Intrafirm Competition and Charter Evolution in the Multibusiness Firm

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We develop a theoretical framework for a specific form of intrafirm competition, namely the extent of overlap between the charters of two or more units in a single organization. This phenomenon is commonly seen in large organizations, e.g., cases of two business units producing competing products, or two product development groups trying to solve the same technological problem, but the existing academic literature provides little insight into the forms intrafirm competition takes, or the conditions under which it is beneficial or harmful to the organization.

Building on the concept of an organization charter (Galunic and Eisenhardt 2001), we identify two generic forms of intrafirm competition: the dynamic community model has fluid and frequently changing charter boundaries, and it emerges through the creation of strategic options in the face of a changing environment; the coexistence model has fixed and relatively static charter boundaries, and it owes its existence to economies of scope and differentiation of unit charters to cover multiple market segments. In the body of the paper we develop a theoretical framework to specify the environmental and organizational conditions under which each form of intrafirm competition is expected to occur.

Key words: intrafirm competition; organization charter; evolutionary theory

This paper puts forward a theoretical framework and research agenda to explain the phenomenon of intrafirm competition, by which we mean the existence of overlapping activities within the boundaries of the multibusiness firm. For example, there may be two business units producing competing products, two product development groups trying to solve the same technological problem, or two distribution channels serving the same customer group. These situations are commonly seen in many multibusiness firms. While there is unfortunately no systematic evidence for how pervasive the phenomenon of intrafirm competition is, its presence has been noted in the automotive industry (Peters and Waterman 1982), consumer packaged goods (Solomon and Hymonitz 1987), information technology (Galunic and Eisenhardt 1996), fast food (Kalnins 2004) and advertising (Bower 1996), as well as in specific functional activities such as R&D (Quinn 1988), new business development (Kidder 1981), and marketing (Mason and Milne 1994).

The academic literature offers only limited insight into the phenomenon of intrafirm competition, perhaps because the creation of duplicate activities within the boundaries of the firm is seen as antithetical to the traditional logic of resource allocation in organizations (Gaynor 1989; Williamson 1975, 1991). Recently, however, there have been sporadic references to the positive sides of intrafirm competition. For example, Eisenhardt and Galunic (2000, p. 96) argue that “coevolving companies let collaboration and competition coexist . . . while senior managers don’t actively seek out competition, they don’t discourage it either.” Nadler and Tushman (1999) argue that one of the key strategic imperatives for large firms today is how to manage “intra-enterprise cannibalism . . . the need to develop and support new strategies . . . that might eventually dry up existing revenue streams.” Kalnins (2004) offers several arguments for where “the firm as a whole benefits from more, rather than less, competition among its divisions.” The potential benefits of intrafirm competition include increasing the speed to market for new products, enhancing the range of strategic options open to the firm, and broadening the firm’s coverage of the different segments in the market (Kalnins 2004, Sorenson 2000). While little further discussion is offered as to how intrafirm competition might be managed, these and other recent papers suggest that the phenomenon is worth deeper consideration, even if received wisdom gives it little support.

Our approach in this paper is to focus on one important manifestation of intrafirm competition, namely the overlap between the “charters” (defined below) of units in a multibusiness firm. We develop a model that leads to the identification of two distinct forms of intrafirm competition. We then seek to explain the origins of these different forms in terms of the environmental and firm-specific factors that cause intrafirm competition to

The paper is organized as follows. The first section provides a brief overview of the existing literature and defines the parameters of our field of inquiry. The second section develops a theoretical model of the multibusiness organization using the organization unit’s charter as the core concept. In the third section we develop a set of propositions identifying the environmental and firm-level conditions under which intrafirm competition transpires. The final section provides a discussion of the implications of intrafirm competition for organizational performance, and offers suggestions for future research.

Background Literature and Delineation of Boundaries

The focus of this research is at the level of the organizational unit and the way it relates to its sister units. An organizational unit (also called a division or business unit) sits one or two levels below the corporate centre, and is responsible for formulating and implementing the competitive strategy for a set of products or services (Porter 1985). By focusing on this level of analysis, we do not get into issues of competition between firms (Porter 1980), nor are we concerned with competition between individuals in an organization who are seeking to enhance their personal status and performance (Schwenk 1989, Pfeffer and Sutton 1999, Puffer 1999). While there are some interesting parallels between competition at these different levels of analysis, they are sufficiently different that each needs its own treatment.

The traditional approach to thinking about competition between organizational units is to view them as competing with one another for financial, human, and physical resources. Such resources are in limited supply, so a primary task of management is to structure the organization and define its processes such that its scarce resources are allocated efficiently (Arrow 1959, Bower 1970, March and Simon 1958). Various studies have examined this internal competition for resources, typically with a view to incorporating some of the attributes of market-based governance, such as high-powered incentives, within the boundaries of the organization (Williamson 1975, Eccles 1985, Hennart 1993, Halal 1994).

