Strategies for Managing Internal Competition

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Internal competition evokes mixed feelings among most senior executives. When asked whether it is allowed within their firm, the gut reaction from executives is usually negative. It conjures up images of turf wars among departments. It is seen as indicative of an inability to define a clear strategic direction. Furthermore, it is often thought to result in massive duplication of effort and an insipid financial performance. Moreover, it is not hard to think of well-known cases to back up this argument. GEC, the British conglomerate, was built on a model of strict divisional autonomy and internal competition, which in the words of one former manager meant that "we duplicated development and then we cut each other's throats in front of the customer." The acrimonious divorce between Arthur Andersen and Andersen Consulting resulted in large part from their competing consulting operations.

However, many executives also recognize that there are important benefits to internal competition, as long as it is kept under control. Three primary benefits can be identified. First, internal competition creates flexibility. Rapid technological change can make even the most carefully constructed business plan meaningless. Rather than putting all their eggs in one basket, many companies today prefer to keep their options open. They will put R&D groups to work on different technologies, invest in different channels to market, and encourage several divisions to work with different approaches all because they do not know which path the future will take. Internal competition, carefully controlled, can provide the active experimentation and flexibility needed to keep up with such changes.

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Second, internal competition challenges the status quo. Large firms typically become inertia-ridden over the years, victims of their own success. Customers and their needs are taken for granted. Management systems take on a life of their own. Practices and beliefs become ingrained. Such a system is hardly conducive to revolutionary new ideas. Typically such ideas are developed instead by small upstart firms or by frustrated employees who leave their inertia-ridden firm to sell their idea to someone else. Internal competition can provide an antidote for myopic thinking, essentially as a means of challenging the hidden assumptions that underlie a company’s existing technologies or markets. For example, many R&D operations are set up in explicit competition to the mainstream business with great success—think of IBM’s Personal Computer, Astra’s blockbuster drug Losec, or Ericsson’s mobile phone business.

Third, internal competition motivates greater effort. It is human nature for individuals to pull together and work harder when faced with a direct competitive threat. Often this competitive threat comes from outside—think, for example, of Apple Computer defining itself against the “evil empire” of IBM. However, competition can also be encouraged internally, through product shoot-outs and charter battles, and such approaches represent a strong motivational incentive to employees.

These costs and benefits have to be carefully balanced against one another. Allow too little internal competition and you are likely missing out on any number of emerging markets and technologies. Allow too much and you will suffer the costs of duplication, strategic incoherence, and in-fighting. Senior executives need to get a better understanding of the costs and benefits of internal competition so that it can be used in a more judicious manner. Furthermore, they need to figure out a way of managing internal competition when it occurs.

This article is based on five years of detailed research in ten companies (see Appendix) and presents strategies for managing internal competition. Internal competition as described in this article refers to parallel or overlapping activities inside the boundaries of the firm.¹ The key point is that business units or project teams are competing for the rights to a particular technology or product charter and not just for access to financial resources. Thus, product shoot-outs between development teams and business units with overlapping product charters both represent cases of internal competition, whereas R&D operations may or may not be, depending on the extent of overlap with the mainstream business.

Why Does Internal Competition Arise?

To make sense of how internal competition arises, it is useful to think about the process of strategy making in large firms. Essentially there are two parallel processes. One is a top-down (or “induced”) process through which executives define strategic priorities and allocate resources.² The other is a bottom-up (or “autonomous”) process through which strategic opportunities are identified by lower-level managers and brought forward for attention and
funding. Most large firms today operate with a combination of these two processes. Senior executives have to define strategic priorities in order to create some coherence around strategy making, but at the same time they rely on individuals throughout the firm to bring to their attention ideas and opportunities for future market development. Some firms, such as Oracle and Intel, operate with a relatively powerful top-down strategic process. Others firms, such as Ericsson and 3M, have a more powerful bottom-up process.

