trust and Executive are both given an explicit duty to have suitable arrangements in place through which they will “consult BBC staff on all matters affecting the interests of those staff” (DCMS 2006, Section 44). Similarly, the Charter states that the Trust should “have regard to the competitive impact of the BBC’s activities on the wider market” (DCMS 2006, Section 23.e), suggesting the impact of the BBC on rivals and suppliers is also included.

The above analysis suggests that in principle that the BBC is well placed to identify and pursue what constitutes the public interest in its activities. A wide range of different mechanisms seem to be employed to extend opportunities for interested individuals and groups to interact, and there are mechanisms and an underlying governance structure which appears from the outside to be conducive to enabling these interests to feed into high-level decision-making processes. The test of any process, however, is in how it works in practice, and detailed research is required into the actual functioning of this governance structure. The on-going debate about the BBC in the UK suggests that it isn’t perfect, but there is at least some evidence to show that its governance structures do work, at least to some extent. For instance, in 2010 the BBC Executive announced plans to close the BBC Radio 6 Music and BBC Asian Network digital radio stations, but this move was later rejected by the BBC Trust after a public campaign against the move (<http://news.bbc.co.uk/1/hi/entertainment/8544150.stm>). Similarly, the Trust recently performed a similar consultation concerning the plans of the BBC Executive to close BBC Three as a broadcast TV channel ([http://www.bbc.co.uk/bbctrust/news/press\\_releases/2014/bbc\\_three.html](http://www.bbc.co.uk/bbctrust/news/press_releases/2014/bbc_three.html)), a decision that created a significant public campaign to reverse the decision

Our aim in considering the BBC has been to highlight theoretically positive governance mechanisms that appear to be broadly applicable to broadcasters in other countries, and indeed to firms in other strategic sectors. It is that the mechanisms and structures apparent in the BBC are significantly more in line with the principles that we have identified with ‘public interest broadcasting’ than the mechanisms and structures shaping decision-making processes in the typical (shareholder-centric) modern broadcasting company (or indeed state-controlled broadcaster). Therefore while we certainly would not advocate the slavish replication of BBC type governance institutions in other situations, as due consideration should be given to context and questions remain as to how well these processes actually performs in practice, we should take note that alternative governance structures and mechanisms are possible in large production organisations. Moreover, the fundamental concern with *governance processes* stressed by the strategic choice perspective provides a strong theoretical rationale to explore further the actual outcomes of such alternative structures and mechanisms in different settings. This is particularly critical in the broadcasting sector given the key role it might play in supporting ‘information’ and ‘deliberation’ public goods throughout the whole economy.

## V. CONCLUSIONS

Application of the strategic failure perspective gives us unique insight into the significance of the broadcasting sector for the overall development of the economy. We have argued that this is an especially important sector for a society concerned with the public interest in all areas of economic activity. The influence that broadcast media potentially have over people’s ideas, perceptions and actions make the sector particularly susceptible to strategic failure: a situation where development of the economy proceeds in line with the exclusive interests of a (number of) small, powerful group(s). On the other hand, broadcast media can potentially provide a crucial stimulus for the interaction, discussion and debate among people that underpins the economic democracy required to overcome strategic failure and might therefore be thought of as stimulating a wider public good.

We have suggested that the critical factor distinguishing these two scenarios is the governance of the broadcasting sector itself, and in particular the *process* of determining strategic decisions. This differs markedly from most existing economic debates on the broadcasting sector, or indeed the media sector more widely, which largely focus on aspects of ownership, market failure and competition policy. Existing literature generally considers either the wider importance of the sector to the functioning of the economy as a whole (the public choice literature) or the internal operation of the broadcasting sector itself (the public service broadcasting literature). It rarely, if ever,

considers both issues simultaneously. Our application of strategic choice perspective allows both of these bodies of literature to be reconciled; it integrates the importance of the sector in and of itself, together with its influence in the wider economy.

This analysis suggests a distinct rationale for broadcasting. We have argued that broadcasting should be ‘truly public’ in the sense of opening a Habermasian space in society, thus enabling public interests to be identified, articulated and pursued, both directly with regards broadcasting activity, and more generally within the wider economy. In this regard we advocate ‘public interest broadcasting’ as distinct from current notions of public service broadcasting. This would imply that ownership and regulation issues *per se* are not central concerns, although different alternatives in this regard may make it easier or more difficult to achieve such public interest outcomes. It is mechanisms and processes of governance that we suggest as the core focus of concern.

In order to highlight possible governance mechanisms for organisations that seek to identify public interests and integrate them in their strategic decision-making processes, we highlighted the unusual organisation of the BBC. While an in-depth evaluation of this organisation falls beyond the scope of the paper, our analysis suggests that there are potentially interesting lessons given the marked differences in its governance when compared with those of commercial broadcasters. We cannot definitely conclude at this stage that these unique structural and governance mechanisms are effective in avoiding strategic failure, and thus something to be adopted generally by large firms in key sectors. However, their existence suggests real possibilities worthy of active consideration, and therefore an agenda for thorough research into their functioning and efficacy in enabling the public interest to genuinely determine important decisions in a key sector. In particular, there are three core questions that require further investigation:

- how well are these governance mechanisms working in practice?
- are they preventing strategic failure in the activities of the BBC?
- how readily could they be applied positively to other large firms in other industries?

Coase (1966, 447) concluded his analysis of the economics of broadcasting by commenting: “I would not argue that academic economists are technically the best qualified to investigate what government policy should be towards broadcasting. But unless they do it, no one else will.” Mainstream economics has since developed further along market failure lines, generating an obsession with ownership, competition and regulation. While these are clearly important considerations, we have suggested that they are not the most critical issue. We would agree with

Coase, therefore, that academic economists (in this market failure tradition) are not the best qualified to investigate government policy in broadcasting. However, we suggest that unless social scientists, including economists, develop better analysis of the processes of governing economic activity and apply this to policy in the broadcasting sector, the spectre of strategic failure will continue, both within the sector and in the wider economy.

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