Our concern here is with a narrower form of competition in which two or more units offer products that are to some degree substitutes for one another in the marketplace. As such, the competition actually takes place on two levels. At the product market level (Rumelt 1974) competition manifests itself in terms of the competing offerings that the customer chooses between, and in the level of cannibalization that transpires. Firms will frequently offer multiple overlapping products in the same market (e.g., General Motors’s five automotive brands or Procter & Gamble’s multiple brands of soap and toothpaste), and considerable research has been done to understand the optimal level of product variety (Kekre and Srinivasan 1990, Mason and Milne 1994, Moorthy and Png 1992), the timing and positioning of new products vis-à-vis existing ones (Conner 1988, Ghemawat and Ricart I Costa 1993), and the appropriate levels of cannibalization under dynamic market conditions (Nault and Vandenbosch 1996, Sorenson 2000).

At the intra-organizational level, competition manifests itself in terms of the social and political processes, such as lobbying, negotiating, and initiative taking, that help to shape a unit’s charter. Most important here is the work of Galunic and Eisenhardt (1996, 2001) who show how the divisions in Omni (the disguised name of a Fortune 100 company) frequently end up competing with one another for product charters as new technology and market opportunities arise. Other work in this genre is concerned with the internal dynamics of organization change (Brown and Eisenhardt 1999, Nadler and Tushman 1999, Sanchez and Mahoney 1996) and the competitive dynamics between foreign subsidiaries of multinational corporations (Birkinshaw and Hood 1998, Crookell 1986, Phelps and Fuller 2000). Unlike the traditional body of work on internal competition for resources, this literature views intrafirm competition as part of an ongoing process of adjustment and change inside large organizations that is driven by both economic and social imperatives (Galunic and Eisenhardt 2001, p. 1,229). The process is driven both by exogenous factors and by an internal organization structure that encourages autonomous strategic behavior by business units (Burgelman 1983, Dutton et al. 2001).

While the product-market and intra-organizational levels of analysis cannot be entirely separated, our focus in the theory development is on the latter. The reason for this is simply that the paper is motivated by an interest in the internal organizational issues associated with competition. Product-market-level phenomena, such as the amount of product variety and the level of cannibalization, are in fact better understood as manifestations of the underlying (and usually invisible to the customer) competition between organization units, rather than as evidence of intrafirm competition per se. Indeed it is important to recognize that competition at the product market level is not necessarily indicative of competition at the intra-organizational level. For example, it would be quite possible for a single unit in Procter & Gamble to offer an array of competing and cannibalizing products that it managed behind the scenes in a purely collaborative manner.

To state the same point slightly differently, the primary causal logic should be to make sense of the structure of the organization (in terms of the rules of engagement, the degrees of freedom, the interaction
between units) and then to see the nature of competition in the product market as a consequence of that chosen structure. Other factors will play a part in moderating this relationship, and there is likely to be a secondary line of causality back from the intended product market position to the structural choices that are made (Chandler 1962), but overall we can expect to see a strong, if imperfect, correlation between the magnitude of intrafirm competition at the intraorganization and product market levels.

In sum, we define intrafirm competition as the extent of overlap between the charters of two or more business units in a single organization (i.e., it is a continuous variable). This definition is expressed in state, rather than process, terms—as a facet of the organization structure that engenders certain behaviors among unit managers, and that results in certain visible manifestations (such as cannibalization). It should also be noted that intrafirm competition, as defined here, could potentially have both positive and negative consequences for the organization. Positive consequences include the development of a greater number of strategic options, shorter time to market for new products, and broader market coverage. Negative consequences include duplication and waste of resources, and the potential to engender noncooperative behavior among organizational units (Bourgeois 1981, Cyert and March 1963). While the primary thrust of the paper is toward the positive side of the spectrum (because we are interested in specifying the conditions under which intrafirm competition should be encouraged), we are careful to ensure that our theoretical development recognizes the potential for both positive and negative consequences to intrafirm competition. We discuss these performance implications in greater detail in the discussion section.

Theoretical Development: A Model of Intrafirm Competition

To move from a broad concept of what intrafirm competition is to a set of falsifiable propositions requires that we develop a detailed (if somewhat stylized) model of the phenomenon. To do this, we build on Galunic and Eisenhardt’s (1996, 2001) concept of the organization unit’s charter to identify a set of structural variables that capture the multifaceted and complex nature of intrafirm competition.

Defining a Charter

We use Galunic and Eisenhardt’s (1996, p. 256) definition of the organization unit’s charter: the business—or elements of the business—in which a division/unit actively participates and for which it is responsible within the corporation. The charter can be understood in purely technical terms as a definition of the technologies, products, and/or customer groups that the unit is oriented toward, but it also has an important institutional component, as a shared understanding of the organizational domain that the unit has staked out for itself (cf. Levine and White 1971, Thompson 1967). In a stable business environment charters evoke little discussion, because there is no ambiguity in the meaning of the “iron ore” division in a mining company or the “coffee and tea” business unit in a consumer goods company. However in a more turbulent environment where new technologies and product categories are emerging all the time, charter definitions are highly contentious because they shape the types of growth opportunities that an organization unit is entitled to pursue. As Galunic and Eisenhardt (2001, p. 1,230) observe in Omni, a charter is seen as a “statement of purpose,” and it is common to observe two or more units contesting their right to pursue a particular opportunity because their charters overlapped. There is, in other words, an important socially constructed element to the definition of a charter, so the ways individual organizational units define and communicate their charters to others becomes a critical factor in the overall structuring of the organization.

