

TDK Study

Competitive Intelligence Supporting Strategic Decision Making

Stratégiai döntéshozatal támogatása üzleti hírszerzéssel

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The true currency to measure wealth is information.

Abstract

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Title:

Competitive Intelligence Supporting Strategic Decision Making (En)

Stratégiai döntéshozatal támogatása üzleti hírszerzéssel (Hu)

In a world where competition is getting more and more intense and fierce, business processes are required to be faster, and as a result, decision makers must adapt to triumph over the challenges. They are forced to make decisions under heavy pressure but with the awareness of the burden of consequences at the same time. It became evident that without knowing how to produce knowledge from obtained information, having just raw data or information could be at least as embarrassing as having no information at all.

In my thesis I arrange my thoughts around the potential of competitive intelligence and how it could become useful for executives today. The aim is to elaborate on the interdependencies between competitive intelligence and strategic decision making. The reason is simple: strategic decisions control strategic moves of a company, therefore affecting long-term performance. Strategic decision making is about responding to the changing environment and at the same time develop the means to gain advantage. I illustrate in my study how competitive intelligence supports this notion.

Regarding my conclusions it is clear how much the efficient cooperation between strategic management and intelligence could add in value sense. If competitive intelligence is used for strategic decision making purposes, competitive advantage is easier to achieve. The proper implementation of the competitive intelligence function in an organization is vital to make this happen.

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Competitive Intelligence Supporting Strategic Decision Making (En)

Egy olyan világban ahol a verseny egyre kiélezettebbé és élesebbé válik, elvárás az üzleti folyamatok felgyorsulása, és mint egy következményként a döntéshozók alkalmazkodása a kihívások leküzdéséhez. Erős nyomás alatt vannak rákényszerülve a döntéshozatalra, ugyanakkor számolva a teherrel, hogy tisztában kell lenniük döntéseik következményeinek. Evidenssé vált, hogy információ tudássá való konvertálásának képessége nélkül és nyers adatok, információ birtoklásával kínos helyzetekbe kerülhetnek.

Dolgozatomban az üzleti hírszerzés potenciálja köré szervezem gondolataim és rávilágítok az üzleti hírszerzés alkalmazhatóságára az ügyvezetők szemszögéből. Célom, hogy az üzleti hírszerzés és stratégiai döntéshozatal közötti párhuzamot és kapcsolatot feltárjam és részletezzem. Az ok egyértelmű: stratégiai döntésekkel lehet irányítani a vállalatot, illetve befolyásolni annak hosszú távú piaci szereplését. A stratégiai döntéshozatal egyrészt a változó környezeti kihívásokra adott válaszokban és a kompetitív előnyök kidolgozásában egyidejűleg manifesztálódik. Bemutatom a tanulmányban hogyan képes az üzleti hírszerzés mindezt támogatni.

A következtetéseimet illetően világossá válik annak mértéke, milyen módon képes hozzáadott értékkel szolgálni az üzleti hírszerzés és a stratégiai menedzsment közti hatékony együttműködés. Amennyiben az üzleti hírszerzést stratégiai döntéshozatali célokhoz rendeljük, könnyebbé válik a kompetitív előny elérése. A helyes megvalósítása az üzleti hírszerzés funkciójának egy szervezet strukturális keretében életbevágó a fentiek megvalósításához.

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1. INTRODUCTION

“Knowledge is power.”

Francis Bacon

For a long time, managers believed that possessing information could be enough to make the right decision. Maybe it had been the case once, but today, information means merely the good start. I would say, without knowing how to produce knowledge from information, having just raw data or information could be at least as embarrassing as having no information at all.

As I will introduce and show later in my thesis, turning raw data and information into useful and applicable knowledge that is able to support decision making, competitive intelligence is becoming a critical management tool of successful business leaders. Competitive intelligence is a relatively new and still not properly used or integrated into the decision making procedures in most of the companies, but the trend all around the world show that more and more company leaders try to employ it even partly, to ensure their decision based on solid, timely and accurate intelligence. In other words, prepared, analyzed, properly processed and disseminated set of information and data.

1.1. About the Subject

In the world we live in, technology is just about to become the most determinant factor – regardless of what area of life we are talking about. Smart-phones are indispensable tools for managers as a way to be always “connected” to the world and to be organized. Computers are expected to substitute human thinking as dealing with heavy load of information and many ways of processing data.

Company leaders can’t avoid utilizing the advantage of ERP¹ software to organize financial decisions and even manufacturing or warehousing processes along with HR and controlling issues. Furthermore, so called “business intelligence” systems exist, where the computerized solution – that is why it is called intelligence – is expected to provide decision making support and to make the company stronger in the field of competition. On the other hand, while in the everyday’s life, GPS gadget can help to get from point

¹ Enterprise Resource Planning

“A” to point “B”, technology and IT solutions are not able to provide the same accurate guidance or assistance in decision making, improve decision preparation or provide chances to have competitive advantage.

One could ask why? The answer is simple. Firstly, technology and IT rely on the input data that must be collected, loaded, and after the way of processing should be chosen. Secondly, each company can use the same system; consequently, the difference to gain competitive advantage must be found somewhere else. But the problem is not with technology or IT, because their significance and necessity are unquestionable; rather the key is the way decision makers or managers use them along with the appreciation of old fashioned – but still the most effective – human thinking and creativity. Then competitive intelligence comes into the picture.

Competitive Intelligence (CI henceforth) can't afford to leave out the consideration of modern solutions, but CI is to add the human sense of how to recognize and obtain relevant information, to analyze set of data beyond computerized patterns, to combine business, company or management culture with artificial intelligence models. Furthermore, CI is able to make existing informal information and data flows well organized and effective. CI is about to ensure and develop strategic management issues by discovering opportunities and threats on the market and in the direct and indirect business environment. CI is a watchdog for the company considering competitors and other players of the market, to be the early warning system to avoid competitive surprises. It is the tool for selection and verification of unstoppable and extremely wide range of data and information especially to make the decision maker certain of not being misled or cheated. CI is also the device for the decision makers to recognize who is the real and most dangerous competitor of the company; and on the other hand, to whom our operation could pose as competitive threat.

