Outsourcing Core Competencies?

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A business-like approach to strategizing and managing public service broadcasting (PSB) is a contemporary necessity. Despite laments and criticisms to the contrary, economic rationality and operational efficiency are demanded by the social context in which PSB operates. When the objective is to revitalise PSB – to redefine and reposition PSB to achieve a flourishing polynedia enterprise (Alm & Lowe, 2001) – the struggle is not survival against but rather thriving within the volatile context of market-driven transformation. As costs increase while employees decrease, a common condition in European PSB, efficiency and productivity become crucial. Political governors and regulatory agencies typically require that contemporary PSB be evaluated more on the basis of company practices than institutional identities.

Although unpopular with many, industrial logic is rational and manageable. It is about means and methods as interdependent elements in the production of goods and services. The logic highlights the vital importance of developing any company’s ‘core competencies’ as the best guarantee of future market performance. For a public broadcasting company, that obviously must include developing competencies in content production. Doing more with less, but all of it at high quality standards, is a complex construct. The degree of self-sufficiency entailed in a particular capacity frames the possibility space for producing.

Acknowledging such notions and practices as decisive criteria for valuing the operational worth of the public service remit in practice, this chapter focuses critical attention on the merits of outsourcing production and thereby ‘shrinking the machine.’ Although entirely justifiable for non-essential applications, for example facility maintenance and transportation services, outsourcing is a slippery slope when applied to the production capacity and capabilities of any company primarily valued on the basis of its content output. The authors focus keeneest attention on the Finnish context, using Yleisradio [YLE] as the illustrative case. But what’s happening here is by no means unique. The governing dynamics are characteristic throughout Europe, and much of the internal logic at YLE is informed by similar trends at sister PSB.
companies including the BBC (UK), SVT (Sweden) and DR (Denmark) (c.f., Käng-Shankleman, 2000; Søndergaard, 2002).

As is the case for all PSB companies in northern Europe, at least, YLE is an institution with mandated responsibilities for various cultural and social services. Public service is not simply about ‘products’ – by law and tradition it is about nurturing, supporting and also defending processes of broader significance. In earlier published work related to accomplishing this (Lowe & Alm, 1997), we have discussed the notion that modern PSB companies are organising to become “cultural industries”.

In this chapter we briefly consider three characteristic notions in modern organisational theory: 1) value chains, 2) strategic outsourcing, and 3) core competencies.

The Finnish context
Whenever the private broadcasting sector in Finland experiences serious business difficulties, no matter the cause or who is to blame, public discussion about the mission and capacity of public service broadcasting soon follows. Such is typically very critical towards YLE and dominated by industry CEOs, economists and populist politicians. They gin up the mill and trot out the Trojan Horse: as a publicly funded company (they rarely note that also means a non-commercial company), Yleisradio is distorting market dynamics and preventing the ‘fair play’ of competition between market forces (c.f. Pasanen, 2000). This undoubtedly sounds quite familiar to observers of recent EU media policy discourse, as well.

The critique seeks to legitimate claims that the YLE mission should only focus on supplementing the private sector with content and services that are not profitable for commercial operators. Here such claims are typically linked with the ‘itty bitty Finland thesis’ – here we are so small and far away that our private market demands special treatment. This blithely ignores the fact that Finland is a member of the European Union and that here, as elsewhere, private media increasingly features international investment from influential multinational corporations (e.g. NRJ, the Bonnier Group, Disney/Capital Cities, Metromedia, etc).

In a similar vein, the independent content production sector questions PSB’s self-sufficiency, equating this with tenuous claims of isolationism (c.f. Heikkinen et. al, 2001; Picard, 2002). Critics contend that YLE’s public finance resources should not be allocated to maintain the company’s internal production capacity but should instead be ‘channelled’ via YLE straight to the independent purse via contracting media specialists, facilities and content. Actually YLE television already allocates about 2.2 million euros for independent film production annually, and 16 percent of its annual domestic television production is contracted as part of its public service mission to
support Finnish audiovisual culture. That is typically a neglected acknowledgement, as well.

In recent years, the Finnish private media sector has also been shilling for public funds to finance their digitalisation and convergence plans (c.f. Paavela, 2001; *Digitaalinen sisältötuotanto*, 2002). That might be well and good, and isn’t in fact opposed by YLE because such would provide a needed boost in building up a digital broadcasting market. But it is ironic because YLE has been required to bear the lion’s share of costs to build the new digital infrastructures and launch first generation pilot services – without commercial support or investment. YLE is the sugar-daddy paying the costs to cover the action that will ultimately build new media markets that greatly lower the risks and barriers for commercial entry later, and potentially at taxpayer expense even then.

