The Initial Programme Supply Structure: 1954-1964

All conceivable contracting options between market and long term relational transacting, as described by Macneil (1974), could have been considered. However, the market option to acquire or commission individual programmes from independent contractors, was not considered by the ITA. Three political factors limited the ITA’s perceived options. They were Government restrictions on broadcast hours and their timing, uncertainty of frequency allocation and, Government pressure to form programme supply relations with the ITA’s public service counterpart, the BBC. All these factors were primarily due to the Government’s effort to exert control whilst not appearing to directly influence decisions. The ITA’s financial resources

Abstract

This paper is an extract from the report of a case study into the programme supply make/buy decision of the UK’s main terrestrial commercial television channel, ITV. It compares this decision in the start-up period (1954-1964) with the latest operating period (1992-2001) to show how programme supply arrangements have changed. It also provides an interpretation for why these changes have occurred. ITV’s continuing dominance of the UK terrestrial commercial market permits this paper to be examined as a country specific case of how organising structures for programme supply evolve. Due to the concise nature of this paper, only one aspect of the make/buy decision is compared: changes to the structure within which programme supply decisions are determined. The analysis is based on state archives and interviews. It is concluded that contractual ambiguity and political fear of the social impact of commercial television initially inhibited the adoption of a competitive programme supply structure. Later changes to this structure are attributed to increased contract specification and a more market-oriented approach. A brief theoretical interpretation based on transaction cost economics, economic sociology, and the property rights literature is provided.

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were also restricted by the Act and insufficient to cover its set up costs. Further, the ITA was resolved that it should retain control alongside the Government over how UK commercial television would develop. This combination of factors, in the ITA’s view, required it to devise an organising structure that maximised programme contractor commitment and financial investment.

A draft regarding the programme supply organising structure had already been devised from extensive work undertaken by the Post Office (HO: 256/250; Paper CT (54) 5. Public Record Office). This document, existing prior to the ITA’s establishment, anticipated the contractual relationships expected to exist between the Government, its agency (the ITA), and potential programme supply contractors. Although not required by the Television Act (1954) to adopt this structure, the ITA seriously considered it. The chosen structure also had to interpret and incorporate the ITA’s obligations as specified in the Television Act (1954). The most pressing concern was to avoid contravening Section 5(2) which outlined the ITA’s competition obligations. Choosing a programme supply structure was conditional on how it defined competition and the ITA found this difficult to interpret, ‘the chief, and in fact the only real, difficulty was to decide what constituted competition’ (ITA Minutes, 21 September 1954. ITC Archives).

The ITA deliberated whether or not to choose a programme supply structure that eliminated most of the potential programme supply contractors available. It reasoned that a large number of programme contractors would not necessarily increase programme supply competition and, ‘since the meaning of the Section (5(2)) was obscure to many people, it was unlikely that any criticism of the Authority would be made on that score’ (ITA Minutes: 8 February 1955. ITC Archives). The Authority remained committed to the idea that one programme contractor for each transmitting station was the best solution because ‘one station with several companies of equal status would surely be troublesome, costly, and confused for the companies’ (Confidential File: A/X0043/01. ITC Archives). However, it also recognised that establishing a programme supply structure on the above basis would create regional monopolies. Each programme contractor would have the sole right to sell advertising in its own region. However, there was no reason why the chosen programme contractors should also have the sole right to supply all programmes. The ITA could moderate this situation by obliging the programme contractors to exchange programmes between themselves and to have each of them secure some proportion of programmes by sub-contracting (50 per cent was suggested) (Memo: The Third Way: The Theory of ‘Natural Lines of Division’; 6 September 1954. Confidential File: A/X0043/01. ITC Archives).

The ITA decided that competition could be satisfied by 1) licencing an ‘adequate’ number of programme contractors so as not to arouse external criticism and by 2) having programme contractors compete to supply programmes on the Network. It was intended that programme supply to the Network would be optional with some amount of network time reserved for new entrants as the Network extended nationwide. It was also expected that the programme contractors would subcontract some of their broadcast time. The result was a compromise between the preferences of the Postmaster General (PMG), the potential programme supply contractors, and the ITA. The structure that emerged was named the ‘Mosaic Supply Structure’.

This structure, being a compromise, in fact allowed four initial programme contractors to supply programmes for broadcast from the ITA’s first three

![Figure 1: Initial Mosaic Supply Structure](source: ITA Minutes; 5 August - 14 October 1954. ITC Archives)
transmitting stations. Broadcast hours were split into weekday and weekend time blocks. These programme contractors could supply programmes solely to their region and also to the Network. The structure was, at least in part, consistent with the ITA’s interpretation of Section S(2).