Our conceptualization of the unit’s charter attempts to acknowledge the points raised in this discussion. There are three elements—the product markets served, the capabilities held by the unit, and the intended charter, as communicated to the rest of the organization. Product markets served refers to the current portfolio of products and customers (Ansoff 1965, Rumelt 1974). Capabilities refers to the unit’s capacity to deploy resources, usually in combination, using organizational processes to effect a desired end (Amit and Schoemaker 1993, Eisenhardt and Martin 2000). It includes specific technologies held by the unit as well as knowledge of particular customers and experience with certain processes. Intended charter is inherently more ambiguous, because it does not necessarily reflect the actual product markets or capabilities of the unit, nor does it necessarily mention both product markets and capabilities. For example, a unit might claim the “European medical devices” charter even if it only has operations in five countries, because it believes it is better positioned than any other unit to roll out its products into the other European countries. Moreover, the European medical devices charter says nothing about capabilities—it only mentions products and markets. Similarly, a unit might state its charter as “broadband wireless services” without having all the necessary technologies to deliver these services, and without clarification regarding the customers to which these services will be sold. Both are as much statements of intent to the rest of the organization as they are descriptions of current activities. As such, they are the intrafirm analogue of a company’s strategic intent (Hamel and Prahalad 1989) or vision statement.

The key point about this definition is that the three elements (product markets served, capabilities, stated charter) are not necessarily in alignment with one another.
In an industry with rapidly evolving technologies and markets, the three elements are all prone to change, so they are likely to fall out of alignment to some degree at certain times, and this is where the social process of negotiation and competition between units becomes intense. By way of example, five separate business units in Ericsson claimed the charter for screenphones in 1999 because they all saw it as being aligned with either their existing product markets, their existing capabilities, or their stated charter. These competing claims were readily resolved, but the example illustrates how fluid charter boundaries can be in a rapidly changing environment. Conversely, in a relatively more stable business environment, the three elements are likely to converge over time, so that other units come to understand and accept the definition of the focal unit’s charter. This makes the boundary of the charter more defensible and stable.

Defining the Relationship Between Two charters

Having put forward a stylized model of the organization unit, we can now examine the relationship between two such adjacent units, and consider the extent to which they are, or might be, competing with one another (see Figure 1). On the basis of insights from the existing literature, we propose two key variables that define the relationship between the units.

Charter Overlap. This is the degree to which adjacent units in the organization occupy the same charter space as the focal unit (Felsenthal 1980, Lerner 1987), and it is the definitional construct for the phenomenon of intrafirm competition. Because charters are defined in terms of three dimensions (product market, capability, intended charter), it follows that charter overlap can potentially be measured on any of these dimensions. For the purposes of analytical precision in the theory development, we will focus our discussion on units that have external customers, and we will therefore focus on defining charter overlap in product market terms (the same logic could also be applied to charter overlap defined in capability or intended charter terms). This has the additional benefit that there is an established way of measuring product market overlap—the percentage of one unit’s product market space for which other units in the organization are competing (Mason and Milne 1994). To offer a real-world example, Ericsson’s GSM network division has approximately 50% overlap with other divisions, meaning that around half of its customers (the mobile operators) have other Ericsson products as close substitutes. In contrast, Unilever’s ice cream division has charter overlap of zero—there are no other business units in Unilever selling ice cream products.

Charter Boundary State. This refers to how clearly the charter boundary is defined, on a scale from high (solid) to low (fluid). When viewed purely in static form, the greater the level of alignment between the three elements in Figure 1, the more solid the unit’s charter. Thus in practical terms, charter definition could be operationalized in terms of the level of agreement between unit managers, their bosses, and their peers as to what the charter is. When viewed in a more dynamic way, charter boundary state can be best understood in terms of the degrees of freedom the unit managers have to move beyond their charter, and ultimately the likelihood that a given charter will evolve. So to reconsider the earlier examples, the European medical devices charter is probably fairly solid, in that there is likely to be considerable agreement as to what “European” and “medical devices” mean in the organization, and that special permission would probably be needed to transgress its boundaries, e.g., for the unit to enter Asia. In contrast the “broadband wireless services” charter is more fluid, because it probably means different things to different individuals in the organization, and there may be several organization units that believe they are in a position to move into this space.

These two variables can be put together to suggest four different generic forms of relationship between adjacent units (see Figure 2). When charter overlap between units is relatively high and charter boundary state is fluid, the situation is akin to that of Galunic and Eisenhardt’s (2001) dynamic community, so we use their

Figure 2  Types of Relations Between Organization Units

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<th>Fluid</th>
<th>LOOSE FEDERATION</th>
<th>DYNAMIC COMMUNITY</th>
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<td>Charter Definition</td>
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<td>Sharp (fixed)</td>
<td>TIGHT FEDERATION</td>
<td>COEXISTENCE</td>
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<td>Charter Overlap</td>
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term. In this situation, the charters of individual units evolve according to changes in technology and market opportunities and through the processes of negotiation and interaction between executives in related units. Each unit is given considerable freedom to shape its charter and the result is frequent overlap between charters, especially in emerging market areas. These overlaps typically last for only a limited time before they are resolved by the relevant parties.