Internal competition emerges in large part as a result of the tension between top-down and bottom-up processes. Senior executives recognize that they need to encourage people lower down in the firm to bring their often competing ideas and projects forward as a means of keeping up to date with technology and market changes. At the same time, they know that there are significant drawbacks to internal competition, in terms of the simple costs of duplication and the ambiguity it can create around strategic direction. Thus, it is possible to think in terms of an *internal competition lifecycle*. It starts when two or more options are brought forward in parallel, and it ends when top executives select one of these options at the expense of the others. An episode of internal competition can therefore be very short—it can be stamped out as soon as it happens; or it can last for a very long time, such as when a financial services company allows an Internet bank to coexist alongside a traditional retail bank. The point is that every case of internal competition has to be evaluated on its own specific costs and benefits. As the flow diagram in Figure 1 shows, if the costs exceed the benefits, internal competition should be terminated and the activities in question consolidated. However, if the benefits outweigh the costs, then the competing entities should be allowed to coexist—at least for the time being.
Two key questions emerge from this framing. First, what criteria should be used to decide whether internal competition should be terminated or allowed to continue? Second, how do you manage the process—both in terms of the emergence of internal competition in the first place and in terms of evaluating it and shutting it down? To answer these questions, it is important to make a basic split between two different types of internal competition in large firms. The first is competition between technologies or product ideas, which takes place within the boundaries of the firm and typically as part of the product development process. The second is competition between business lines—between two or more businesses competing for the same customers. Figure 2 illustrates these two forms. As shown, the most critical difference is the selection process by which the winner is chosen. In the first case, the competing technologies fight it out internally, with senior executives ultimately deciding the winner. In the second case, the business lines are competing in the marketplace and end customers make the choice. However, there are also a number of other differences, and these have important implications for how the two forms are managed.

**Internal Competition between Technologies**

The most common form of internal competition between technologies is when two or more divisions independently start developing very similar technologies. Consider the example of Hewlett-Packard's computer division. In 1988, a group vice president became aware of two divisions both developing an X Terminal workstation. One division located near Toronto had been aggressively developing a prototype X Terminal, despite a lack of prior expertise in this technology. A second division based in California had a strong background in terminal development but despite their stated intent to develop an X terminal, they had made little progress. As one Toronto executive noted, "They had a lot more credibility than us, but they had their plates full with the current business opportunity, so they did not come up with a credible business plan." In early 1989, the group vice president brought the two divisions together to review their progress and to assess their prospects for commercial success. It was clear at that point that the Toronto division was significantly ahead, so despite protests from the California division that it was "their charter" by rights, Toronto was encouraged to continue. Ultimately Toronto came up with an X Terminal that proved to be a commercial success. The Californian division realized that they were too far behind in the X technology to catch up and shifted their development effort elsewhere. As one executive observed, "If they [California] had been doing their homework, this would never have happened. They started crying foul and complaining that Toronto was stealing their charter, but if they had been minding their business, this would not be an issue."

The other way that internal competition between technologies can occur is when it is mandated from above. In this situation, senior management's role is less about selecting between the competing alternatives and more about
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FIGURE 2. Two Different Forms of Internal Competition

1. Competition between Technologies

Competing technologies being developed

Executives judge which to continue, which to close down

Customers

2. Competition between Business Lines

Business lines offering competing products in the market, typically with slightly different technologies

Relative merits of competing lines decided in the marketplace. Executives decide whether to consolidate or allow them to coexist

Customers

generating the options in the first place, putting in place a process by which a winner can be selected. For example, the copier development group in Fuji Xerox was working in the early 1990s on a next-generation color copier. The technology steering committee had fast-tracked technology B, a way of configuring the flow of paper through the copier. However, it had run into some technical problems, so they put together a new project team using technology A. The two technologies were developed in parallel, and a year later the steering committee undertook a review of the two technologies, getting input from the prod-
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**TABLE 1. Coexistence or Consolidation in Competing Technologies**

<table>
<thead>
<tr>
<th>Question</th>
<th>Coexistence. Allow internal competition to continue for the moment.</th>
<th>Consolidation. Merge the competing options, or close all but one down.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Technological Uncertainty.</strong> Is it clear that one of the competing options is technologically superior or more certain to overcome technical obstacles?</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Market Uncertainty.</strong> In your judgement, is one of the competing options clearly going to be more successful in the marketplace?</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Costs of Duplication.</strong> Are the marginal costs of running two competing options in parallel prohibitively high?</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Size of Market.</strong> Will the marketplace be big enough to support two different standards or two similar products?</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Make or Buy.</strong> Is there an equally valid option to buy the technology in question rather than make it in-house?</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Critical Mass.</strong> Will running two or more competing technologies in parallel spread you too thin in terms of the availability of suitably qualified people?</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Speed to Market.</strong> Is speed to market more critical to success than the cost of development?</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

uct group, salespeople, and even some customers. They eventually selected technology A as the one that would be incorporated in the new color copier. Technology B was continued with less funding and was eventually discontinued. The manager in charge of Technology B was given the job of incorporating Technology A into the copier to ensure that he did not become disillusioned by the failure of his technology. As this manager observed, “For me the process was very effective because the product was launched with no time loss and there was mutual consent over the final decision.”