Based on the above introduced approach to evaluate CI, if we consider it as an acceptable view that strategic planning's main purpose is to determine the relationship of the company to its business environment and market in pursuit of its goals, application of CI should be the way to handle uncertainty, various dimensions of the market, stable/unstable features of the environment, simple/complex dependencies and interdependencies of market players and concentrated/dispersed power relations.

1.2. Actuality of My Thesis

According to Kahaner, *“If you make the right decisions you will succeed. If you make the wrong decisions, you will fail”*. (Kahaner [1996] p. 9) This of course is nothing new however a very basic notion that had always been true since the beginning of time. Competitive intelligence is all about supporting this theorem.

In the XXI century, company leaders must accept that the competition is not just about “core competencies” or “core functions”. Beyond them, it refers to capabilities, innovation and flexibility. Of course, core competencies and core functions are still in scope but from different consideration. In the high speed race of fierce competition, company leaders must protect the capability to keep on track with the core functions and core competencies but at the same time, the company must meet market challenges or recognize moves of competitors in time.

Managers also must be able to solve the problem with technology development, how to integrate continuously renewed technologies into the company operation, culture and effectiveness; additionally, how to keep the company alive during economic crisis, hostile governmental regulation procedures and decreasing solvency. The impact of such factors is able to destroy the company quickly, but what is more embarrassing that it may happen as an invisible virus. All across the world, decision makers started to reassess strategies, company goals, applicable methods and the basis of competition. The bottom line is that a leader has never been more eager to have timely, reliable, accurate and well processed information and knowledge.

Although CI is a relative new system, the origin of it is thought of as the second oldest job in the history. The use of reconnaissance or intelligence has never ceased from the very beginning, it doesn't matter what is the goal, obtaining military, political or economic related information. Governments have been involved in such operations permanently and company leaders learned this. For today, the question is not about how to justify intelligence application in the sphere of business, rather the quality and size of it is in scope. Multinational companies adopted CI well in the early 70's, and today, even Hungarian firms are ready to use CI, or at least some part of it. The question is whether the Hungarian decision makers, managers and company leaders know where to find such service or they just experienced the need that must be satisfied.

1.3. Structure of My Thesis

In the followings, I establish the concept and structure of my thesis. The concept of my thesis is to introduce my theory and my approach to the subject of how and why should CI is an appropriate and advantageous tool for decision makers and company leaders in strategic concerns.

For that, in the second chapter I highlight CI theory, referring to the core hypothesis along with questions that should be answered for better understanding of the concept. I intend to give a complete picture about competitive intelligence including a definition, a short indication about its purpose and functions, how it works, who are the players of this field and how is decision making procedure expected to be influenced or affected by CI application.

The third chapter is dedicated to CI involvement in strategic management and how CI relates to strategic decision making. This chapter provides a deep and comprehensive review about CI methods, how it is capable to increase certain capabilities of the company and what CI can accomplish to understand better, and having a clear picture about the market and its actors.

The last chapter is to illustrate how CI can increase the capability of the company to deal with risk factors, decrease the affects of uncertainties and threats, and strengthen competitiveness and at the same time cost effectiveness. Ultimately the focal point is how CI contributes to competitive advantage. As a consequence, the reason how CI is applicable in strategic planning procedures is unrevealed. At the end of my thesis I summarize my conclusions.

1.4. Acknowledgements

I hereby show my great appreciation to my supervisor, *Ádám Horváth*, who supported my intention to elaborate on the subject and contributed greatly to my work. I also expressively thank my mentor and father, *Gábor Ormosy* for his continuous support throughout, and for lending his extensive experience and expertise to my work as an expert of competitive intelligence.

2. COMPETITIVE INTELLIGENCE BASICS

“What enables the wise sovereign and the good general to strike and conquer, and achieve things beyond the reach of ordinary men, is foreknowledge.”

Sun Tzu

“It is pardonable to be defeated, but never to be surprised.”

Frederick the Great

When introducing the issue of competitive intelligence, I should begin with a brief overview of its background and history to have a comprehensive and accurate image of its nature. Accordingly, let's take a look at the origins of competitive intelligence. As the companies realized that the markets became more and more complex, the competition more intense, with obviously more competitors on scene, and the way of conducting business became often unfair (or say controversial), company leaders needed a tool as an efficient management method.

Some of the biggest market players in the western world² have begun to examine how governments work, how a government would solve such a situation. The fact had been at that time, that decision makers in the various fields of the business arena realized, that they need information – not just its original form, but having them cross-examined, analyzed, and properly interpreted. Moreover, these should happen in time and with a high level of accuracy. The result became obvious quickly; the governments use intelligence services in different ways to support and ensure decisions, or even to provide solid bases for it.

Case #1: Historical Background

They say that intelligence, as a profession, is the second oldest of them all (Shaker – Gembicki [1999]).³ Fact is the expression of “spy” can be read in the Bible. Fact is that one of the oldest written documents that analyzed intelligence and its significance is over 2000 years old. It is the Art of War by Sun Tzu, the legendary general of ancient China (László O. et al [2001]). Later, in the 12th and 13th centuries, one of the key factors for creating the Mongolian Empire was intelligence. Genghis Kahn, who conquered 40 nations in 30 years, overtaking the performance of Alexander the Great, was keen on developing an efficient intelligence system. What separated this system (later further developed by the follow-up ruler, Kubla Kahn) from the earlier mentioned

² In this context the western world applies to the economically more developed regions of Europe, North America, Far East and Oceania.

³ This of course, is not proven – although it is mentioned in several sources.

above, was that this time around the intelligence not only served military, but commercial and economic purposes as well. Genghis Kahn realized that this is vital to control his empire (László O. [2002]). After World War II, governments realized that the focus of intelligence switched from political and military information to economics related knowledge. In the 60's, economic and commercial intelligence had been introduced and professionals trained accordingly.