Under what conditions does the dynamic community transpire? The logic put forward by Galunic and Eisenhardt (1996) and Nault and Vandenbosch (1996) is that intrafirm competition emerges through a process of experimentation with multiple emerging technologies or business ideas in an uncertain and fast-changing environment. This form of intrafirm competition is typically framed in the language of evolutionary theory: the organization allows internal variations to emerge, and through a Darwinian process the fittest are selected and retained, while the less fit are terminated (Burgelman 1983, 1991). This approach can be justified when the costs of duplication of activities are relatively low compared to the benefits of speed to market.

When charter overlap is relatively high and charter boundary state is solid, the nature of the relationship between units is called coexistence. One example is Ericsson’s second-generation mobile businesses during the mid-1990s. Faced with an explosion in demand for mobile networks and three different technological standards (GSM, PDC, TDMA), Ericsson set up three business units in direct competition with each other. The boundaries around each business unit were clearly defined, in terms of both the underlying technology and the customer needs they were satisfying. Each unit had its own product development, sales, and marketing activities, but they all drew on Ericsson’s brand reputation and its underlying technological capabilities. A second example is WPP, the communication company that owns Ogilvy & Mather, Young and Rubicam, and J. Walter Thompson (Bower 1996). These agencies each have their own distinctive positioning (e.g., J. Walter Thompson is centred around its advertising activities, whereas Ogilvy & Mather sees advertising as one service among many) but actively compete with one another in many markets, so there is a high level of charter overlap. Unlike in the dynamic community, however, their charter boundaries are clearly defined and stable over time.

To make sense of the conditions under which coexistence occurs, it is necessary to develop a two-part argument that explains both why the firm allows competing products or services to exist on an ongoing basis (rather than as a temporary arrangement or not at all) and why overlapping products and services are sold by multiple discrete units (rather than by a single large unit). To the first point, competing products or services can make sense in the presence of significant economies of scope (Panzer and Willig 1981, Teece 1980) across the product portfolio. While there are cannibalization costs associated with allowing competing products or services to coexist in the market, they can be more than offset by the benefits of achieving full coverage of the market; by sharing market knowledge, people, and other resources across units; and by integrating many of the back-office activities that are invisible to the customer (Markides 2001, Nayyar 1993, Sorenson 2000).

To the second point, there are often important internal benefits in separating out products into different organizational units (rather than leaving them in an integrated unit). It is well established that managing different capabilities within the same unit can be problematic (Peteraf and Bergen 2003). Therefore, to the extent that the units in question have distinct capabilities, it makes sense for their charters to be differentiated; for example, most banks manage their different and competing channels to market (Internet, telephone, retail branches) through separate units. There are also additional benefits in creating a more modularized organization structure, such as increased responsiveness and flexibility in the product market (Ethisraj and Levinthal 2004, Sanchez and Mahoney 1996).

Where charter overlap is relatively low and charter boundary state is fluid, the nature of the relationship between units can be called a loose federation. In this situation, the business units in question are sufficiently different that there is no prospect that they would ever end up with overlapping charters, even though the level of charter definition is not particularly clear. For example, GE medical systems and GE capital both have relatively fluid boundaries and operate in a vast array of different businesses, but they are sufficiently different that their charters do not overlap. Finally, where charter overlap is relatively low and charter boundary state is solid, the nature of the relationship between units can be called a tight federation. In this situation, the boundaries between business units are clearly articulated and they are typically defined from the centre, with a great deal of emphasis placed on avoiding charter overlap. For example, Volkswagen’s national sales subsidiaries each have a very clear boundary around their area of operation, and they are actively discouraged from selling products into neighboring countries.

These latter two scenarios are useful to the extent that they provide a complete sense of the relationship between charter overlap and charter definition; however, because they involve very low levels of charter overlap, they will not be considered further. The important distinction, in terms of the rest of the paper, is between the dynamic community and coexistence scenarios, because the causal conditions under which they arise are subtly different. This is the focus of the next section.
Origins of Intrafirm Competition

While the focus of the paper up to now has been to develop a stylized model of intrafirm competition, we now need to link this to the broader question of why intrafirm competition occurs. Or, stated more precisely, we need to understand the logic for a company to allow overlapping activities inside the organization boundary when this appears to run counter to the traditional logic of efficiency (Liebenstein 1966, Williamson 1991). As the discussion above has indicated, there are two rather different types of intrafirm competition. The key point of difference is the definition of charters in the organization—the dynamic community has fluid and frequently changing charter boundaries, and it emerges through the creation of strategic options in the face of a changing environment; the coexistence model has solid and relatively static charter boundaries, and it owes its existence to economies of scope and the differentiation of unit charters to cover multiple market segments. The purpose of this section is to build a more formal set of propositions regarding the environmental and firm-level factors that cause intrafirm competition to emerge, and in so doing to separate out the key determinants of the two types.

Our framework consists of three elements of the organizational environment, three elements of the internal organization, and then the focal construct, intrafirm competition (see Figure 3). One additional point should be made about the level of analysis at which the propositions are developed: we are working with a subset of the entire organization, namely the set of organizational units that are operating within a given market (e.g., Ericsson’s three divisions selling second generation infrastructure, or WPP’s three advertising agencies). It is these units, and the relationships between them, that define the level of intrafirm competition; and it is the configuration of elements of structure within these units that determines their overall performance. This focus of analysis ensures that the concept of overlap between units is meaningful and operationalizable.

