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Competition from the Inside Out

We invite you to read this complimentary article by **Jonathan Hughes** and **Gabriella Salvatore**, authored during their tenure with Vantage Partners. The article discusses six guiding principles for fostering healthy intracompany rivalry to enhance an organization's competitiveness. Now with BDO USA, Jonathan and Gabriella continue to provide strategy and innovation consulting to clients.

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When we think about business competition, rivalries between companies typically come to mind: Coke versus Pepsi; Ford versus GM; Airbus versus Boeing. But a focus on external rivalries can blind us to the reality that competition is pervasive *inside* companies as well. Departments compete for budget, R&D teams compete to develop the company's next-generation product using different technical approaches, and individuals compete for management accolades and promotions.

Competition — interactions in which individuals or groups vie for resources that are limited in supply — is inevitable. Depending on how it is handled, internal competition can spur excellence and catalyze innovation, enhancing organizational competitiveness in the marketplace — or it can drive toxic conflict, undermining a company's ability to compete successfully with external rivals.

Companies that regard internal competition as more difficult to manage than external competition often experience negative financial repercussions. According to research we conducted involving more than 150 companies over the past two years, those reporting that *internal* competition is harder to manage than *external* competition saw 32% lower revenue growth and 53% lower stock price growth over a five-year period than companies that reported that external competition is harder to manage.

How can a company harness internal competition as a force for good? These six guiding principles for fostering a healthy degree of intracompany rivalry can help businesses enhance rather than undermine their competitiveness in the external market.

1. Unify with common purpose. To engage in healthy competition inside organizations, people need to see themselves as united by a common purpose and a higher calling. At NASA, for example, employees' strong belief that their work contributes to a greater purpose provides an effective counterbalance to a results-driven and competitive internal culture. Every year for nearly a decade, NASA has ranked No. 1 in employee satisfaction among large federal agencies.

NASA's history also illustrates what happens in the absence of healthy competitive tension inside an organization. Three decades ago, the agency's "entrenched groupthink culture," as described by a 2005 Project Management Institute study, led engineers to dismiss alternative methodologies for quality control and risk management. The resulting engineering failures led directly to the in-flight explosions of the *Challenger* and *Columbia* space shuttles.

2. Cultivate relationship networks and camaraderie. When people see each other primarily (or only) as rivals, competition becomes inherently zero-sum and inevitably adversarial. But when individuals are connected through bonds of affiliation, regarding one another as colleagues with common as well as conflicting needs and goals, competition is much less likely to become toxic. Building connections among individuals and groups across the organization keeps competition situational rather than existential, and good-natured rather than toxic.

Wherever lines of competition are drawn — between business units, functions like marketing and sales, or project teams — leaders should also take specific actions to foster camaraderie. Job rotations are one way to create networks of personal relationships that span organizational boundaries. Joint training events, specifically those involving role-reversal exercises, can also increase understanding and empathy across different groups — and limit the risk that competition will become adversarial.

Managers at Southwest Airlines encourage teams and departments to compete with one another to test ideas in order to improve customer satisfaction. It is common practice for "losing" teams to celebrate "winners" with ice cream, pizza, and other goodies when programs have a positive impact. The result? A culture of healthy internal competition that contributes to extremely high rates of employee satisfaction, which in turn contribute to industry-leading levels of customer satisfaction.

3. Keep the lines of competition fluid. Vigorous competition between business units or technical teams can be a valuable means of accelerating innovation and an excellent way to hedge bets. But if competing colleagues are reluctant to share information or insights across teams, lest they give another group the upper hand, competition can inhibit the very innovation it was meant to foster. Regularly rotating executives across business units and reconfiguring team membership keeps competition fluid, helping to prevent healthy competition from devolving into the kind of permanent rivalries that impede collaboration.

Take the example of two long-tenured senior vice presidents at a financial services company. Year after year, they competed to see who could grow revenue faster and who could get a greater share of corporate marketing and R&D funding to do so. Seeing each other primarily as rivals, both began to expend mental energy on efforts to limit each other's success. Opportunities to bundle their products and cross-sell solutions to customers suffered, leading to revenue losses for each VP's unit and for the company overall. Both VPs worked to prevent their best employees from transferring to their rival's division, which limited growth and development opportunities for top performers and spurred a growing exodus of talent from the company.