The good old days

From the mid-1930s through the mid-1980s, YLE’s mission was to serve Finnish citizens with public broadcasting services. YLE built Finnish broadcasting from scratch. The same is of course true about PSB companies in most European countries. Little wonder, then, that YLE developed a strongly self-sufficient institutional operation and culture. There wasn’t any alternative. The diverse skills and competencies necessary for broadcasting in Finland, first in radio and later television, had to be developed in-house. Of course there were international influences and relationships, but it was a long, costly struggle growing up. This was especially difficult in the historical context, given social conditions and the general economic situation in Finland from the 1930s until the 1990s.

As an institution, YLE was a journalistic- and programme-oriented “auter” organisation. YLE had plentiful resources and was organised into channel-specific program units with quite nearly 100% self-sufficient capacity.

Figure 1. Traditional PSB value chain
Each channel controlled the resources needed to run its operation. YLE professionals were ‘resource rich’ in a traditional value chain that was quite simple – YLE was an institution making programs for citizens. YLE professionals could largely decide what program contents they wanted to produce, how much of each type they wanted to produce, and how they would produce all of it (Alm, 1992). This system lasted until the end of the 1980s. Again, the overall situation was quite similar throughout northern Europe.

Engineering the cultural industry

In Scandinavia, that long era of relative stability and security for PSB was over by the late 1980s. Commercial broadcasting was licensed everywhere to varying degrees, beginning with local radio and progressively including semi-national and then national radio, as well as television. The 1990s were a watershed period because everything was in transition. Although differing in timetable and scale across the region, the period chronicles the launch of digital radio [DAB] and television [DVB], webcasting and multimedia capabilities, renewals and restructuring in radio and television operations, internal market schemas, downsizing and, by decade’s end, the emergence of matrix organisations (more about this later). In the same period, business management overtook institutional management and resources were in decline – partly because reserves were invested in so much digital media development and partly because license fee revenue hasn’t matched mandated responsibilities. Of course the broader context was characterised by the popularity of neo-liberal ideology, multinational media consolidation, and the various strains of convergence.

Thus, European PSB managers sought new management tools and practices to more effectively cope with such an unparalleled range of external and internal changes. The BBC has long been an influential model in the region. New designs, theories and methods have often been borrowed or adapted from the UK (c.f. Smith, 1998). That has certainly been evident at YLE.

The business-like approach to management is illustrated in changes that include new management systems, modernisation in cost accounting procedures, increased productivity in program production via streamlining and digitising work processes, outsourcing non-core services, trimming ‘excess capacity’, and building internal content, skill and resource markets. During the 1990s, YLE critically analysed and re-engineered much of its structure and many of its practices under the rubric of increasing efficiency, productivity, accountability and transparency. This has been necessary because:

- YLE’s service portfolio exceeds available financial resources. It has been especially costly to expand traditional analogue broadcasting services while also building new digital services and production infrastructure
OUTSOURCING CORE COMPETENCIES?

- Spiralling costs due to digitalisation and dramatic increases in buyers’ markets for programs, formats, genre (especially sports rights)
- Regulatory changes that have slowed resource growth and fuelled private chains and networking

Resource management is by now a top priority on the executive agenda in the first decade of the new century. How is this industrial ethos and economic rationality reflected in YLE’s strategic management?

Commissioning and full costing

Contemporary European PSB management applications are based on the separation of “broadcasting” (planning and compiling program portfolios) and “producing” (program projects). Combined with an emerging producer-based manufacturing culture (e.g. ‘producer choice’), the dynamic is best understood as the elaboration of two internal marketplaces in modern PSB. These are 1) the “schedule marketplace” and 2) a “resource marketplace”.

The PSB corporate centre (i.e. central administration) allocates financial resources to the various channels. In the “schedule marketplace” a channel head then opens competition for programme ideas and potential projects, inviting submissions/proposals from internal and external producers. The aim is to capture the best program ideas and then create efficient program projects. In the resource marketplace, in-house producers then contract with internal as well as external professionals for talent and facilities needed to make the agreed program.

