Want to win at others’ expense?
Rethink your strategy

By ADU DIMIAN

It is human nature to want to win. And there is nothing inherently wrong with that attitude. Many would argue that a competitive drive leads to peak performance and success.

But the question is: What is the nature of competition, and must others lose for us, to win? Why should people or firms cooperate, or at least not compete directly? What are the implications of the short and long term?

Game theory provides us with an explanation of the nature of humans trying to win. Introduced in *Theory of Games and Economic Behavior* by John von Neumann, game theory explains that competition among various players is subject to the rules of each game and that an individual’s outcome may depend on what others decide.

The extent to which our outcome is affected, in terms of gain or loss, is dependent on the nature of the game. Decisions and outcomes among players are linked. The trick is knowing the extent to which they are linked.

But it gets complicated because a game depends on the rationality of the players. Mr Von Neumann showed that individuals are not necessarily irrational when they fail to cooperate for their own mutual benefit.

Examples are plentiful in our lives. The over-harvesting of a natural resource to the point it is nearly destroyed would appear to be a smart move for the fisherman, up until the point he catches the next-to-last fish. Try catching a cod in the Northeast Atlantic today.

When firms set a low price to gain market share, they appear to win initially. But eventually the industry profit pool dwindles and incumbents find themselves without innovation or differentiation and consumers find little choice except low price. Think of the US airline industry.

Or how about negotiations between a buyer and seller? What happens when a seller drops quality for what she thinks is an immediate sale? Likely the buyer makes the initial purchase only, and the seller loses out on further sales.

Cod fisherman, airline CEOs, a seller in Bangkok – according to the above scenarios, all were acting rationally, at least in the short term. When a longer view is considered, they destroyed a renewable lifestyle, diminished their industry profit potential, and lost the chance for repeat sales.

All by being rational in the short term and not considering the long-term implications of their position. They won, and then they lost.

The implications for business innovation are many. Managers must be able to interpret the rules in play for their competitive situation. And they must think in the long term. Winning or losing is no longer a solo thought process limited to each transaction. Managers must think of what they are really trying to accomplish. And they must know that the primary purpose of business is to generate profit by creating value.

Of course, other important things can be ventured with a successfully profitable business. But beating someone or another firm is far from a productive activity.

Even in a seemingly straightforward, two-firm competition such as the cola war, the competition is not zero-sum. When asked by *The Wall Street Journal* in 2008 if she wanted to unseat Coca-Cola from its dominant position, Indra Nooyi, CEO of PepsiCo, said: “What’s the point of unseating Coke? Let me tell you our game.”

The remainder of the interview was a clear strategy driven by her belief in her company’s ability to win their share of the cola game on their own terms.

Innovative managers correctly interpret the game in play for their firms, and play to win without focusing on beating the competition.

They note the effect of competition, but are driven by their own value creation ability. Going head to head is a foolish endeavour.

Ego-driven managers who obsess to win at others’ expense will find themselves on the opposite end of that winning equation. And if your firm cannot create real value in innovative ways, then the end game, indeed, will come quickly.

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