4. Balance competition with rewards for collaboration. Efforts to minimize competition inside a company can potentially lead to organizational complacency and demotivate top performers, leading to decreased competitiveness in the external marketplace. But the more competition is cultivated, the more it needs a complement of efforts to cultivate collaboration across competitive fault lines. We conducted a multiyear study of organizational effectiveness that involved more than 500 companies. Organizations that reported employing "a great deal" of formal incentives to reward efforts to balance competing priorities were nearly five times as likely to report that differences were a significant source of learning and innovation at their company rather than a source of significant conflict and inefficiency.

In the early 1990s, three competing wireless infrastructure standards emerged across the world: GSM in Europe, TDMA in North America, and PDC in Japan. In response, telecom giant Ericsson established three separate business units, each focusing on one of the standards. In some markets, this meant that Ericsson was competing against itself. (For example, in South America, its GSM and TDMA units offered competing products to wireless operators.) As the wireless market rapidly evolved, senior leaders established systems to ensure the sharing of information and best practices across the competing units. They encouraged teams to vigorously compete against one another while also explaining that this internal competition was a unified strategy to ensure the company's success in a dynamic and uncertain market. Each unit needed to simultaneously compete to make its own technology dominant while also doing everything possible to make other Ericsson business units successful. Ericsson ultimately emerged as the undisputed global leader in second-generation mobile infrastructure.

5. Celebrate "losers" and their contributions. In sports, the difference between winners and losers is generally a function of who performs better (though, alas, bad officiating can significantly affect the outcome of a contest). But competition in other arenas is messier; winning or losing often depends heavily on external factors.

Consider two research teams racing to develop a new drug therapy, each focused on a different gene or disease pathway. Success or failure in this scenario depends less on competition — who is smarter or more hardworking — than on biological factors and findings that are unknown at the outset of both teams' research efforts. Managerial judgment and quality of execution do matter, but winning (or losing) doesn't always correlate with competence or effort.

In many cases, the learning that results from technical failures is essential to continued growth and progress — a fact better acknowledged in the scientific community than in the business world. Companies that celebrate productive failures and the contributions of those involved in failed efforts foster cultures where the energizing power of competition coexists with the multiplying power of collaboration. Moreover, in environments where "losing" isn't regarded as proof of incompetence or poor performance, individuals and teams are willing to speak up early when they observe signs that a project or strategy isn't working. When "failing fast" becomes an organizational competency, companies can learn, adapt, and innovate faster than the speed of the market — and waste fewer resources on expensive mistakes.

6. Commit to excellence. The more competition is motivated by a commitment to excellence, the more productive it is. If our primary goal is to beat our rivals, then defeat is indeed a bitter pill to swallow and resentment is a likely consequence. But if our ultimate commitment is to the excellence of our own (individual or team) performance or the achievement of a worthy goal, we can celebrate the outstanding performance of our internal rivals even in the face of our own defeat. When we regard those we compete against not just as rivals but also as partners who make an essential contribution to our own performance and growth, we come to appreciate rather than resent them.

Consider the historic friendly rivalry between tennis champions Roger Federer and Rafael Nadal. At the pinnacle of achievement in their profession, each is aware that the other's excellence can catalyze his own improvement rather than limit his success. As Federer said of Nadal: "I'm his No. 1 fan; I think his game is simply tremendous. He's an incredible competitor, and I'm happy we've had some epic battles in the past." Nadal also noted the benefits of the pair's collegial rivalry for the sport of tennis overall: "People from outside of our world talk about it and that's good for our sport." As leaders, we should seek to cultivate such productive rivalry and mutual appreciation throughout our own organizations.

Conclusion

McDonald's founder Ray Kroc said of his fast-food competitors, "If they were drowning to death, I'd put the hose in their mouth." Compare that zero-sum view of competitive rivalry with the camaraderie demonstrated by San Francisco's Golden State Warriors, the *losers* of the 2019 NBA finals, who paid for a full-page advertisement congratulating their rivals, the Toronto Raptors, in the winners' local newspaper.

Competition is happening within your company, and it always will — so how will you manage it? Will you try to minimize competition and lose its power to stimulate innovation? Or let it run rampant and become a divisive force that hampers collaboration? We hope you will choose a third way: Embrace competition as an endeavor in which rivals respect and value each other as partners in a never-ending journey toward excellence.

About The Authors

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