The value chain in this system is increasingly complex because it is multidimensional. Although applications vary in design, most European PSB companies utilise approximations of the following for analogue production:

**Figure 2.** New PSB analogue value chain
Transformation in management practices indicated by the value chain pictured in Figure 2 is operationally defined at YLE by the concept ‘kaaviojohtaminen’ [management by schedule] (Hujanen, 2002). That is the managerial toolbox by which chiefs design and implement program strategies for radio and television channels. The challenge is to balance innovative artistic-journalistic energy against decreasing financial resources. The public service mission is here correlated with ‘customer’ needs and expectations because the new analogue value chain is focused on constructing competitive program schedules.

Of fundamental importance is the process of ‘tilauskäytäntö’ [commissioning]. The commissioning system is the operational link between program planning and production implementation. Program projects are commissioned for specific program schedule slots.

“Management by schedule” is correlated with producer choice and full cost accounting via an internal market system. Producers manage the program projects according to agreed objectives and financial resources. Because the producer owns the project budget, editorial and facility capacity is operationally defined by his or her production decisions. The organisational structure can be mapped as in Figure 3.

**Figure 3.** Decision-making levels in management by Scheduling

YLE’s internal competencies, resources and facilities are constantly engaged in price competition and also benchmarked against external rivals. At the same time, self-sufficiency in artistic-journalistic capacity, as well as production resources and facilities, have been reduced and outsourced to varying degrees. Broadcast news production is still seen as a core product, so in this
the company remains self-sufficient for the most part. But quiz shows and weekly entertainment shows, for example, are largely outsourced today.

2002 – 2003: The year of the matrix

Although increasing, the volume of outsourcing is actually not as high as initially predicted. This is partly because there aren’t as many Finnish external independents with high competence in the various genres of production as anticipated, and also because the growth rate for independent production houses hasn’t been brisk – especially since the deepening economic downturn now in its third year globally. Also as noted earlier, YLE essentially built Finnish broadcasting so it shouldn’t be surprising that much of the best talent in any particular genre is often employed by YLE.

One pressing problem that dampens the fullest strategic possibilities correlated with owning that strength is that the best professionals in any particular genre tend to be scattered across YLE channels and departments. The monopoly past created a ‘silo’ work culture that 1) makes collaboration and co-operation iffy and 2) correspondingly accounts for redundancies and duplication. Again, this problem is characteristic in European PSB more broadly. The popular solution is predicated on a ‘matrix’ design for the organisation (Figure 4 illustrates a generic matrix organisation model).

Figure 4. Generic Sample, Matrix Organisation

YLE television and radio production professionals are increasingly organised into program genre ‘competence centres’, also referred to as ‘skill cen-
tres’. There is a subtle but important distinction. ‘Competence’ is the measure of skill in execution. Professionals with expertise in broad but particular genre categories are collected into one editorial unit to increase consistency, innovation and synergy. The news skill centre can, for example, produce news programming for all of the channels across media operated by the company. The matrix organisation enables innovation via ‘versioning’ whereby the same raw content can be variously adapted or configured to create targeted format programming for different channel and media applications, and also efficiency because one or two journalists will suffice at any event (instead of half a dozen or more, each representing one channel).

Although the matrix design may eventually solve a range of long-term problems including, especially, the traditional silo work culture and the need for higher efficiency and also more innovation, it of course creates other potential problems. In this schema, decision-making moves away from those responsible for producing programs to those responsible for programming channels. As a result, journalists for example can be too distant from program planning and producers or editors may be tempted to concentrate overmuch on the ‘factory floor’.

Make it or buy it?

Fine and Whitney (1996) stipulate two types of outsourcing dependency. In capacity dependency an organisation has the competence and resources to manufacture the product, but because of time or cost savings realises better value in buying from external sources. For instance, YLE’s TV News department can outsource a single cameraman for a night shoot because that’s a faster and more flexible option than attempting to reorganise the internal department. Similarly, it’s often cheaper to buy a programme concept from an independent entrepreneur than to invest the time and money to do that internally, even when it can in fact be done this way.

The second outsourcing type is knowledge dependency. This is characteristic when a company needs particular (often narrow) expertise in which the company lacks knowledge or skill. In such cases it is cheaper to buy it than to build it. For instance, the company can buy a weekly political satire program that relies on 3D-computer animation because it lacks the specialised knowledge to do that on its own. Capacity dependency may also play a role because in this case it would also be cheaper to contract a program that relies on specialised IT-tools rather than buying and constantly upgrading the platform needed to do that in-house.