However, the decision to adopt the mosaic supply structure was not unanimous. The ITA only reached agreement on the basis that its decision could be revoked in the future (ITA Minutes: 14 October 1954, ITC Archives). The Postmaster General (PMG) also privately made known his strong reservations about the ITA’s choice. He warned of possible legal reprisal from rejected applicants. Based on legal opinion (ITA Minutes: 5 October 1954), it was considered that the ITA had failed in its competition obligations. Further, the two competitive elements mentioned earlier, forcing competition for access to the Network and imposing a sub-contracting quota, were vaguely specified and they were not enforced. The mosaic supply structure, in fact, technically contravened the Television Act (1954) by creating regional monopolies and by permitting restrictive practices to arise in the supply of network programmes. Nevertheless, the ITA’s decisions were not formally challenged during this first period.

The ITA’s reasons for adopting the mosaic structure are inferred from the archives and they are fourfold. It considered that specifying usage rights to the Network would lead the initial mosaic structure were inferred from the ar-

nership in the channel. It was also aware that contracts had to be arranged in a way that provided the financial means to build the new Independent Television (ITV) channel’s broadcast infrastructure. It believed this objective could best be achieved by contracting with a small number of programme suppliers. Further, the ITA sought administrative convenience in the supply of network programmes. It considered it would be possible to simplify the corporation’s (ITA) arrangements...there should be no question of the corporation selling small packages of time since this would complicate arrangements’ (HO:256/250 CT (53) 10. Public Record Office). These views were sustained by the ITA despite there being sufficient programme contractors available to accommodate a supply structure with much broader participation. Opportunities to introduce sub-contracting were also rejected by the ITA (A/S/0039/1: Contract Applications. ITC Archives).

In summary, a more competitive programme supply structure could have been constructed by not restricting broadcast hours, by the ITA taking direct responsibility as broadcaster for schedule management, by creating a structure that permitted selection from a larger pool of programme contractors, and by enforcing a network access and sub-contracting quota as originally envisaged. Instead, investment requirements and a politically negative environment were interpreted as sufficient reason not to do any of these things.


By the early 1980s, the political climate had changed considerably. Commer-

cially funded television was an accepted part of the UK television landscape. The restrictions on broadcast hours and timing were removed and another national television channel (C4), independent from the BBC, was launched in 1982. In addition, subsequent Acts (1964, 1972, 1981) and the broadcaster-regulator’s policies had tightened specifications regarding type and quantity of programmes supplied. A programme code regarding the appropriateness of programme material also existed. Concern about controlling programme content was outweighed by other outcomes resulting from having created regionally based monopolies.

The initial mosaic supply structure was notable for contributing to three outcomes. As expected, it enabled a small number of programme contractors, sufficiently financed, to supply a wide programme range and to pay substantial fees for building the broadcast infrastructure owned by the ITA. The differing size of the regions, coupled with the ITA’s reluctance to be administratively involved in schedule management, enabled an internal programme exchange system to evolve that, by 1964, was dominated by three of the fifteen programme contractors. Programmes were rarely commissioned to independent producers.

By 1972, when the ITA was renamed the Independent Broadcasting Authority (IBA), and throughout the 1980s, internal battles ensued between the larger and the smaller programme contractors regarding access to supply programmes on the ITV network. As importantly, ITV’s networking arrangements and the unquestioned right for programme contractors to wholly supply programmes for ITV was seriously contested. The mosaic supply structure had secured programme contractors’ ‘commitment’ to ITV at the expense of denying access to independent producers.
Independent producers were increasingly frustrated about the lack of opportunity to share in the financially lucrative business that UK commercial terrestrial television had become\(^\text{v}\). The programme contractors, combined, were also not entirely satisfied. They found that programme supply from independent producers was often cheaper because of ‘colossal’ over-manning and intensely restrictive work practices, ‘retaining high staffing levels was an extraordinarily inefficient way of making programmes’. One of the largest programme contractors, still in operation, described the situation as equally frustrating for creative directors as it was for management who, ‘found it appalling that they had to stop filming at 6 o’clock when they only needed another five minutes to complete the programme and that they were trapping the lost tribe of Israel around with them wherever they went, thirty people sitting in chuck wagons eating their way through the budgets’. These issues were confronted in a report of the Committee on Financing the BBC (1986: Cmd. 9824; HMSO). Some of the report’s recommendations, followed by extensive lobbying efforts,\(^\text{vi}\) were officially addressed in the Broadcasting Act (1990).

This Act (1990) substantially transformed the way in which the ITV’s mosaic supply structure could operate. It separated the role of broadcaster and regulator, privatised the transmitting infrastructure, and imposed a twenty-five per cent independent producer quota\(^\text{vii}\). The regulator, renamed the Independent Television Commission (ITC), was given a post hoc role. This meant that the ITA no longer held a right to approve schedules or to preview programmes in advance of transmission. It also had to shed all transmission responsibilities and adhere to a competitive tendering procedure for selecting the programme contractors. The programme contractors were renamed as ‘licensees’ and, having been assigned the broadcaster role, they became identified as ‘compliance’ broadcasters.

