

# Can you bring competition inside the firm?

*by*

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A recent set of suggestions regarding how to manage in-house service provision has recommended that firms subject their own divisions to competition. The basic idea is that your in-house team will have come up with a tender proposal that will be submitted against external service providers. The firm itself will act as a nominally independent procurement agency and select the best team for the job.

This is all very well, in theory, but what about the practical implications? On the one hand, in-house teams can no longer be guaranteed an easy path. They will have to perform better than the market in order to be selected to do the job they were meant to do. This is a costly way of getting them to do what you employ them for. However, it appears to give a firm an assurance the competitive discipline is brought to bare.

What is not usually considered is the affect of this on external suppliers. You are asking them to compete against what appears to be favoured supplier. So it is natural to ask, what chance they really have and if you are one of those suppliers, you'll ask that very question. After all, it is costly to submit a tender, it is costly to do necessary investigations and it is costly to find out what the customer wants. These are the very things firm is asking done in-house team to do because you think it will pay them that to so. However, an external provider has to feel that they have a chance in order to really do all this.

When it comes down to it, the dilemma is this: you want a subject to own in-house team to competitive pressures but you do want to ultimately select them. After all you already own their assets. So if, say, an external provider bids \$1m for the job and your internal team bids \$1.5m of which half is a contribution to capital that you need to employ, the in-house team will win hands down.

So to an outsider, this biased contest doesn't look worth entering. And without that there is no real change. Consider this: when your in-house team knows they have a great chance of winning even with a high bid, they will bid high!

To resolve the dilemma you will have to occasionally not select your own in-house team. In doing so, there is a sense in which you have to shoot yourself in the foot. However, to an external supplier, they will be looking to this type of commitment in order to submit realistic bids.

When it comes down to it, this may not be an area where firms can have their cake and eat it to. If you want competition, you need to commit to a fair fight. And while you have

an ownership stake there is a perception, at least, that that fight isn't fair. Perhaps it would be better to spin off the division entirely if you think competition is your answer.

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