How do you decide if and when to put an end to internal competition of this sort? Table 1 provides a summary of the key criteria that emerged from the research. However, it should be recognized that this is a general list, and the challenge of prioritizing and trading the criteria off against each other is far from easy. A common scenario, which I refer to as “Sophie’s Choice,” is where there is a high level of technological or market uncertainty around the competing options, but the costs of duplication are becoming very high—for example, the investments made by telecom firms in the various 3G standards or the
development of new pharmaceutical drugs. In such cases, the best approach is typically to keep options open by avoiding heavy investments until some uncertainties have been resolved. However, it is also possible to build relationships with external partners, to defray the cost of duplication through alliances or to buy in the critical technology if it is available. These strategies have their own problems, as the Ericsson 3G example below shows, but they represent ways of resolving the almost inevitable tensions that arise.

In terms of managing the process, there are a number of important points to bear in mind.

**Catch It Early**

This applies only in cases where internal competition emerges in different parts of the company rather than when it is planned. However, it is absolutely essential to avoid the real nightmare scenario of near-identical products getting all the way to market before the company finds out. Consider the example of 3M’s “self check” library system. Back in 1989, Hilary Smith, a market development manager in 3M Canada, identified the possibility of a self-check system whereby patrons would check out their books themselves rather than giving them to the librarian. Having failed to get any interest in the product idea at corporate HQ, she pursued it anyway and put together a prototype using seed funding from the Canadian R&D budget. It was only when she presented the prototype at the annual American Library Association meeting that she discovered 3M Australia had developed a very similar product. Once they were aware of each other, Smith and the Australian team got together and ultimately came up with a very successful product that built on the best features of both prototypes. However, in retrospect it was clear that they should have become aware of each other's technology before the American Library Association meeting.

How can this sort of situation be avoided? A number of different systems were used by the companies involved in the research. ABB has a technology-based system called PIPE (project idea, planning and execution) in which R&D engineers place their project ideas at a very early stage to inform their colleagues around the world what they are doing and to get feedback from them. Ericsson operates with a very dispersed model in which it is accepted that internal competition will emerge all the time. However, the personal networks and lateral communication systems in the company are strong enough that cases of overlapping technologies or projects are quickly brought to the attention of senior managers. In one recent case, an executive was reviewing the company’s prospective offerings in the Internet Protocol (IP) space and through his personal networks quickly identified seven competing technologies. Armed with this information, he was able to focus Ericsson’s efforts towards a couple of them and redirect the work of the other five development groups. A third approach involved structuring the innovation process more formally. For example, Hewlett-Packard’s Test and Measurement Organization (now spun off as Agilent) instituted an extra “tollgate” in the development process as a way of giving
greater visibility to early-stage projects. This helped to avoid cases of internal competition going unnoticed in the early phases of technology development. Finally, all these companies made use of informal knowledge brokers—individuals who are well connected throughout the company and who are skilled at linking up people who need to talk to each other.

**Bring the Competing Units Together**

Regardless of whether internal competition is emergent or planned, it is important to bring the competing units together as soon as possible. In emergent cases, the key issue is to understand how the competing business units see the technology evolving, and what sort of market need they think it will serve. The value of competition of this sort is that the business units have different perspectives and different technologies, and this can be the source of new opportunities for the company. For example, one case in HP's Test and Measurement Organization led to three competing units coming together to discuss market potential in “Voice over IP” technology. In discussing their different views of the market, it became clear that the potential was far greater than each unit had realized individually. They were able to carve up the emerging market opportunity in such a way that each unit could continue to develop its products and also benefit from collaboration on certain aspects of the technology.

The other reason to bring competing units together is to alleviate the bitter rivalry that can sometimes emerge. One such case was an IT infrastructure company called Telstar that found itself running two competing middleware technology platforms. AX was a proprietary platform that had been used for years within Telstar. EX was a new, open standard that had first been used in the networking division and was now being pushed throughout the company. The competition between these two platforms came to a head when the new business unit had to choose one. As one manager commented, “there were very heated discussions. There was an almost religious passion among people on both sides as to which was the superior platform.” After the discussions had ended in deadlock, top-level executives were brought in and they decided to choose in favor of EX, the open standard. However, they also placed the two warring teams in the same group in order build a common platform for future use. As one manager commented,

“This meant there were 50 people from each side working for the same boss, but with fundamentally different beliefs about which platform was superior. To this day, each group still claims their approach is the best. There are some shared features now, and the end user interface is basically the same. But ultimately one of them will have to be scrapped.”