Intelligence activities regarding business developed into an even more specialized and distinguished area of the intelligence field. In the eastern cultures – China, Japan, to mention the most important – the process occurred in a different way, but I consider this somewhat irrelevant to my thesis. In the late 70's – early 80's, the biggest companies introduced their own new organizations established for information and data collection and analysis lead by former intelligence professionals (László O. et al [2001]). The results varied from company to company, but after a while, more and more market actors followed the pioneers, and today the significance has become unquestionable. Those who expect successful business do not leave this phenomenon out of consideration.

It must be highlighted what other factor also greatly influenced the evolution of competitive intelligence. Parallel with the application of intelligence methods and system in the corporate world or in the field of business, terrorist organizations and organized crime groups, syndicates, also introduced their own intelligence systems that should rather be considered as “espionage” and illegal ways of conducting intelligence operations. It should also be mentioned, that even governments operated official intelligence services and became interested in corporate and business developments as certain companies and their budget grew; some even had more economic influence than several countries (László O. et al [2001]).

Consequently, market players have been forced to broaden their intelligence activity, and to stay on alert for potential threats from not only competitors, but from anywhere: from criminals, terrorists – as they also depend on money and therefore also involved in business in many ways – to governments. The situation became more complicated nowadays when globalization reached each and every participant of the market regardless of its size or significance, its location or industry. The only chance for a company to be successful in the present environment is competitive intelligence, the ability to evaluate the environment, threats and opportunities, according to Roukis et al [1990].

Case #2: Successful Application of Competitive Intelligence

During the 80's, the executives of Corning decided that in order to stay ahead in competition, modern technology, educated HR, aggressive marketing and an overwhelming strategy is not enough. Corning represented herself in numerous high-tech markets, with more than 60 000 products and at least 100 being successful in the global market. There was a need for a new leadership model to protect the corporation's competitive advantage. On one hand a defense-oriented intelligence was created that successfully stopped an immense number of intelligence strikes from rivals (who sometimes used illegal tools also). Later Corning revealed that even governmental intelligence activities were targeting her operation – the French intelligence had interests in spying on Corning). The corporation also built a centralized offensive intelligence department, which contributed to Corning collecting information regarding competition to ensure her ability to remain as one of the market leaders (László O. et al [2001]). Website of Corning Incorporated: www.corning.com.

Although there are experts, specialized companies and offices for providing economic, financial forecasting for governments and businesses as well, these forecasting are influenced by many factors; like the specialties of the forecast provider, the professionals' specialties, the supposed demands, the considered trends in the past and even ongoing trends, and occasionally by politics. Competitive intelligence established and operated by the given company can avoid such influences and is able to focus on facts and factors, which are vital to the company or its future.

Competitive intelligence has the ability to validate information, data and its origin. A basic obligation for any intelligence service regardless of its specialty or operational area, even the user; the information and data must be checked and confirmed by searching for cross-references and in that way ensuring the usefulness of the obtained information. It makes competitive intelligence truly different from professional forecasting and becomes a genuine supporter of decision makers. To justify the above it is worth to consider how Larry Kahaner, a deeply respected author on intelligence referred to the need for intelligence for companies as the competition becomes a global phenomenon. Those who apply competitive intelligence would be better prepared for their decisions and actions (Kahaner [1997]).

2.1. Defining Competitive Intelligence

There are different approaches to competitive intelligence, and as a result one could find many definitions or descriptions of it. Typically because competitive intelligence could be simple and also complex – according to its application form or usage, I list some definitions to show examples; after that I will introduce (in my opinion) the best depiction I found during my research.

Leonard Full, one of the most recognized intelligence experts in the US says that competitive intelligence is analyzed information about the competitors that could influence the decision making process (Roukis et al. [1990]). One can see that his simple and focused explanation concentrates on the competitors only.

Richard Eells and Peter Nehemkis are also experienced in this area after they left the government services. They provide the following explanation: competitive intelligence makes it possible for the company executive that the opportunities for strategic planning are broader by having business and financial information completed and integrated with political, social, psychological and environmental factors (Kahaner [1997]). Kahaner⁴ himself gives the following definition: “*competitive intelligence is a systematic program for gathering and analyzing information about your competitors’ activities and general business trends to further your own company’s goals*” (Kahaner [1997] p. 16). In his same work, went further to express his conclusion that the efficient application of competitive intelligence makes the company stronger, enhances the company’s productivity and enlarges service providing capability. It’s the most appropriate tool in the hands of the decision maker to support strategic planning or business operation.

George S. Roukis management expert states that in the complex business environment competitive intelligence is a tool for recognizing opportunities and threats (Roukis et al. [1990]), as if competitive intelligence was an efficient way of scanning business environment. To briefly reflect on competitive intelligence from another two authors from the foremost corporate intelligence experts, “*competitive intelligence is intelligence specifically adapted to the commercial world*” (Shaker – Gembicki [1999] p. 5).⁵

⁴ Kahaner as a competitive intelligence specialist has had many of his articles published regarding the matter.

⁵ The list of definitions is far from complete, other experts have formulated definitions based on their unique approach and the difference between types of competitive intelligence that will be reflected on later.

After providing the views and opinions or even explanations of experts and professionals from different background and with various skills, education and experiences, I found possibly the best definition in a Hungarian College textbook by László O. et al [2001]: Üzleti Hírszerzés, Budapesti Műszaki és Gazdaságtudományi Egyetem Mérnöktovábbképző Intézet, Budapest.⁶ In this book, after the introduction of a number of definitions and classifications of competitive intelligence, the authors present a comprehensive and timely approach to defining it as follows:

“Competitive intelligence is a device to establish and maintain active and passive economic security of a company on strategic and operative levels alike. Competitive intelligence provides appropriate assistance for recognizing, evaluating and understanding opportunities and threats of the market, furthermore it grants significant support for preparation and implementation of decision making. Competitive intelligence is a modern way of dealing with leadership tasks in terms of enhancing flexibility and reducing vulnerability as sensitivity towards negative effects and risk factors.” (László O. [2001] p. 26, translated by: the author)⁷

From this point on, I will keep referring to competitive intelligence as “CI”.