The mosaic supply structure now included fifteen regional licensees (RL) supplying programmes to fourteen ITV station regions (SR) and to the Network. One national licensee (NL) supplied a breakfast programme to the Network. The Independent Producers (IP) now had the statutory right to supply up to twenty-five per cent of all ‘qualifying’\(^\text{xviii}\) programmes. The modified mosaic supply structure is depicted below.

Schedule 4 of the Act (1990) also contained a competition test regarding how ITV contracted for the supply of programmes intended for network transmission. These ‘networking arrangements’ were later deemed to unfairly inhibit growth of the independent production sector and to distort competition between broadcasters (MMC: Channel 3 Networking Arrangements. London: HMSO; April 1993). The result was a further specification of the procedures and documents necessary to complete both Regional Licensee and Independent Producer contracts for programmes supplied to the network.

In summary, removing restrictions on broadcast hours and timing, separating the regulator and broadcaster roles, and enforcing a sub-contracting quota, diminished the regional monopoly situation that the original mosaic supply structure instituted.

**Conclusion & Theoretical Interpretation**

It has been shown that a key component for injecting competition into a monopoly programme supply structure was recognised from the earliest stages of ITV’s development. However, it took thirty-eight years before a quota came into effect. Based on the summary of evidence provided, it is suggested that the ITV’s initial programme supply structure was determined less by transaction cost efficiencies (Williamson 1985; 1988) than it was by political manoeuvring. The priority was to maximise control over programme sup-
ply and to maximize private sector investment rather than to minimise transacting costs.

In the ITA’s view, retaining station ownership was the only way to ensure ultimate control over what programmes were broadcast. For this reason, the programme contractors were forbidden to own the stations they paid the ITA to build. From a property rights perspective (Grossman & Hart 1986; Hart 1988), this outcome provides an example of 1) how the relative importance of investment is politically determined and, 2) how delineating residual rights of control can be motivated by objectives other than improving economic efficiency.

From the outset, decisions were affected by ongoing political negativity as well as by unspecified, loosely implied, and sometimes misconceived policy interpretations. One relatively inefficient outcome reported in this paper, is that at least some programmes made by the programme contractors, prior to implementing the Act (1990), were relatively more expensive than programmes made by independent producers.

Both the initial mosaic supply structure and its modified form in the later period provide an example supporting the view that economic action is socially situated (Granovetter: 1992; p5). Constraints imposed from existing institutions, namely the Post Office and the BBC, were influential in determining the programme supply structures that first emerged. The gradual changes in political decision making towards a more market-oriented approach also concur with the reasoning that ‘economic institutions do not emerge automatically in response to economic needs’ (Granovetter: 1992; p7). In the case of ITV, transaction cost reasoning only gained explanatory relevance as independent television obtained political acceptability and the boundaries of its provision were specified.

Endnotes

1. Relay companies were private firms that operated wireless relay exchanges and then distributed one or more programmes to subscribers over wire, or cable, networks.
2. The publisher-broadcaster model is one in which the broadcaster does not make its own programmes.
3. Acquisitions refer to purchasing usage rights, usually exclusive, in a programme already made. These rights are for a specified period of time and number of transmissions.
4. Commissions refer to having a new programme made, either in-house or by independent sources.
5. Prior to the ITA’s establishment, policy development for commercial television was the responsibility of the General Post Office (GPO) and the Minister responsible to Parliament was the Postmaster General (PMG).
6. Network refers to the growing technical infrastructure that would eventually enable transmission of a single programme on a nation wide basis.
7. A further eleven programme contractors were gradually added until approximately 94 per cent UK broadcast coverage was obtained using 22 VHF transmitting stations (ITA Annual Report and Accounts: 1964/65; p83).
8. Associated-Rediffusion, Granada Television, ABC Television, and Associated Television (ATV).
9. Administrative convenience, as a partial organising incentive, is similar to Coase’s (1950) explanation for why the UK television industry in the late 1940s and the early 1950s was structured as a single firm. The monopoly situation, according to Coase, arose because it was the most administratively convenient option for the Post Office.
10. See Sendall (1982, 1983) for an in-depth and personal account of the organising complexities during this period.
11. ABC Television provided fewer programme hours to the network and to the subsequent regional programme contractors relative to the other three initial programme contractors. It repeatedly complained to the ITA that it was disadvantaged by not having its programme contract area extended and by being restricted network access (Applications 7 June 1957, 30 October 1957. A/S(0035)/18, ITC Archives).
12. Independent producers are defined as programme suppliers that do not have automatic broadcast rights. This source of programme supply was first reported in the ITA Annual Report and Accounts: 31 March 1962, pp. 17.
13. Effective 12 July 1972, the Independent Broadcasting Authority Act (1972) added regulatory responsibility to the ITA for the introduction of Independent Local Radio, causing a change in the agency’s name to the Independent Broadcasting Authority (IBA).
15. The debates were industry wide and included the BBC.
17. This quota is applicable to all UK terrestrial producer-broadcaster channels.
18. Qualifying programmes include all transmissions except acquired programmes, repeats, news, and Open University and Party Political broadcasts.

References


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