In this case, bringing the two units together was painful for the people involved, but was a necessary step for future technological developments in Telstar.

When internal competition is mandated by senior managers, bringing the two units together early on serves the purpose of defining the “rules of
engagement.” As the Fuji Xerox example illustrated, this form of competition is typically undertaken to address a particular problem. The competing units have to understand the criteria against which they will be evaluated, the timing of the next review, and the extent to which they are allowed or expected to cooperate with one another. Pharmaceuticals companies typically do this very well in their research labs. While there is always a competitive element, the prevailing philosophy is that the competing units are working towards the same ultimate goal, and this makes it relatively easy for scientists to both collaborate and compete at the same time.

Accept Coexistence as a Possible Outcome

While the rule of thumb in this form of internal competition is that it should be resolved as quickly as possible, there may be cases where coexistence is the best outcome. Conceptually, the reason for this is that executive judgement cannot always substitute for real market data. Because of the level of technological uncertainty in many markets and the way that standards emerge, it can be very dangerous to make a premature decision on which technology to put the company’s weight behind. Consider, for example, the dilemma facing Ericsson in the mid-1990s. The possibility of a high-bandwidth “third-generation” mobile system had begun to emerge, but as always there were competing standards—a new technology called WCDMA; a second technology developed by Qualcomm in the U.S. now known as CDMA-2000; and a way of upgrading the existing TDMA and GSM technologies called EDGE. What approach should Ericsson have taken? First, they made the obvious decision to work with WCDMA and EDGE. However, given the potentially enormous costs involved in commercializing both, they also started working with competitors, customers, and regulatory authorities to try to establish a single global standard, as well as negotiate with Qualcomm over patent disputes as to which one had the rights to CDMA technology. Unfortunately, it proved impossible for the various authorities to agree on a single standard, with the result that three different technologies ended up running in parallel. In other words, while Ericsson pushed very hard to consolidate the different technologies, they ultimately had to accept that they would coexist—at least in the medium term.

This example highlights the point made earlier about how to handle a Sophie’s Choice scenario. First, keep the options open, by avoiding heavy investments until some uncertainties have been resolved. Second, seek strength in numbers, which in this case meant consortia of competing firms. Third, accept coexistence but only as a last resort. Betting on a single technology is always possible, but in the circumstances extremely risky.

Manage the Loser

There is a risk with internal competition that the individual or team whose technology is not taken forward will see themselves as the “loser” and will either lose motivation or leave the company. Many of the participating
companies in the research took this issue very seriously. The preferred approach—as exemplified by HP, Ericsson, and others—was to manage the competition to avoid winners and losers. As one HP manager said, "There should not be a loser. You should be able to manage the situation so that everyone feels good about the outcome." HP does this through a process of "patching"—shifting charters between divisions and ensuring that even if a division loses one charter, it gains another. A similar process was observed in Ericsson. In one case, a piece of development work was transferred out from Stockholm to the losing development unit in Belgium to ensure that it stayed at capacity. However, it is worth bearing in mind that both HP and Ericsson benefit from being in fast-growing markets where there has always been enough work to go around.

If the problem could not be avoided completely, the other approach companies used was to find ways of keeping the losing party motivated. This was done by clarifying expectations in advance (e.g., that well-intentioned failure is a good thing) or by finding specific roles for the losing individuals to fulfil. For example, in the Fuji Xerox case referred to earlier, the head of the losing technology was put in charge of the winning technology as a way of demonstrating that the decision had not been a personal one.

Internal Competition between Business Lines

The other major form of internal competition is between distinct lines of business. Because of the enormous costs of running business lines in parallel, this form of competition generally occurs with the full knowledge and permission of senior management. However, even though it is allowed to occur it is still reviewed on a continuous basis; typically the internal competition lifecycle runs its complete course and the businesses in question are consolidated. Ericsson again provides an interesting example. When digital mobile telephony took off at the beginning of the 1990s, it rapidly became clear that there would be no global standard. Instead, three competing standards emerged—GSM in Europe, TDMA in North America, and PDC in Japan. For wireless infrastructure players such as Ericsson, this created a strategic dilemma: Should they try to develop infrastructure for all three standards (and, if so, how) or should they focus on one or two of them? Because of its strong international position, Ericsson decided that it had to offer all three standards. Rather than attempting to capitalize on the obvious commonalities across the standards, the company set up three separate business units that were acting in direct competition with one another. For example, in some South American countries (where two standards coexisted) the GSM and TDMA business units ended up offering competing products to the same wireless operator. The logic for this arrangement, in a nutshell, was that speed to market would be far more important than low-cost production, and this could be achieved best by giving each business unit complete freedom to develop its own software, source its own products, and build its own customer relationships. At the same time, Ericsson's strong corporate culture
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enured that individuals in the three business units collaborated freely and openly with one another, sharing best practices and swapping ideas. The result was that Ericsson emerged as the undisputed global leader in second generation mobile infrastructure—and the only company with a strong position in all three standards.