One can find in this definition key terminology like economic security, opportunity and threat from the market, decision making support and way of leadership thinking. These could also be found independently among the features of a successful company, but it must be admitted after my extensive research that CI combines all these elements. It became obvious to me, that in the fierce competition during our days, the success of a company depends not only and solemnly on its capabilities and financial conditions, but rather it could be considerably influenced and significantly supported – even protected – by the attitude of leadership and the manner of thinking of and dealing with decision making procedures.

We could already grasp the significance of this concept by reminding us, through the thoughts of John A. Pearce II and Richard B. Robinson Jr. that often strategic planning

⁶ See: list of sources. This textbook became one of the core source materials for my work. The title could be translated as: Competitive Intelligence. The textbook was provided for the Budapest University of Technology and Economics.

⁷ The main reason for choosing this definition is due to its holistic approach to integrating the different aspects of competitive intelligence – yet it specifically describes the concept to a level of complete crispness.

relies on the impression that the future market conditions are known. This mistaken approach can be seriously remedied by decreasing uncertainty – thus inevitably linking CI to strategic decision making (László O. et al [2001]).

2.2. Purposes and Forms

What might be challenging the corporation executives that are targeted by CI? From the activities and policies of rivals, through the pricing policies of the actors in the supply chain and the social, legal, technological changes in the environment all the way to international economic trends and governmental actions – it's a huge list. We can categorize the above according to two aspects: industry and competition related coherencies and environmental factors and their dynamism (László O. et al [2001]). Based on these, two of the questions that might trouble today's managers the most are:

1. Are they able to withstand the temptation of building strategy based on recent (or present) trends?
2. Will they be able to acquire the indicators of the future trends and evaluate their potential effects?

Both need answering, since they are connected. This would be the first step towards facing the challenges. The executive that manages to answer both is probably using a given form of competitive intelligence. This implies that there are different types of CI present. The more developed economic regions of the world, in the business community and among experts we can find multiple variations of CI taking form. Strategic intelligence strictly serves the purpose of aiding long-term decision making.⁸ Competitor intelligence focuses on competition by definition, business intelligence as a general approach of CI not specifically for competition analysis, also corporate intelligence that directs its focal point towards aiding executives making decisions. I could also mention benchmarking, as an information gathering and analyzing tool, or knowledge management, another special branch of intelligence overlapping some functions of CI (László O. et al [2001]).⁹

⁸ Note that strategic decision making itself is not necessarily business-oriented. It also covers the strategic decision conducts of governments, international organizations, intelligence organizations, organized crime, etc. As there are numerous examples provided in the textbook by László O. et al [2001], we have the opportunity to briefly study intelligence conduct of the CIA, former KGB, etc.

⁹ I cannot explore all these concepts of branches of business oriented intelligence as it would take up huge amount of space. It is worth to mention however, that as Roukis and Graham focus on corporate intelligence and Gilad focuses on business intelligence, others approach the concept through building

The main goal of CI is to provide business safety in the sense of protection from business related crimes threatening the firm, predicting negative effects of economic trends, and at the same time safety comes from gathering, evaluating, providing reliable and useful information to facilitate strategy formulation backed up by relative certainty. Business safety thus becomes an imperative concept to consider. It represents the strengthening of competitive advantage and market position of a company, developing skills to efficiently react to environmental changes and to sustain profitable business conduct on a strategic term (László O. et al [2001]). If the above indicate business safety, then CI is meant to provide it.

Case #3: Business Safety of Chrysler

In 1998, the merger of Chrysler and Daimler was dubbed the “merger of equals”, in hope of prosperous collaboration. Afterwards, the president of Daimler publicly confirmed that the plan was to bring the Detroit-based car manufacturer under the control of Daimler through acquisition. The American firm was indeed naïve. All the important executive positions were filled by German managers and Daimler clearly was at the helm. CI was not properly utilized, whereas the intention of Daimler could have been discovered. This merger (although Chrysler initially believed in its purity) soon endangered the business safety of the company. The cooperation between Chrysler and Mercedes (the major company behind Daimler) was not successful enough; eventually the two giants disengaged. Chrysler was recently acquired by Fiat (Italian automotive group) (László O. et al [2001]).

When considering business safety, just like in governments’ cases, is made up of two parts:

1. Active business safety;
2. Passive business safety.¹⁰

To strengthen a market position of a firm is a two-way activity. First, the strengthening position through increasing market share, effective penetration; secondly it is vital to protect the already achieved results and defending the company from competition (László O. et al [2001]).

organizational intelligence (Liebowitz), competing with information through competitive analysis (Oster and Marchand), or exploiting the importance of intellectual capital management (Klern). These are all interconnected and provide a wide perspective on the strategic application of CI in distinctive aspects. As is the information gathering and analysis activities of the marketing department of a firm; which is incapable of substituting a well developed CI system.

¹⁰ If You guessed that in case #3, Chrysler rather had inefficiencies regarding passive business safety, You were right.

I defined two quasi purposes of CI: facilitating effective active business safety and defending business conduct with passive methods. The two purposes need somewhat specialized methods, or forms of CI. The two main forms of CI in this aspect is offensive and defensive CI. Offensive CI serves the purpose of active-; while defensive CI serves the passive business safety concerns.

The offensive CI acts as a tool to sustain active business safety, which is an intelligence system of gathering, analyzing and presenting information that mainly focuses on the external business environment. To explore market threats is its priority. The main tasks of offensive CI are the following:

- assisting strategic and operation planning
- industry and competition analysis during strategy and tactics implementation
- analyzing environmental factors
- analyzing external factors related to defensive objectives
- exploring external threat of terrorism and organized crime
- liaising with state intelligence agencies
- liaising with CI departments of allied or partnering companies

To sustain passive business safety, the defensive CI concentrates on the internal resources of the company. It focuses on the internal business processes, the effects and factors of conduct. Altering from offensive CI, that is more future oriented and reallocates its resources to predict in order to assist efficient reaction, defensive CI is about averting threats and preventing harmful breaches. Main tasks are:

- protecting information in connection with business planning
- industrial counter-espionage¹¹
- preventing of corporate frauds and business-related crime
- risk management
- information system protection
- tasks regarding the monitoring of personnel conduct
- internal aspects of terrorism and organized crime
- cooperation with state agencies and law enforcement

This categorization was provided by László O. et al [2001].¹²

¹¹ Industrial espionage will be briefly introduced later.