Environmental Equivocality

As noted earlier, intrafirm competition can be viewed as an evolutionary process of internal variation, selection, and retention (Burgelman 1991, Campbell 1965, Hannan and Freeman 1977). Internal variation is made possible through the creation (by top management) of a structure that allows overlapping and fluid charters. It transpires when two or more units perceive and act on competing opportunities. There is then a process of selection and retention that is driven both by signals from the marketplace and by the interactions between unit managers and their superiors (Galunic and Eisenhardt 2001).

Under what environmental conditions is internal variation necessary? We propose that the most relevant attribute of the business environment is its equivocality. There is an important but subtle distinction in the literature between uncertainty and equivocality. Uncertainty refers to an absence of information, and can be reduced through the gathering of additional information. Equivocality refers to “the existence of multiple and conflicting interpretations about an organizational situation” (Daft and Lengel 1986, p. 556), and is reduced by defining or creating an answer, rather than by learning the answer from the collection of additional data (Weick 1979). In other words, equivocality suggests a greater level of ambiguity about the magnitude, speed, and dimensions of environmental change than the term uncertainty, and it is this characteristic that makes internal variation particularly necessary.

Environmental equivocality means that no single organization, however large, can reasonably expect to understand all the possible trajectories of technological development underway in an industry, or the full range of economic, social, or political changes to which it is exposed. To maximize its chances of identifying and acting on the full scope of promising opportunities, the organization needs to provide each unit with very high degrees of freedom, and it needs to suppress the temptation to impose its own dominant logic (Prahalad and Bettis 1986) on their activities. Thus, it would not predefine charter boundaries because those are by definition derived through a consensus-driven process that is steered by the organization’s dominant logic. It also would explicitly allow some level of charter overlap between units so that competing technologies and/or products have a chance to coexist within the boundaries of the firm until one or more has proven itself in the marketplace. Thus, the first formal proposition is as follows.

PROPOSITION 1. The greater the level of environmental equivocality, (a) the higher the level of charter overlap and (b) the more fluid the charter boundaries.
Industry Maturity
The second critical environmental element is the state of maturity of the industry in which the organization is competing. It is well known that industries go through a life cycle, from emergent to established to mature (e.g., Porter 1980). This process of evolution has two distinct dimensions. First, there is a technology dimension, whereby the industry typically takes shape through the emergence of new technology; different versions of this technology compete for the mass market until a dominant standard emerges (Dosi 1982, Utterback 1994); product innovation gives way to process innovation (Abernathy and Utterback 1978); and ultimately the industry either becomes commoditized or begins the cycle again through the discovery of a new technological breakthrough (Tushman and Anderson 1986). There is also an institutional dimension, which is concerned with the social processes of learning, imitation, and legitimation through which competitors in an industry gradually converge around certain industry “recipes” or rules of the game (Spender 1989). In the early stages of development of an industry, there are no established ways of competing and there are no recognized sets of competitors. However as certain business models start to emerge as superior, a hierarchy of competitors takes shape: second tier players copy the practices of the top players, and the behaviors of all the players in the industry converge on a set of unwritten rules (DiMaggio and Powell 1983, Meyer and Rowan 1977).

How does this process of industry evolution influence charter boundary state and charter overlap? In an emerging industry, technology standards have not been established and the industry recipes are ill-defined, so competing firms will often have different business models. For large organizations competing in such industries, it is therefore appropriate to allow organizational units to pursue different business models as they see fit: two competing units might choose to work with different technology standards, for example. Under such conditions, we can expect charter boundary state to be highly fluid, and the level of charter overlap between units will be highly variable.

As this industry matures, the process of technological and institutional changes described above will take hold, and this will affect both charter overlap and charter boundary state. Charter boundary state will become more solid throughout the industry as dominant technologies and institutional norms emerge. For example, packaged consumer goods firms define their charters around brands, categories, and business lines, while computer software companies have charters based around the major industry “verticals” of their customers. These are industry norms, and the terminology does not require any further explanation to people working in the industry. Charter overlap will typically go down as an industry matures for three reasons: competing technologies (often managed in separate units) will gradually be displaced by a dominant technology; competing business models (again often managed in separate units) will typically be displaced by a single business model; and the pressure for cost reduction in a maturing industry will encourage organizations to eliminate overlapping activities where possible. Taken together, these arguments suggest the following proposition.

**Proposition 2.** The lower the maturity of the industry in which the organization competes, (a) the higher the level of charter overlap and (b) the more fluid the charter boundaries.

Market Heterogeneity
The third environmental element is the heterogeneity of the product market, defined as the extent to which customers differ in their perception of the ideal attributes of the product offered (Mason and Milne 1994, Moorthy and Png 1992, Sorenson 1990). The greater the level of heterogeneity of the market, the more addressable segments there are, defined by such variables as customer type, channel to market, and time and location of purchase. In such a market, there are clear benefits to offering a high level of product variety, as a means of ensuring that each product gets closer to the segment’s ideal set of attributes. In the automobile industry, for example, the importance of brand image in the purchase decision has led to a proliferation of products with highly overlapping physical characteristics. A rather different and extreme form of market heterogeneity is found in the advertising industry, where clients who are arch rivals (e.g., GM and Ford) refuse to deal with an agency if the other is already working with it. The response from advertising firms such as WPP is to build competing agencies that each works with one of the rival clients. Greater market heterogeneity, in other words, would be expected to lead to higher levels of charter overlap.