The second-generation technology is now moving towards maturity and will soon be superseded by GPRS and 3G. Ericsson has therefore recognized that speed is now less important than efficient development, so changes are being made—development groups in the three divisions have been merged and the three business units are all being brought together so that commonalities across the technologies can be exploited. Essentially, top management has decided that internal competition should be phased out now that its benefits have been achieved.

Another example worth mentioning is Sony and their practice of launching dozens of products on a limited basis (e.g., different types of Walkman) and to use market feedback to decide which products they should subsequently launch on a global basis. This approach makes sense because the cost of trial launches is moderate and the payoff in terms of market feedback is high. Again, however, the idea is that the competing business lines will exist only until top management has enough information to choose between them.

These examples illustrate the complete lifecycle of internal competition from establishment to coexistence to termination. However, many other cases are still in the coexistence phase and indeed may be for a very long time. For example, SEB, a large Stockholm-based bank, was one of the first banks to get into Internet banking. Back in 1995, its business development group, referred to internally as K2 (after the Himalayan mountain), was experimenting with a number of new ideas. One was to sell services over an emerging technology called the Internet. In the early stages of development this business was left within the K2 group, but when it was launched it was placed as a separate unit within the retail bank. The business was extremely successful as the first full-service Internet bank in Sweden with 100,000 customers after just one year, and despite the fact that there was some cannibalization of the retail bank it was left as a separate business unit. Today, it clearly coexists with the retail business on the basis that there are costs of duplication but they are more than outweighed by the benefits. For example, most customers now do their simple transactions such as bill payments and switching between accounts using the Internet bank, and they use the retail branch for investment and lending advice.

How should you decide whether to opt for consolidation or coexistence of competing business lines? Some of the criteria are exactly the same as with internal competition between technologies—market and technological uncertainty both favor coexistence, high costs of duplication favor consolidation, and the importance of speed to market lends support to a coexistence strategy. However, unlike in the previous list, the focus of attention here is more on the
relationship between the two businesses in the marketplace. Three market-based factors emerged during the research:

- **Cannibalization**—Is one competing option cannibalizing a large portion of the sales of another? If yes, then consolidation is likely to make sense.
- **Market Heterogeneity**—Is the marketplace heterogeneous enough to support two or more similar solutions in different market segments? If yes, then coexistence is likely to be preferred.
- **Complementarities**—Are there benefits from having two or more competing options in the marketplace, such as cross-selling or brand-building opportunities? If yes, then coexistence is favored.

Competing business lines end up fighting it out in the marketplace with real customers, rather than for the attention and resources of top management, which means that competing businesses are both earning revenues as well as duplicating costs. The result is that competition among business lines is typically allowed to endure for far longer than competition between technologies.

As before, this list of criteria is no substitute for good judgement because trade-offs will almost always need to be made. For example, Ford has to evaluate the costs of cannibalization against the benefits of market coverage when it reviews its high-end brands Jaguar, Volvo, and Lincoln. Emap, the British magazines and radio group, has to decide whether the level of uncertainty in the Internet world justifies managing FHM.com as a separate business from the print version of FHM Magazine. WPP has to weigh the costs of running multiple advertising and PR agencies in parallel against the benefits that accrue from having focused and entrepreneurially minded units. Clearly, there are no simple ways of making these trade-offs, but the following points provide some general rules of thumb as to how the process should be managed.

