A Note on The Internal Market Economy

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1. COMPETITION AND CONFLICT

It is clear that an internal market economy encourages competition. For this reason one of the most common "loaded" questions asked of those who advocate it is, Doesn't this type of economy initiate and increase conflict between parts of the organization involved? The answer is NO, but the reasons are not apparent. The question is based on three common but not obvious misconceptions.

First, conflict and competition are not the same thing. Conflict occurs when increases in the chances of attaining one objective cause a decrease in the chances of attaining another. The two objectives, or those who hold each of them, are said to be in conflict. Therefore, conflict can occur within or between individuals.

Competition is conflict imbedded in cooperation. For example, in a tennis match between friends, they conflict with regard to winning; as the chances of one's winning increases, the chances of the other's winning decreases. However, they have a common recreational objective which is better served the more intense is the conflict between them over winning. In economic competition, two competing suppliers are in conflict with respect to sales to a potential customer or market share, but they are cooperating with respect to providing the customer better value for money. Thus the cooperative objective in competition may be either one shared by the conflicting parties or one belonging to a third party (e.g., the customer).

It is not surprising that competition is often defined as conflict subject to rules. Rules differentiate a street brawl from a prize fight. The function of the rules is to assure cooperativeness of the conflict with respect to the common end. In the case of a prize fight it protects the "sensibilities" of the audience, if not the physical capabilities of the parties in conflict. In the case of economic competition the rules are supposed to protect the interests of the customers and consumers.

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Second, competition can occur only between alternative suppliers of the same product or service to the same customers or alternative customers for the same product or for a service that is in short supply. The supplier and the customer are not in competition; rather, they are usually cooperative. Therefore, when an internal market economy is introduced in a company, competition, let alone, conflict, can be increased only if there are two organizational units serving the same internal customer with the same product or service or two customers of the same product or service that is in short supply. Neither of these conditions is common in corporations. Therefore internal competition is not fostered by an internal market economy. Competition between internal and external suppliers or internal and external customers may be.

Third, relationships between internal suppliers/customers tend to be more cooperative with external customers/suppliers than between those that are internal. This is due to the fact that choice is involved in the former case but not in the latter. When the supplier and customer are both internal, the supplier generally has a monopoly; the internal customer has no permissible alternative source of supply. This is more likely to lead to resentment than to cooperation; it can, and often does, put the supplier and the customer in conflict. And this conflict is often conducted unethically and harmfully from the point of view of the organization as a whole. This is why, generally speaking, nonmonopolistic suppliers/customers tend to be more responsive to the needs of their customers/suppliers than those which are monopolistic.

Summarizing, then, an internal market economy generally improves the relationships between internal units that are supplier and supplied.

2. PROFIT AND MORALITY

In an internal market economy most organizational units become profit centers. This bothers some who believe that concerns about profit encourage immorality and, therefore, for-profit organizations tend to be less ethical than not-for-profits. This belief is also false but, again, for reasons that may not be obvious.

First, not-for-profit organizations require income just as for-profit organizations do. The principal difference between them is that not-for-profits are frequently subsidized. Those that are not subsidized, or are not subsidized sufficiently, are as concerned with profit as for-profit organizations are. The only difference between them lies in how the law permits them to use their profits. Profit is simply the difference between income and outgo, and this difference is as relevant to not-for-profits as to for-profits.

Profit for an organization, like oxygen for a person, is necessary for its survival but not the reason for it. Profit is a means, not an end. It acquires value only when it is used to obtain something else of value. It has no value in itself.