But as Fine and Whitney further observe, organisations learn to utilise and also further develop any manufacturing process they own. Product development in new media content is a relevant example. In the long run, it’s more fruitful to build new media infrastructure and systems in-house because
being dependent on external sources for that knowledge and capacity will increase long-term costs and also hobble possibilities for future development of the polymedia enterprise.

These theoretical contrasts can be summarised as two opposing schools of thought about outsourcing, defined in terms of 1) time and 2) money. In the cost-based outsourcing framework, short-term transaction costs play the decisive role (Bassett, 1991; Ellis, 1993; Poppo, 1998). For PSB companies, that is characterised by statements such as, “our business is program services, not production processes” or “the program product is what customers buy, not the process to make it”. In the strategic outsourcing framework, on the other hand, the view is long-term in recognising that anything a company doesn’t own will never be developed internally. Given the fact that so much is changing, and so rapidly, learning towards mastery is a governing premise for any expert organisation that must remain expert to survive. ‘You learn by trying, not by buying’, so by outsourcing all or even most product manufacturing a company is inherently also depressing the organisation’s capability to learn and develop its processes and products in those areas. This realisation accounts for recent agreement that such is a crucial consideration for the senior management agenda in any company – public or private (Venkatesan, 1992; Fine & Whitney, 1996; McIvor et al, 1997; Greaver II, 1999).

YLE is an expert organisation and highly dependent on its range and depth of media-related knowledge. It is therefore of vital importance for YLE, and sister PSB companies, to maintain that expertise as in-house competencies. This demands internal production capability and capacity. That is not only important for making, and indeed for development in making, but also for contracting external services where appropriate. In the absence of such expertise, one can never be certain what he or she wants to buy, or what he or she is buying.

McIvor, Humphreys and McAleer (1997) postulate three fundamental problems for any organisation dealing with outsourcing:

- No formal or systematic method for evaluating the outsourcing decision. Outsourcing is most often done on the short-term cost saving basis. That is treacherous if one hasn’t also taken sufficient account of the needs and ambitions for the organisation’s long term competitiveness.

- Real costs are not properly measured and evaluated. Outsourcing decisions are often based on overly optimistic assumptions for cost savings. It’s rare that the most optimistic expectations are actually realised in practice. Qualitative factors including long-term strategic objectives and ‘collateral damage’ in workforce reactions should therefore have a much stronger impact on outsourcing decisions.

- Neglecting the core competencies. As signalled above, Hamel and Prahalad (1990; 1994) criticise the cost-based approach to outsourcing strategy because it ironically erodes development in an organisation’s
core competencies. Core competencies are the decisive key to a strong corporate future because they open the gateways for tomorrow’s opportunities (see also Quinn 1992).

Public service broadcasting companies cannot survive if they are unable to recognise, develop and utilise the core values that are implemented via operational capability and capacity – the practical ground for competency. Competencies are core when they are necessary for survival, so anything ascertained to be a core competence must be integrated company-wide. Core competencies create those real, meaningful and long-term distinctions that construct the ‘brand’ a company commands in customer perception; they are fundamental to the enterprise and make disproportionate contributions to customer perceptions of value. The competencies that qualify as ‘core’ properties are also unique to the organisation concerned and cannot be readily reproduced by competitors. Moreover, it is core when it is extendable – new products and services can be developed on the basis of core mastery. And if it is core, then it is sustainable.

The roots of distinctive core capabilities often extend back to the organisation’s founding circumstances, emerging as the various means by which an organisation can fulfil its governing mission. Thus, those competencies that really are ‘core’ are premised on defining values and the innermost meanings of organisation culture. Stated bluntly, it isn’t a core competence if you have to rent it.

All of this implies the importance of ‘own production’ for contemporary PSB companies. Before addressing that specifically, it’s important to understand that outsourcing some proportion of content production is advisable for at least three reasons. Doing so supports the independent audiovisual sector, thereby cultivating new talent and stimulating domestic and regional media development. Secondly, it facilitates cost savings via co-production investment and also correlated reductions in permanent contract personnel needed in-house. Thirdly, it better ensures the PSB company can focus more tightly on production that services the core competencies of the enterprise.