**Proposition 3.** (a) The greater the heterogeneity of the market, the higher the level of charter overlap. (b) Market heterogeneity is not predicted to have any effect on the charter boundary state.

Decentralization of Decision Making
Turning now to firm-level factors, we first consider the effect of the decentralization of decision making, which is the extent to which lower-level units in the organization are free to make decisions without interference from the centre (Burns and Stalker 1961, Van de Ven et al. 1976). Decentralization puts the locus of authority for decision making in the hands of the managers of the organizational unit (Pugh et al. 1968), and unless there are other forms of constraint on their behavior (as
described below) they can be expected to act predominantly in the interests of that organizational unit. Over time, managers will actively steer their units’ charters toward what they perceive to be the more attractive product market opportunities, which sooner or later will lead to unit charters overlapping. Alternatively, in those organizations where top management judge it inappropriate to allow unit charters to overlap, the primary mechanism by which they enforce their judgement is likely to be a centralization of decision making around the product market scope of organizational units.

In terms of charter boundary state, there are likely to be two competing forces at work. Self-interested unit managers will be expected to vigorously defend what they perceive as their territory, which will tend to decrease the fluidity of their charter boundaries. Second, the very same self-interested behavior will often result in two or more units actively contesting new charter territory, which by definition increases the fluidity of their charter boundaries. The net effect of these forces, at least in terms of a priori theorizing, is that we do not anticipate a clear relationship between decentralization and charter definition.

**Proposition 4.** (a) The more decentralized the decision making authority in the organization, the higher the level of charter overlap. (b) Decentralization of decision making authority will have no net impact on the fluidity of charter boundaries.

**Normative Integration**

The second element of the internal organization highlighted in our framework is normative integration: the extent to which individual compliance with the organization’s goals is achieved through shared values, rather than through calculative or coercive means (Etzioni 1961, Van Maanen and Schein 1979). Normative integration has been shown to facilitate cooperation and participative decision making (Ouchi 1980), and it has been shown to be particularly valuable as a means of achieving control in organizations with highly decentralized operating units (Ghoshal and Nohria 1989, Hedlund 1986).

The literature on organization control views centralization and normative integration as alternative means of ensuring that outputs are consistent with goals: centralization means all decisions are made by a small number of individuals close to the centre; normative integration means individuals throughout the organization are sufficiently aligned in terms of their behavioral norms—that they can be relied upon to act in the same way as those at the center (Doz and Prahalad 1981, Ghoshal and Nohria 1989, Ouchi 1980). In terms of the specific context under discussion here, normative integration is therefore a critical complement to decentralized unit decision making. Decentralization is an appropriate response to equivocality because it allows for active experimentation, but it has to be balanced with norms of behavior that encourage cooperation for the organization to retain its coherence.

What impact would we expect normative integration to have on charter overlap and charter boundary state? Consider two contrasting examples. One is the UK conglomerate GEC that was built on a model of strict divisional autonomy and coercive control. As recounted in Flynn (1999, p. 8), “Because the divisions competed fiercely for scarce investment capital, a culture evolved where they hardly communicated with each other.” “We duplicated development and then we cut each other’s throats in front of the customer,” recalls Mike Parton, a 15-year veteran. In the absence of normative integration, unit managers were focused solely on the short-term needs of their business and did not care that their success in the marketplace could be damaging for GEC’s broader interests. The other example is Omni Corporation (Galunic and Eisenhardt 2001), which had a high degree of normative control underpinning the competitive relationships between units. For example, when faced with cases of intrafirm competition, executives at Omni would often allocate new charters to constrained divisions, and store charter orphans in midperforming divisions through a process of careful analysis and negotiation (Galunic and Eisenhardt 2001, p. 1,245). While decentralization of decision making caused overlaps to occur in the first place, the high degree of normative integration in the firm allowed the overlaps to be resolved and charters to be realigned, a very different outcome than in GEC where divisional managers put their unit needs ahead of those of the parent company and actively resisted any attempts by corporate executives to change their charters.

These examples illustrate the importance of normative integration as a means of facilitating charter boundary realignment. Where the managers of competing units have a shared set of values and expectations regarding the broader interests of the firm, it is likely that they will agree to changes in their charter definition if they can see that it helps the firm. We do not, however, expect normative integration to have any direct effect on the level of charter overlap that arises in the first place.

**Proposition 5.** (a) Normative integration is not predicted to have any impact on the level of charter overlap. (b) The stronger the level of normative integration in the organization, the more fluid the charter boundaries.

**Fungibility of Unit Capabilities**

Both decentralization of decision making and intrafirm norms of cooperation are concerned with the motivation of managers running the organizational unit to engage in intrafirm competition. However, they do not offer insight into the nature of unit resources and capabilities that would make intrafirm competition likely to transpire.
There are of course many ways of characterizing resources and capabilities, including their codifiability, complexity, and observability (Winter 1987). In the current context, however, we argue that the most relevant attribute is the fungibility of the unit’s capabilities, defined as its “quality of being capable of exchange or interchange” (WordNet 2.0, Princeton University). At the level of the organization unit, the term refers to the capacity to use or adapt existing capabilities toward product market opportunities that currently lie beyond the unit’s charter. Certain capabilities, such as problemsolving expertise or relationship management, are highly fungible and could potentially be applied to a large number of emerging opportunities; other capabilities, such as process improvement in an auto plant, are specific to a particular asset and are nonfungible.