Case #4: Intelligence Support from the State

An example of how advantageous the cooperation between the offensive CI function of a company and the intelligence agency of a state could be: it became obvious during multiple diplomatic negotiations between France and the US that the former aided French companies by conducting aggressive intelligence in the States. This caused significant damage, which fumed the Americans to question the activities of the French intelligence services. As a response, the former head of French intelligence, Pierre Marion stated that the two nations are allies, but in the world of business, technological and market competition, they ultimately are competitors – and not allies (Porteous [1993]). The cooperation was advantageous for the French companies, proved with the consequences. On the other hand, France had to bare accusations that somewhat damaged her image.

I provided the short case above to conclude the illustration of what goals CI pursues, or what forms it could take. The case approaches the question from the state administration's aspect.

2.3. Process of Competitive Intelligence

After the executive leadership is clear what CI can do for the company, what the functions, objectives and work processes are, it may formulate expectations towards CI. I already introduced the main functions and roles of CI before, now I owe it to the Reader to reflect upon the underlying process of CI. The ultimate principle behind organizing the work flow of CI is one and the same: the intelligence cycle. Basically most of the intelligence services apply this organizing principle to customize their own intelligence system, let it be intelligence agencies of states, political organizations, state owned or private firms (László O. et al [2001]).

The core concept of the intelligence cycle is that it's a never ending process; every piece of analyzed information, every circumstance or event may generate new needs, and the consequences of made decisions create results that bring new conditions; ultimately needing further information for consequent decisions. In order to serve the planning, punctuality, efficiency, effectiveness, re-applicability and the supporting of executive

¹² Interesting fact is that it is not so common to witness the structural separation of the two functions in a firm. Usually the department in charge of CI is responsible for both functions, the only corporations that make distinction in terms of structure between offensive and defensive CI are some of the global corporations, or companies that are heavily relying on information and R&D activities (for instance: high-tech industries, suppliers of governments and state agencies, etc.) (László O. et al [2001]).

leadership, with operating CI, the intelligence cycle concentrates on four major tasks (László O. et al [2001]):

- I. Planning;
- II. Gathering information;
- III. Analysis;
- IV. Reporting.

In reality the main “steps” of the process are much more complex. Given elements of the process overlap one-another and are interdependent, even though the general direction in the cycle is constant. Continuous control and feedback is often necessary however.

What we see above is the horizontally organized work process of CI. It is also obvious that the cycle is affected by external influences. It is important to emphasize internal control which peaks at the analyzing phase – this is where, based on decisions made by the executive responsible for CI may alternate the direction of the process flow by introducing new constraints and demands in the system. For the sake of effective feedback, constant internal communication is required.

However the intelligence process does not organize itself around tasks and structures – it is a system of its own. If we recollect its original functions and goals, we understand that the process is presented in a horizontal dimension. Based on the concept and functions, we could also examine the vertical extension of the process flow. The levels are not strictly separable; nonetheless serve distinctive objectives and functions (László O. et al [2001]):

1. Serving active/passive business safety with constant CI; executing everyday basic tasks of CI. This level is responsible for integrating basic, continuously executed intelligence tasks to provide business safety on two fronts – that is vital to sustain reliable intelligence work on the upper levels. This involves rather general data gathering in markets, managing databases, managing unexpected external opportunities/threats, situation reports, continuous risk assessment, and routine defensive tasks meaning constant protection of information, intellectual capital, knowledge and execution.
2. Supporting structural and functional operation of the firm, executing preplanned tasks, managing external influences, concerns. This level involves more specific

tasks, but does not exist without the first level. Central issue here is the deeper analysis of threats and opportunities emerging on the lower level and during strategic planning. Practically this level involves CI in strategic and operations planning; CI tasks regarding their implementation and control; evaluating forecasts; providing business safety by harmonizing offensive CI and its forecasts with defensive CI's controlling mechanism; etc.

3. Supporting executive decision making, executing prioritized tasks and managing exigent questions. This is the highest level, which serves as my focal point in later chapters. The third level involves objective-specific tasks, where the executive requests the service of CI in a specified topic or question, usually related to strategic management issues. These assignments often are the most challenging especially when the first two levels of intelligence processes are not organized properly. These assignments involve the generic definitions and relationships developed in the first two levels, based on analyzing the business environment (internal and external also), and by providing the results of operative CI for this level. Thus the third level of intelligence could focus on applying existing coherences and evaluating results in light of the given task. This is extremely significant, since these tasks frequently require unique time constraints.

While the offensive CI on this level supports strategic decision making based on the demands from executives, the defensive CI receives its task from multiple directions. Because the offensive and defensive CI activities share strong links, much of the objectives of the defensive aspect are a consequence of the offensive analysis of competition, for instance. In this case the defensive CI is to manage and eliminate threats from rivals; but threats may also arise internally. The defensive mechanism then is initiated by the CI official or department, taking actions even before the executives are aware of the situation.

After describing the principles to organizing the intelligence process in both horizontal and vertical aspects, I elaborate the four main elements of the process already introduced.

I. Planning

The planning phase might be the initiator out of the four steps, but not where the intelligence process truly begins. For when CI is brought into strategic or operative procedures and decision support it is often the decision coming from the top; that involves

the defining of the need of information and its forwarding for analysis. Usually these matters involve uncertainty and risks, not only regarding the information itself but the source and circumstances also. In order to remedy the situation, CI has to pose the “right questions”; what the true demand towards CI is, even without the executive having that demand correctly defined. In other words: the need and demand relating to intelligence issues coming from executive management are most often off, from what should really be done. CI experts know this, since their expertise in intelligence helps them define the circumstances of the given task (László O. et al [2001]).

The above assumes that there is incoherence between the information need of the executive and the information need of the CI, to properly execute the task through the intelligence process. This step is crucial; the effectiveness of the intelligence process depends firstly on the information input. What percentage of the required information by the executive is in fact the information that will be sought after by CI? The greater the overlapping, the better the executive understands the situation. Without too much overlapping, CI will convince the leader to accept the fact that he/she may not be able to correctly define the initial set of information; representing the important set of information. The intelligence process will focus on this set of information, to provide objective perspective and to satisfy the demand of information input to prepare analysis.