**Keep the Competing Businesses Apart at First**

In contrast with competing technologies, the rule of thumb with competing business lines is to allow duplication while they develop their commercial offerings and bring them to market. One reason for this is speed, as the Ericsson case showed. However, the more common reason is that this form of competition typically takes the form of a new and unproven business (e.g., Internet banking) challenging the traditional business (e.g., branch-based banking), so for the new business to have a chance of surviving it has to be given breathing space. An example of this is R.R. Donnelley and Sons, the Chicago-based printing company. In the early 1990s, Digital printing had begun to emerge, but it was still seen as a niche business by the managers running the traditional printing presses. For this reason, Donnelley placed digital printing in a separate division called Global Software. Its boss, Rory Cowan, stated that he wanted to "create a new business and have it drip on the culture" and gradually change the perspective of people who had been brought up in the world of "big iron."
presses. The same approach was also taken by most of the established retailers as they built Internet businesses, including Barnes and Noble and Wal-Mart.

**Monitor the Level of Cannibalization**

Cannibalization is the natural consequence of internal competition, so it cannot be avoided if parallel business units are allowed to coexist. However, at the same time, it is important to gauge the level of cannibalization that you are experiencing on a continuous basis. Consider, for example, the British company Spirent, which is now a global leader in telecommunication testing equipment (along with Agilent). Spirent grew rapidly over the last four years through a series of acquisitions—Netcom Systems in California, Adtech in Hawaii, TAS in Massachusetts, and several smaller companies as well. The acquisitions were made as a way of building up critical mass in the fast-expanding telecom market, but inevitably there was some overlap in the product lines of the acquired companies, notably between Adtech and Netcom. Initially, top management did not intervene. They wanted to make sure the employees in the acquired companies stayed, and the market was growing fast enough that there was room for both product lines to coexist. Gradually, however, it became clear that there was considerable cannibalization in a couple of areas, which was creating some confusion in the minds of customers and some internal tensions as well. As a result, they decided to resolve the problem by creating a single global sales force to serve all the different business units, and they asked the business units heads to get together to resolve the duplication between their product lines.

Another example is SEB, the Swedish bank that has retail, Internet, and telephone banks operating in parallel. Again, their preferred approach is to monitor, rather than resolve, the cannibalization between these channels, primarily because they believe there are complementarities between them. Indeed, because it is so much cheaper to do routine transactions over the Net, SEB encourages its customers to do so, which frees up the time of branch employees to do more value-added work. Careful attention is paid to the type and quantity of transactions that customers undertake using the three different channels and how these are changing over time.

**Look for Opportunities to Integrate**

While coexistence among the competing business lines can often be justified for several years, the ultimate objective is always to look for ways of integrating them. This does not necessarily mean complete integration, but it does imply that most of the duplicate activities should be eliminated and the potential synergies be sought out and delivered upon. The Ericsson case again provides a good example of how this works. Following the decision to put the three second-generation systems under a single business unit, there was a massive integration effort. For instance, the groups responsible for developing base stations in the old businesses began working together to produce a single base station that worked across all three standards. Equally, many established companies
began by running their Internet businesses as stand-alone entities, but they realized they were missing out on potential complementarities and gradually moved the two businesses together. In the banking sector, for example, both Bank of Montreal and Bank One set up separate operating divisions (Mbanx and Wingspan.com), but they have since rolled these divisions back into their bricks-and-mortar counterparts to capitalize on synergies in their back-office activities.

Spirent provides a detailed example of how to manage the integration process. As noted earlier, top management asked the competing business units to get together to resolve the duplication in their product lines. However, as the executive responsible for the group explained,

"The two business units were not making progress, so I got them together, and told them to lock themselves away for a couple of days and sort it out. I have a basic belief in humanity. You come to work to do a good job. These guys wanted to resolve the problem, but it was down to me to put them in a position where it would happen. Essentially, I narrowed the pitch. I gave them deadlines to work to. So they got together, and they came out with a solid proposal. Now they are working through the soft issues together."

This example underlines the point that internal competition is best resolved without external judges or arbitrators. The two business units were eventually able to divide their markets up so that each focused on its own core technology. However, by figuring this out for themselves, rather than having the solution imposed, they were far more likely to make it work—which was critical given the need for cooperation and technology sharing between them.

**How Much Internal Competition Do You Allow?**

The level of internal competition that is appropriate varies enormously from industry to industry. In pharmaceuticals, there is a lot of competition in early-stage discovery research, and virtually none in the development pipeline, simply because of the exorbitant cost of drug development once clinical trials have begun. In the fast-moving high-tech sector inhabited by companies such as HP, Ericsson, and Lucent, both forms of internal competition are very common. In scale-driven, low-margin industries such as chemicals, automobiles, and food products, neither form of internal competition is commonly seen.

