Collaborations That Are Bad for Business but Benefit Employees

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Sharing a partner with competing companies hinders the success of firms but helps employees' careers.

Firms working on new ideas often collaborate with partners to access complementary resources. Such alliances are commonplace, for example between entrepreneurial firms and venture capital investors, or film studios and movie publishers. However, **research shows** interfirm partnerships can negatively affect firm performance.

This is because partners often simultaneously **collaborate with a firm's competitors**. These alliances drive peer competition as companies have to compete for the resources of the shared partner. But if partnerships hurt firm performance, why do such collaborations exist in the first place?

We found there is a hidden upside to these collaborations. Sharing a partner with peer firms benefits an organisation's employees by allowing them to build social capital, which they use to find better job opportunities. Our **recent research**, published in *Strategic Management Journal*, examines the divergent outcomes of collaborations between developers and publishers in the video game industry.

Our findings uncover a potential agency conflict in interfirm collaboration: employees may favour alliances that benefit themselves but hurt their employer. While we are not the first to point out that firms often **pick the wrong partner**, our findings demonstrate that the “wrong” partner for the firm may be the “right” partner for its employees.

Bad for business

The negative effect of peer competition on firm performance has previously been documented in the **biopharmaceutical industry** and the **medical device industry**. We replicated these findings in a different context by building a comprehensive data set with information on video games, the employees involved in their development, the developers the employees work for and the publishers who finance and market the games.

Using data obtained from MobyGames (which catalogues information on video games and the people and companies behind them), we were able to track employees' entire careers in both public and private firms around the globe. We matched this with revenue data collected by The NPD Group, a company that has tracked the sales of video games in the United States since 1995. We measured firm performance at the individual project (video game) level and across all projects at the year level.

To measure peer competition, we determined the *number of peers* a firm has by counting the other developers releasing games with the publisher in the same year as the focal developer. We ranked the *superiority of peers* by dividing the average review score of games by developers working with the publisher in the focal year by the review score of the focal developer's game.

In line with prior research, we found a negative effect at the project level and at the year level. At the project level, a one-standard-deviation (one-SD) increase in a firm’s number of peers was associated with approximately US$583k less revenue. This is an economically significant amount given that the average game revenue in our sample was $2.07 million. At the year level, a one-SD increase in number of peers was associated with approximately $1,192k less revenue.

Moreover, our analysis found a one-SD increase in superiority of peers resulted in roughly $267k less revenue at the project level and reduced firm performance at the year level by approximately $581k. Overall, this corroborated the finding that peer competition negatively affects firm performance.

Good for employees' careers

While an increase in the number of peers had a negative effect on firm success, we found it had a positive effect on employees' personal success. Specifically, we found employees exposed to competing firms became affiliated with more successful projects. A one-SD increase in number of peers increased the revenue of the games with which the employee was affiliated by roughly $824k. Furthermore, a one-SD increase in superiority of peers was associated with an increase in the revenue of the games with which the employee was affiliated in the next year of roughly $696k.

Further analyses found the positive effect of peer competition on an employee's personal success was mainly driven by a job opportunities mechanism. In other words, employees' relationships with their employer's competitors helped them get job opportunities at peer companies.

Specifically, we found the number of peers and superiority of peers positively influenced an employee's likelihood of joining a peer firm, as well as joining a superior peer firm. Conversely, our results indicated that employees exposed to peer competition were less likely to find a job at a non-peer firm. This suggests that the job opportunities are indeed due to the social capital employees formed with employees at peer firms.

Next, we explored the idea that peer competition may be detrimental to the firm in the short run, but beneficial in the long run, as employees may develop their skills by interacting with employees from peer firms and be promoted. However, we found no significant effect of peer competition on employee promotion. Overall, the results did not provide compelling evidence that employees benefited from peer competition by developing their skills.

Finally, we investigated whether interorganisational ties provided better matches between employees and employers. If so, employees who joined a firm via peer competition should stay longer than those who joined by ordinary routes. Indeed, we found that employees joining peer firms stayed on average more than 4 years, while those who joined by ordinary routes stayed only 1.74 years.

A double-edged sword

Our findings reveal an additional downside of collaborations: a potential exodus of employees. While organisations usually take action to **reduce interfirm mobility**, our results indicate that organisations can unwittingly facilitate their own employees’ departure through interorganisational ties.

For employees, our findings illustrate that it is in their interest to be connected to their employer's competitors, as the same features that render a peer firm a competitor also make it an alternative employer. This creates the potential for agency conflict if employees pursue their own rather than their firm's interests.

Company owners, on the other hand, should be aware that managers may be motivated to enter collaborations that help their careers, but don’t necessarily maximise firm performance. However, there is an interesting argument to be made for firms to continue entering partnerships. McKinsey & Company is a famous example of a company that attracts top candidates by guaranteeing a better job down the line. In the same way, a firm could use its alliances as a powerful recruiting tool.

Our results underscore **prior research** on why it is critical to move from asking if something is effective to questioning what it is effective at, or for whom. By taking a broader perspective, we can move from simply labelling collaborations that lead to peer competition as ineffective, to realising that they are in fact highly effective for employees. How a firm responds to these dual outcomes is entirely up to them.

Find article at

https://knowledge.insead.edu/career/collaborations-are-bad-business-benefit-employees

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About the research

"Collaborations that hurt firm performance but help employees' careers" is published in *Strategic Management Journal.*