This is the point where the objectivity, the quantity and quality, the source, reliability and other factors play a crucial role in information gathering. My thesis only presented the potential conflict regarding information, but in practice, textbooks and studies put an effort into clarifying the issue and introduce approaches to manage the incoherency without creating conflict between top management and CI. This is the issue of understanding the value of information input.¹³

This is why it is a must for executives to not only define what information they need, but what the task is, what the circumstances are. This way CI could assess, based on the task ahead, the information need for planning. The planning itself happens in three main phases:

¹³ In decision making, this phase could damage the outcome, if there is a lack of mutual respect and cooperation between top management and CI. The establishing of a CI function in the company, to support decision making becomes significant already – without CI, and without its professional approach to gathering information to create intelligence (i.e. knowledge, on which decisions are based) there would be a high probability of distorted analysis and decision making. Wharton on Making Decisions (edited by Hoch – Kunreuther [2001]) explicitly discusses flaws and distortion in executive decision making.

1. Initial planning following the comprehension of the requirement of the executive. This covers the prioritizing of information; partitioning them according to themes; classifying them based on sources; categorizing according to accessibility; typifying formulation of questions about confirmation, hypothesis and unknown circumstances.
2. Gathering and initial analysis. The results in this phase may cause new questions to be integrated and change in the demand towards intelligence. Problems arising here could redefine the task itself.
3. A coordinating activity that harmonizes initial and new requirements to complement the gathering and analyzing, and providing a raw informative. This is checked by the executive of CI and complied with professionals who will conduct the analysis.¹⁴

After the planning stage is complete, the actual gathering of intelligence is on its way.

II. Gathering information

In spite of the mass belief that intelligence is limited to this phase, gathering information is just one element of the complex intelligence process. In reality, this stage is what might be called information management. It covers gathering but also systematizing information and the managing of the company's information system. These are interrelated and inseparable in this phase. The key to information management is the firm's information culture. The information culture, if highly developed, could simplify CI processes and aid in decision making.

Information management may also be a main source of information. Usually some required information already exists in the internal corporate environment. With the use of information management the internal databases could provide vital information, which makes it unnecessary to search for them in an external environment and save resources.

The factors that affect the gathering process are the following:

- quantity and quality of requested information;
- quantity and quality of necessary information;¹⁵
- opportunities of internal/external sources;

¹⁴ If needed, a preliminary informative material may be given to the executive initiating the task.

¹⁵ First two points refer to the difference already mentioned, that causes distorted perception from the executive's part.

- available time;
- configuration, potential and efficiency of the information system;
- technical possibilities;
- human resources.

One can understand that these also affect each other as the changing of one factor consequently modifies the circumstances for other factors (for example the demand for more and more reliable information may stretch the available time for gathering). We should consider these when collecting information, so that we could contribute to a more relevant analysis.

III. Analysis

When asked about the essence of analysis, ex-CIA Officer Jan Herring stated: *“this is what I think will happen based on what I know”* (Kahaner [1996] p. 97). Kahaner [1996] defines the work process of analysis as a process that produces useful intelligence from often incoherent, raw data.

The result of analysis is intelligence – or converted knowledge – ready to be used. It is this stage where information is evaluated and relevant connections, correspondences are sought out and by the end of the transformation process information turns into intelligence. Those pieces of information that become irrelevant or incoherent and are contradictory will stay raw information; during the presentation of the analysis these are filtered. It is important because the tighter the connection between analysis and decision making, the more effective CI and decision making becomes (László O. et al [2001]).

Case #5: Boeing vs. Airbus

Everyone is aware of the rivalry between the two airplane manufacturing giants, Boeing and Airbus. It seems that until a couple of years ago the battle on the front of CI favored Airbus, which had negative effect on management at Boeing. Changes were made at the very core: the CI at Boeing supported the creation of the mission statement and understood the long-term goals. This was only possible through the tough analyzing efforts input. Boeing was also fortunate that Aerospatiale, a subsidiary of Airbus, made her strategic plans public – a huge mistake – which aided in the competitor analysis, and Boeing was able to determine the mission of the company; and in it the elements referring to Airbus (László O. et al [2001]).

Although the complexity of the analysis process depends on which level we are serving (general intelligence activities or strategic questions), there is a universal and simple structure for the analysis.

Based on the circumstances, tasks, initiators, etc. there are multiple analyzing methods and models available, which could even be combined and used simultaneously to suit the objective. Because I have limited space I will only briefly list these methods and models.¹⁶ The list is incomplete, of course.

1. Analyzing methods:

- opportunity analysis (concerns the second level, focuses on how to obtain the known strategic goals and how competition might react);
- linchpin analysis (method for initial analysis as it cannot provide final results);
- forecasting analysis (characterizes the orientation and strength of the continuation of events in the future);
- back-casting analysis (sees a future state as the starting point and reverses the process of forecasting; uses the logic of deduction – from a strategy of a competitor it aims at realizing its actions that lead up to fulfilling that strategy);
- method to evaluate competitiveness of competition (mainly providing company profiles of rivals);
- mathematical analysis of trends;
- statistical analysis;
- human factor analysis.

Case #6: Forecasting Analysis

Ford Motor Company was well aware decades ago that the automobiles using electric power or alternative energy are the future. This fact was more precisely emphasized by CI with each year passing. Executive leadership was prepared beforehand to expect changes in trends and to anticipate these changes. Ford reallocated capital to fund and properly scheduled R&D projects in this matter. Today, Ford has demonstrated its expertise at producing vehicles using alternative

¹⁶ The following methods and models are further elaborated in numerous source materials presented in the list of sources. Some of these models have become extremely popular and are rewarded with textbooks exclusively dealing with their applications. Most are not just addressed as CI analyzing models; but also support leaders to build competitive strategy based on them and to evaluate industrial competition.

energy sources, and has become the pioneer among the three giants (Ford, GM and Chrysler). An example for a recent success is open for viewing at the following website of the corporation: <http://www.ford.com/technology/electric/howevswork/?tab=PluginHybridEV> (downloaded: 08/11/2011). The preparation from Ford's part had strategic implications as the company realized the need for diversification of the product portfolio and investing into innovation. CI forecasting takes most of the credit in this case. Ford now offers products that rival the globe's pioneer in this sub-segment of cars; the Prius from Toyota.