However, despite the sector differences, the level of internal competition is highly specific to a particular company. Just compare, for example, the bottom-up driven strategy process in Ericsson with the more top-down driven process in rivals Alcatel and Siemens. The fact is that the level of internal competition is a function of the organizational systems in the company, including the way resources are allocated to projects and the attitude in the company towards risk-taking. It also comes down to specific incentive schemes. For example, in one fast-food company, top management challenged each region to come up with a new restaurant concept and promised to invest in what they
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considered to be the best three. This led, not surprisingly, to a great deal of competitive behavior as regions sought to out-do each other in developing the most innovative concept. More broadly, the working environment inside 3M promotes individual initiative through a combination of the formal way that projects are managed and the informal culture that encourages individuals to bootleg resources and set time aside for developing new ideas. Internal competition is an unavoidable consequence of such an environment and 3M has proven itself to be consistently innovative as a result.

In terms of how such systems evolve, a case in point is Hewlett-Packard. For many years, HP had a highly decentralized structure and an entrepreneurial culture that was in many ways very similar to 3M's. Towards the late 1980s, however, there was a clear sense in the company that product development initiatives had gotten out of control. As a result, changes were made in 1990 to the funding mechanism so that all development work had to be aligned to existing divisions. This helped to reduce the level of internal competition between technologies, but there were still frequent cases of competition between businesses. More recently, CEO Carly Fiorina embarked on a major structural change that brought together HP's multitude of highly autonomous divisions into a much smaller number of business groups. The purpose of this structural change was to give the company greater focus, but one by-product will almost certainly be a reduction in the number of competing business ideas. Whether this turns out to be a good thing or a bad thing remains to be seen.

Conclusion

Internal competition will never be easy to manage. Even in companies that appear to manage it well, there are frequently voiced concerns that such competition is wasteful and should be stamped out—as the recent reorganizations in HP attest. Internal competition can be very damaging if it is allowed to propagate unchecked through the company. However, it can also be a very useful tool under certain conditions. The advice is to use it selectively and, equally important, to become much more aware of how it fits into the broader strategic agenda of the company.

APPENDIX

The Research

The research on which this article is based was undertaken as part of a broader research program called Capability Management in Network Organizations, a cooperative venture between the Institute of International Business at the Stockholm School of Economics, and six Swedish firms (Askus, Ericsson, Pharmacia, Skandia, SEB, Volvo). See J. Birkinshaw and P. Hagstrom, The
Strategies for Managing Internal Competition

Flexible Firm (Oxford University Press, 2000), for some of the initial findings from this research.

The internal competition project that was part of this program began with a questionnaire survey, which was conducted to establish how common the phenomenon of internal competition was. The questionnaire was filled in by executives in just over 100 companies in Sweden and the UK. Most of these companies showed evidence of using competitive internal systems, including such things as “bottom-up processes for developing new products” and “market-like processes for allocating activities between units.” However, only 15% of respondents acknowledged that the specific form of internal competition under discussion here (in terms of parallel or duplicate activities) occurred frequently in their company, and these were predominantly in the technology, media, and telecommunications industries. The second phase of research therefore focused on this set of companies. More than 60 semi-structured interviews were conducted in ten companies—ABB, Ericsson, Pharmacia, HP, Spirent, Xerox, SEB, Skandia, Volvo, and Telstar. The focus of the interviews was on identifying examples of internal competition, weighing up its costs and benefits, and describing the approaches companies used to manage the internal competition process. Fourteen individual cases of internal competition were drawn up as part of this process (see Table 2 for a summary of these cases).

TABLE 2. Summary of Cases of Internal Competition Developed During Research

<table>
<thead>
<tr>
<th>Case</th>
<th>Type of Internal Competition</th>
<th>How Established</th>
<th>How Managed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ericsson, screenphone technology</td>
<td>Between technologies</td>
<td>Emergent—five competing projects</td>
<td>Groups brought together; couple of projects selected to go forward</td>
</tr>
<tr>
<td>Ericsson, voice-over-IP opportunity</td>
<td>Between technologies</td>
<td>Emergent—seven competing projects</td>
<td>Review committee looked at them; after deliberation two were resourced, five were closed down</td>
</tr>
<tr>
<td>Ericsson, 2G Technologies</td>
<td>Between business lines</td>
<td>Mandated—corporate decision to create three separate units</td>
<td>Units coexisted for ten years; recently they have been merged to generate cost savings in a maturing industry</td>
</tr>
<tr>
<td>Ericsson, 3G Technologies</td>
<td>Between business lines</td>
<td>Mandated—corporate decision to create three separate units</td>
<td>Attempts to consolidate failed because no industry-wide standards could be agreed; currently coexisting</td>
</tr>
<tr>
<td>HP, X Terminal</td>
<td>Between technologies</td>
<td>Emergent—two competing projects</td>
<td>Brought together by senior management; one given the charter; one moved into a related technology</td>
</tr>
<tr>
<td>HP, voice over IP</td>
<td>Between technologies</td>
<td>Emergent—three competing projects</td>
<td>Brought together by senior management; market sufficiently large to allow them to coexist</td>
</tr>
</tbody>
</table>
## TABLE 2. Summary of Cases of Internal Competition Developed During Research (continued)