We expect the fungibility of a unit’s capabilities to have an important influence over the likelihood that intrafirm competition will transpire. Specifically, a high level of fungibility will increase the unit’s capacity to search for new product market opportunities beyond its existing charter, which in turn will broaden the horizons of the unit’s managers as they seek to make sense of their charter and communicate it to other units in the organization. In contrast, a unit with nonfungible capabilities will find it very hard to move beyond its existing charter, even if its managers are motivated to do so. In other words, and all else being equal, the fungibility of the unit’s capabilities will increase the fluidity of the charter boundary state. One of the consequences of the increased fluidity of the charter boundaries might be a higher level of charter overlap; however, because this effect is indirect, we do not propose a direct relationship.

PROPOSITION 6. (a) Fungibility is not predicted to have any impact on the level of charter overlap. (b) The greater the fungibility of the organization’s capabilities, the more fluid the charter boundaries.

Discussion and Conclusions

This paper has developed our understanding of intrafirm competition by showing how the nature of the competitive interaction between two adjacent organization units is shaped by a set of environmental and organizational variables. Our work extends Galunic and Eisenhardt’s (2001) recent thinking on the dynamic community, and the existence within this of significant levels of temporary charter overlap, by identifying a set of conditions under which charter overlaps occur. We further suggest how a slightly different set of conditions could cause the emergence of the coexistence model in which adjacent organization units have overlapping and stable charters. The analysis also suggests that intrafirm competition is best viewed as part of the wider picture, as one facet of a particular organization design rather than as the centrepiece of that design. This by no means denies its importance as a subject of investigation, because intrafirm competition has both important benefits (in terms of creating strategic options or increasing market coverage) as well as serious costs if inappropriately used (in terms of duplication and lack of strategic coherence). However, it perhaps helps to explain why it has received limited research attention in the past.

This paper has developed some potentially important insights into organization design. At a microlevel, it has highlighted the importance of the definition of an organization unit’s charter. Traditionally, this issue has received little attention, presumably because unit charters were sufficiently stable or sufficiently distinct enough that their boundaries were not challenged. However increasingly organizations are facing equivocal environments, and they are providing their operating units with higher levels of decision-making autonomy, so the practical and theoretical challenges concerned with defining charter boundaries are becoming more critical. At a more macro-level, this article has shown that intrafirm competition can take two distinct forms, and that each is a response to a different set of environmental conditions. We have also demonstrated how the nature of intrafirm competition is closely tied in to a number of other features of dynamic organizations, such as the decentralization of decision making and the fungibility of their capabilities.

Intrafirm Competition and Organization Performance

One issue that we did not formally develop in the paper is the relationship between intrafirm competition and organization performance. Throughout the paper, we have focused on the likely conditions under which intrafirm competition can be expected to arise, but this does not necessarily mean that its occurrence is actually beneficial to those organizations in which it transpires. It is therefore worth discussing some possible approaches that could be used to investigate the performance consequences of intrafirm competition, as well as the problems that each approach presents.

The first approach is to view intrafirm competition as a structural characteristic that is present to a greater or lesser degree in all organizations, and which affects overall performance in similar ways in all cases. The likely relationship with performance in this case would be an inverted U-shape, so that the relationship between intrafirm competition and performance is positive up to a certain level after which it becomes negative because of excessive duplication and coordination costs. This approach is analogous to Nohria and Gulati’s (1996) analysis of the relationship between organizational slack and performance. The problem with this approach is two-fold. First, it is very difficult to define the appropriate level of analysis. If the relationship is measured at the level of the firm as a whole, performance can be readily measured but intrafirm competition cannot be.
because of its often-temporary nature. If on the other hand the relationship is measured at the level of the individual unit or set of related units, it becomes very difficult to find a valid and reliable measure of unit performance. Second, this approach assumes a consistent relationship between intrafirm competition and performance regardless of the particular circumstances in which the organization is competing.

A second approach would therefore be to adopt the standard logic of contingency theory (Galbraith 1973, Lawrence and Lorsch 1967) and argue that high performance is achieved when there is a fit between the relevant attribute of the environment and the structural characteristic in question. This would, for example, suggest the hypothesis that the greater the level of environmental equivocality, the stronger the relationship between intrafirm competition and performance. This hypothesis more accurately reflects our beliefs about the conditions under which intrafirm competition will be beneficial. However, it still suffers from imprecision around the appropriate level of analysis—should it be measured at the unit, related units, or organization level? There is also a concern that intrafirm competition is just one of many structural variables that affects overall performance (and may be not even the most important one) so it may be very difficult to isolate its effect.

A third possibility that gets around some of these problems is to use a configurational approach in which intrafirm competition is modeled as one element among many that collectively make up an organizational archetype (Greenwood and Hinings 1993, Meyer et al. 1993). In this view, intrafirm competition is a contributor to high performance when it occurs alongside certain other structural and/or environmental factors, but it can also detract from performance if it is used in the wrong set of circumstances. This would suggest the hypothesis that the greater the level of fit between an organization’s actual profile of environmental and organizational factors and its level of intrafirm competition, the higher its performance. This approach overcomes the level of analysis problem—it makes possible much greater precision around the definition of intrafirm competition because it involves specifying all the particular elements of the organization that make up the archetype. However, it also creates a new problem, namely the need to specify in advance (from theory) a meaningful set of archetypes (Doty et al. 1993). An appropriate set of archetypes does not currently exist, so while it is conceptually attractive and the one we feel offers the most potential, this approach will require considerable additional theoretical development before it can be used.