2. Analyzing models:¹⁷

- War gaming.¹⁸ Controlled by CI but top management is involved. Based on the script, CI defines the environment, defines the company and the rivals that pose threats. Using computerized modeling, CI makes the process active and dynamic. Results are evaluated using software, complemented by other analytical methods.
- Game theory. A major element in war gaming, it can also be applied as an individual principle in modeling. Focuses on present and future situation analysis. This would be a static analysis if game theory did not allow the decision maker to shape circumstances, shape the “game”. It also presents a continuity of clashes between forces; not just analyzing a single event. Goal is to study the interactive effects of market players’ activities.
- Competition connections model. Analysis based on three essential competitor behaviors: independent; leader-follower; collaborator behavior.
- Competition answer-reaction model. Concentrates on how competition reacts in an industry as an actor takes action.
- Financial analysis model. Financial officers, professionals are involved in the process. Financial modeling turns into “financial warfare”.¹⁹ Aims to predict how competition could be defeated or weakened through financial actions and tactics (László O. et al [2001]).

¹⁷ These models are only introduced here; as they will be brought up again due to their ties to strategic planning.

¹⁸ The War Room Guide to Competitive Intelligence by Shaker – Gembicki [1999] dedicated a whole book to information warfare and the war game approach to CI.

¹⁹ Primarily used in the banking sectors; a technique originally used by nations in financial warfare situations (László O. et al [2001]).

These models are often necessary when methods alone cannot cope with the complexity of a task; when separately they are not able to reflect upon coherencies in a given situation (Oster [1999]).

IV. Reporting

This stage ends the intelligence process – nevertheless it is as important as the former phases. Interestingly, CI professionals are urged to have the report verbally presented. A report should satisfy the following requirements:

- answering questions, demands;
- justifying present processes, current knowledge;
- identifying coherencies and the direction of processes;
- exploring market opportunities relating to the task;
- exploring market threats relating to the task;
- suggesting solutions, alternatives;
- forecasting of future processes based on the above.

The question of who may attend the reporting is up to the decision maker(s), as intelligence of this sort is highly valuable and its management and protection is crucial. Also there is the dilemma of the executive whether to just acknowledge or actually apply the results of a report. As history teaches us, sometimes it is worth to wait and not act instantly – this might send the message to others that you do not possess the vital piece of intelligence.²⁰ Therefore the report should also contain if action is recommended right away, or rather not. It is imperative to provide alternatives to the decisions, and to present possible consequences. This is why a good report is never the exact match of the raw conclusions of analysis (László O. et al [2001]).

Other important issue is the availability of the report; which departments have clearance to access the report, which do not. Also who to report to, as in specific cases reporting to governments, stakeholders is obligatory. Another issue is the information provision to customers, and the depth of the report.

²⁰ During World War II, one of the grandest achievements of the British Naval Intelligence (cooperating with the US Navy) was obtaining the German encoding-decoding communication device, the „enigma”. Allies did not act right away, thus the Germans had no knowledge of the enigma technology being compromised. The messages were traced and decoded, and the Allies gained an insight into German military strategy.

3. COMPETITIVE INTELLIGENCE AND STRATEGIC MANAGEMENT

“Competitive intelligence, in my opinion, is worth about \$50 million a year to NutraSweet. That’s a combination of revenues gained and those not lost... Fifty is probably a low number.”

Robert Flynn, Chairman, CEO of NutraSweet²¹

The main topic of my thesis is to illustrate and study the interdependence of CI and strategic decision making. Strategic decisions are an essential part of strategic management. I intend to present my findings regarding the relationship between the two concepts.

3.1. Competitive Intelligence in the Corporate Structure

The problem is that even though the intelligence activities are inevitably embedded into a company’s structure, the functioning and structuring of CI are in every case unique. There is no common pattern and frame for establishing CI. The formulation and operation of CI always depend on unique principles and adjust to the characteristics of the company (industrial characteristics that define market presence; organizational culture; leadership culture; physical and economic size of organization). These all affect the development of CI; however it is the relationship between CI and decision making that is the most disputed question (László O. et al [2001]). Thus we need to consider two aspects:

1. centralized-decentralized CI’s and leadership’s relationship (from CI structure’s viewpoint)
2. CI’s and leadership’s functional connection (from the levels of decision making viewpoint)

It is important to note that there are opposing forces that affect components of functions and the structure of a corporation. To optimize the ratio of CI’s corporate resource usage to the added value of CI professionals analyzing information, executives should properly evaluate the position, functional and organizational roles of CI in the company. This contributes to the appropriate decision regarding the role and placement of CI in the organization’s structure. This then brings up the question of how CI would relate to the

²¹ Kahaner [1996] p. 229.

other functions and departments in the company, namely marketing, network of distribution or the sales department, research and development and data registry.²²

To tie CI to the rest of the functions is an activity involving special and unique circumstances; this is why implementing CI into corporate structure is hard to generalize. There is one element however, which is common in every case: that is the direct linking of CI governance to the decision making executives. In order to enhance strategic planning – that takes place on the highest level of management – it is the strategic management of a company that primarily needs to utilize the potential of CI. The implication is that the Chief Information Officer²³ becomes a part of strategic management, and maintains direct contact with the CEO (Kahaner [1996]).

Regarding the main theme of the study, in the next chapter I detail how CI relates to and support the top level of governance, and what the chief aspects of their relationship are.