<table>
<thead>
<tr>
<th>Case</th>
<th>Type of Internal Competition</th>
<th>How Established</th>
<th>How Managed</th>
</tr>
</thead>
<tbody>
<tr>
<td>HP, RTAP product</td>
<td>Between technologies</td>
<td>Emergent—two competing projects</td>
<td>Brought to attention of senior management; one given the charter because its development was more advanced</td>
</tr>
<tr>
<td>Spirent, core testing equipment</td>
<td>Between business lines</td>
<td>Two acquired businesses with overlapping products</td>
<td>Coexistence for two years; then senior management pushed the competing units to define distinct charters for themselves</td>
</tr>
<tr>
<td>Spirent, wireless testing equipment</td>
<td>Between business lines</td>
<td>Two acquired businesses with overlapping products</td>
<td>Similar to above, but company still in the process of dividing up responsibilities between the two units</td>
</tr>
<tr>
<td>Telstar, telecommunications</td>
<td>Between technologies</td>
<td>Emergent, but with some knowledge from top management—two competing standards</td>
<td>Coexistence for a while; then two “warring” units forced into a single division to ensure consolidation</td>
</tr>
<tr>
<td>SEB, Internet bank</td>
<td>Between business lines</td>
<td>Mandated from above</td>
<td>Kept separate at first; gradually brought under control of retail bank, with shared back office activities</td>
</tr>
<tr>
<td>Skandia, dial (a telephone insurance business)</td>
<td>Between business lines</td>
<td>Mandated from above</td>
<td>Deliberately kept entirely separate from the main insurance business. Coexistence.</td>
</tr>
<tr>
<td>Fuji Xerox, printer driver</td>
<td>Between technologies</td>
<td>Mandated from above</td>
<td>Two projects run in parallel; winner chosen after a set period of time</td>
</tr>
<tr>
<td>Consecta, low-end consulting business</td>
<td>Between business lines</td>
<td>Mandated from above</td>
<td>Separate low-end business unit run in parallel; but cannibalization problems led to consolidation</td>
</tr>
</tbody>
</table>

### Notes


3. There are also other important management processes that help to encourage (or suppress) internal competition—for example, zero-sum competitions or rewards for competitive behavior.

4. There is also a third type, namely, the competition between brands in the marketplace—a practice that Procter and Gamble, GM, and others have used very successfully. This is really a rather different phenomenon, though, because it is primarily about how best to segment the customer base and position the different brands to maximize coverage, rather than coping with technological or market uncertainty.

5. Sophie's Choice—in which you have to make a choice where no choice is possible. See the novel by William Styron.

6. The make-buy choice is not developed in the article, but is worth commenting on briefly. Many companies actively pursue both internal and external options when developing new technologies, essentially as a way of keeping their options open. Ultimately, the decision to pursue the internal development option comes down to a strategic analysis of whether that technology is core to the firm's competitiveness; but in the shorter term it can also facilitate more rapid time-to-market, and it can push internal development teams to try their hardest.

7. It is worth noting that all the detailed case studies in this article about Ericsson are concerned with the Mobile Systems business, which is still the world leader in infrastructure provision. Ericsson's problems have stemmed primarily from the handsets division.

8. This example was suggested by an anonymous reviewer.

9. This applies only on the basis that internal competition between technologies has been handled effectively. In other words, if two near-identical technologies end up finding their way to market, they should probably be consolidated, but really that problem should have been identified during the development process.


12. It is worth observing that the level of cannibalization in cases of internal competition is often overstated (particularly by the group whose products are being cannibalized). For example, some level of cannibalization may be needed to open up a new market segment; and there are enormous difficulties in quantifying the actual level of cannibalization. Executives need to be careful to consider the often-hidden benefits against the all-too-visible costs to get a balanced perspective.

13. Kim Warren at London Business School is to be thanked for providing this example.