But the criteria determining the proportion best handled via outsourcing are certainly complex. Some genre operationalising core competence can’t be outsourced, particularly for example news operations. The daily pace of operational requirements to handle journalistic services quickly and professionally requires a network of highly skilled correspondents, on-premise and remote production facilities, a competent production staff in television and radio, etc. Another factor is related to the nature of targeted audiences. Minorities, for example, are unlikely to be of great interest or sufficient commercial value for a sufficient range of private companies to service them in any robust sense. If exclusively outsourced, the quality of minority-oriented content provision would be compromised. Competence development is yet another factor, as discussed earlier. Anything a company isn’t involved in directly producing is inherently something for which the company doesn’t
have or develop expertise. These are only three factors to illustrate. There are of course many others that could be discussed as well (e.g., skill centre development, innovation in production processes, competent support and involvement in building digital infrastructure, cross-media development, and expanding regional and local services).

Defying or at least ignoring all of this, some instead suggest a ‘disaggregate approach’ (see the chapter for Jakubowicz) whereby all content would be outsourced and the PSB company would more or less exist only as a kind of administrative shell. This discussion signals the poverty of that concept for long-term domestic media development in content, access and infrastructure. Such an approach would not only fail to guarantee adequate provision of public service programming, but also development of public service values in operational practice.

Core competence and core value
So what are YLE’s core competencies? What are the capabilities and knowledge that count as core because they must be continually utilised and also developed in the future? Although the following remarks are framed in relation to YLE, with slight changes they are relevant for any PSB company.

Some think that various program genres or distinctive programs are core competencies. They are not. They can be ‘core products’ produced by skilled professionals utilising technology and other tools (e.g., conceptual), but they aren’t core competencies. Some think program or channel brands are core competencies. They are not. They can be ‘product leaders’ keyed to market presence and performance, but they are based on actuality rather than capability. One has to dig beneath the organisational surface to identify core competencies because such competencies are capability for operational enactment of core values – where the inspiration becomes perspiration.

For YLE, capabilities to comprehensively reflect and support creation in Finnish culture, identities, and feelings of relatedness to different languages or to geographical, cultural or religious reference groups is a core competence – let’s call it Finnish-ness (suomalaisuus).

For YLE, capabilities to maintain cultural pluralism and communication diversity that ensure the vitality of living sub-cultures is a core competence. Let’s call this diversity and divergence. As Hellman (1999) observed, diversity of programs and divergence of program choices are still tightly linked with YLE, especially important in light of turbulence in the contemporary Finnish media market.

For YLE, capabilities to sustain a sense of security and reliability is a core competence, also important in a social environment that is increasingly international and frequently unsettled. This has been repeatedly verified by audience research results. YLE is still considered the most reliable media
source in Finland. YLE journalism is understood by Finns to be independent of political, cultural and economic interest groups.

For YLE, *benchmarking quality and professionalism* is a core competence. YLE serves as a benchmark for commercial rivals by establishing professional and industrial standards in various program genres. In doing so, YLE secures a desired quality for broadcasting overall in Finland. Such benchmarking is relevant for both audiences and media professionals. Thus, YLE is the premier developer and creator of Finnish broadcasting competencies and skills.

Finally, YLE has the best and most comprehensive knowledge necessary for developing, elaborating and building the national broadcasting infrastructure and applied technologies needed for digital broadcasting. YLE is the only Finnish media company with mandated societal obligations to invest in both infrastructure and content development needed for digital services in the converging information society, and the only sure guarantee that such will be available for every Finn. For YLE, *universal service* is a core competence.

The outsourcing approach for programs and program-related operations has been mostly based on short-term cost savings. Combined with producer choice and internal market systems, cost-consciousness among YLE employees has increased apace with overall improvements in efficiency and productivity. Organisational structures are leaner and more flexible. But decisions keyed to outsourcing must be understood as fundamentally strategic in nature and implication.

Thus, a far more thorough and systematic analysis of competencies to establish what is actually ‘core’ is essential. In doing so, it’s crucial to remember that a core competence can’t be rented – it’s only core if the company owns it and competitors can’t quickly or cheaply achieve the same conceptual and operational values. Keeping in mind the discussion about YLE’s core competencies, and remembering that these are fundamentally linked with core values, if YLE were to surrender or otherwise lose those core competencies it is unlikely such would be recreated elsewhere.

Saving money is important for many reasons today (e.g. legitimacy, productivity, efficiency, quality), but robust support for the public service approach and public service capabilities is far more important to the future of Finnish social and cultural life. That is why ‘own production’ capacity is essential rather than tangential; it is a pre-requisite for consistently realising and also developing public service mediation. This discussion underlines the supreme importance of socially conscious media policy.

References