**Boundary Conditions and Further Research Opportunities**

In developing our theoretical argument, we made a number of simplifying arguments, and these need to be briefly revisited to clarify the boundary conditions around the work. First, the focus was explicitly on one particular form of intrafirm competition, namely competition between charters occurring at the intra-organization level.

In taking this approach, we set aside two related forms of intrafirm competition: (1) competition between units in the product market arena and (2) competition between units for access to scarce resources, such as capital, technology, or people. We argued earlier that the former is often the visible manifestation of competition for charters, but it is likely that it also has some particular features of its own. For example, recent work by Kalnins (2004) shows how competition between divisions often occurs in a multimarket setting, which creates a new set of managerial challenges (e.g., Chen 1996). The latter form of intrafirm competition, concerning access to scarce organizational resources, is relatively well recognized in the literature, but it has mostly focused on competition for financial resources (e.g., Williamson 1975).

In contrast, the question of how organization units compete for human talent has received very limited attention. There is more scope for making sense of how these three different forms of intrafirm competition fit together. Such an ambition lies far beyond what could be achieved in this paper, but it would represent an important advance in our understanding of the internal dynamics of organizations.

A second limitation in our theory development was that we restricted our discussion to the set of organizational units operating in a given market, rather than an analysis of intrafirm competition across the entire organization. This was necessary for the sake of gaining some analytical precision, but it meant that we were unable to give due consideration to the organization-level phenomenon. A detailed examination of this issue will have to be left for future research, but it is worth making one point: the level of relatedness of the organization as a whole is likely to be an important factor in determining the level of intrafirm competition. In unrelated diversified firms, intrafirm competition is likely to be nonexistent because unit charters will be so far apart that there is no prospect for overlap. In highly focused firms, there is a good chance that decision making will be relatively more centralized and the design will be relatively nonmodular. Thus, a working hypothesis is that intrafirm competition is most prevalent in related diversified companies (Rumelt 1974), where there are enough charters and enough similarities between them for competition to transpire.

In terms of further research opportunities, two areas should be briefly mentioned. First, it is important to investigate the costs of intrafirm competition more explicitly. We hypothesized the conditions under which intrafirm competition was potentially beneficial or detrimental, but we did not get into a detailed discussion of the types of costs that it can incur. For example, there
are likely to be obvious costs associated with duplicating existing activities and generating ill-will between units, but there are also likely to be less self-evident costs, in terms of the lack of coherence of the organization’s activities and the possible confusion created in the marketplace.

Second, the role of top management in managing intrafirm competition is important but was given little attention in this paper. In rather basic terms, top management can establish intrafirm competition through direct authority; they can shape the organization structure and context to encourage individual business units to compete or not; and they can play an ongoing role in the process of intrafirm competition by sharing information, facilitating discussions between units, and adjudicating over contested charters. While our focus in this paper was implicitly on the second role, it should be clear that all of these roles are potentially important, and it is far from obvious what the relative emphasis placed on each of these three should be.

Managerial Implications

Finally, it is worth considering the managerial implications of this research, as its primary purpose was to make sense of a real but often under-recognized phenomenon. The first clear implication is that intrafirm competition should be treated as a legitimate attribute of an organization, rather than as something that is denied or eliminated as a matter of principle. There are conditions under which overlapping unit charters make sense, and it is important for executives to understand what those conditions are so that they know when to be suppressing intrafirm competition and when to be encouraging it. The second point of managerial relevance is to emphasize the importance of organization design in facilitating or suppressing intrafirm competition. Traditionally, design considerations in large firms have emphasized structural choices (e.g., between business units, country units, or matrix) and mechanisms of control (e.g., use of formal rules and decentralization of authority). This paper has highlighted some relatively new facets of organization design—the sharpness of a unit’s charter boundaries and the extent of overlap between adjacent charters. If intrafirm competition is going to be more effectively managed in the future (as suggested above), then such variables will have to be factored into the design choices made by large firms.

Third, the ideas developed in this paper suggest that intrafirm competition requires some new behaviors on the part of unit and corporate managers if it is to be a positive contributor to organizational effectiveness. Organization unit managers are expected to be entrepreneurial in their approach, by seeking out ways to reinforce and extend their charter according to emerging market opportunities. Corporate managers, in contrast, have a facilitative role—they have to be conscious of the level of intrafirm competition in each market sector and be prepared to step in if they feel it has become destructive to the broader interests of the organization, and they have to ensure that the overall portfolio of unit charters retains some coherence. These new responsibilities are not expected to replace the traditional need for planning, control, and performance improvement, but they are important additional things for senior managers to concern themselves with if intrafirm competition is to be effectively managed.

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Endnote

The finance literature uses the term fungibility in a much tighter way, to distinguish it from flexibility. Specifically, fungibility is concerned with the variation in the payoff distribution of an asset, and with the costs of monitoring that variation (Viswanath and Frierman 1995). However, we apply the broader definition as is commonly used in organization studies.

References


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