3.2. Competitive Intelligence and Executive Leadership

When we link CI to the strategic management process and strategic decision making in a company, we inevitably also involve the executives and how they relate to intelligence issues. The question from the executive is to what extent CI should be involved in planning and executing strategies. Considering the leading and controlling of corporations, there are two distinctive levels often present in especially large corporations (depending on ownership). These are the strategic management and the board of directors. Among the well known abbreviations for executive titles – CEO, COO, CFO, CMO – recently there seems to be another joining the board of directors; the CIO.²⁴ This suggests that during strategic planning and the setting of long-term goals, the executive for intelligence is being involved in the decision making processes. This does not reflect whether intelligence is centralized or decentralized, but it sends the clear message of CI being taken more and more seriously (László O. et al [2001]). This enhances direct

²² Beside these, obviously the relationship established between CI and the financial, logistics and HR departments are also important, but the market presence is mainly affected by the direct collaboration between CI and the formerly mentioned functional areas.

²³ It is common to refer to the executive in charge of intelligence in a company as CIO (Chief Information Officer). However, often CIO is actually in charge of information management, information systems and the IT architecture – this is common when the specific organizations do not develop their own intelligence system.

²⁴ Full titles in order of appearance: Chief Executive Officer, Chief Operational Officer, Chief Financial Officer, Chief Marketing Officer and Chief Information Officer.

communication between executives from different functional areas – the functionality of intelligence becomes more effective.

The involvement of the CIO is extraordinary when there is a need for fundamental change or when the CEO is about to consider making negative decisions. It is the intelligence that usually covers information few “would like” to know about. Ultimately, effective decision making support on the part of CI suggests that the threats and dangers are just as likely to be revealed as positive opportunities. One of the gravest of dangers is when CI presents intelligence contradictory to information coming from the other functions, departments. The supporting of the CEO is crucial in this situation. And since a CEO is fully responsible for his/her decisions, the direct provision of reliable intelligence in time is a must. Ergo, the integration of the CIO in executive leadership is imperative.

Another issue to be detailed is the management and control of CI itself. The involvement of the CIO into executive leadership presumes a modern way of organizing intelligence conduct, managing intelligence activities.

Strategic management belongs to the executive leadership; the top management. Since the decisions made on this level (highest of them all) affect market presence, competitiveness and success, CI also meets the toughest challenges and most of the questions; intelligence activity is concentrated on this level. Although CI is in closest contact with the strategic level of management, its utilization is a decision of the CEO. There are two major issues to be dealt with when structuring CI that reflect the demands of strategic management (László O. et al [2001]):

- centralization vs. decentralization;
- offensive dominance vs. defensive dominance in CI.

In the event a company becomes trans-, or multinational, having placed several foreign sub-centers or facilities to emphasize its presence in international markets, decentralization of CI is a common result. This means that there is only symbolic intelligence activities conducted in the headquarters of the corporation, which in reality works as an information center and it houses a staff for strategic analysis. The bulk of intelligence activities are executed on one level lower; at the sub-centers in given regions. To have effective intelligence accustomed to serve strategic purposes for subsidiaries, facilities, etc. on foreign lands, the multinational corporation is forced to decentralize CI.

It needs to be highlighted, that decentralization is only suitable if presence in the penetrated foreign and international markets is strengthened thanks to the active contribution of the established units.

If on the other hand market presence depends on the decisions and business conduct of headquarters, and business units in other regions and markets are not contributing to strengthening local presence, there will be a request for centralizing CI. This is typically the case with companies placing manufacturing plants abroad, which do not deal directly with competition and supplying markets; rather the decision to create the business unit was more concerned with cost-effectiveness, local legal advantages, convenient logistics, etc. Although CI is centralized, it does not cause the decreasing of importance of primarily defensive intelligence activities in local context.

The dominance of offensive or defensive CI is usually affected by the market position of a firm. When a company is in a leading position, it will focus more likely on defensive CI. Being number one means to have competitive edge (more or less) through innovation, R&D practices, the deployment of cutting edge technology, services – all these require the know-how, the knowledge of circumstances, competition, markets and demand; the intelligence. To stay ahead, these companies need to preserve that intelligence, which enables them to gain advantage (Kahaner [1996]).

However, market leaders not only protect their knowledge; they engage in offensive CI as well. Although, the dominance of the offensive aspect is more obvious in organizations that intend to narrow the gap between them and market leaders. These leading firms aim to preserve an advantage supported by intelligence. Follower rivals deploy CI to obtain and implement more knowledge to decrease their disadvantage and amplify their competitive advantage. In strategic management during strategic planning this is automatically determined, hinting at the weight the CI leadership adds to the issue (László O. et al [2001]).

3.3. Role of Competitive Intelligence in Strategic Planning

When describing how the orientation and purpose of CI is decided upon according to different situations by the executive leadership at the end of the previous chapter, I unavoidably referred to the apparent connection CI upholds with the strategic planning process in a company. Since this topic involves a heavy interaction between intelligence and strategic decision making, I commit this next chapter to the issue.

In order to fully comprehend CI's role in strategic planning, it is necessary to define strategic planning itself. "*Strategic planning's main purpose is the determination of an organization's relationship to its environment in pursuit of its goals.*" (Roukis et al [1990] p. 94)

Flynn [1990] writes that the ultimate goal of strategic planning is the defining of the relations in a company and the relations between a company and its environment while realizing long-term goals.²⁵ The more complex the environment, the greater uncertainty the decision maker faces, according to him. Flynn regards strategic planning as the counterbalance to the effects of an ever complicated business environment.

When management battles with uncertainty, strategic planning becomes the most important process in governance, as Miller [1996] points out quite radically.²⁶ Strategic planning ensures the effective decision making that strategic leadership requires. Without knowing the future it is impossible to make decisions in the present; since all decisions are a reaction to present situation but may have long-term effects. However the future is never completely foreseeable, so we are presented a paradox. The bridge connecting these sides is the strategic planning, as it involves the analysis of trends to define their potential future, and to provide scenario mapping or predicting circumstances. To execute the tasks above and to extract knowledge that supports decision making, CI is called into service.

To further prove the significance of CI's purpose in strategic planning, consider the following quote: "*The success or failure of your strategy is not determined by your actions alone. The moves of rivals determine whether a price cut becomes a price war, whether a hot new advantage becomes a cost of doing business, whether a current position of strength becomes a position of weakness.*" (Day et al [1997] p. 124) The quote

²⁵ Flynn links strategic planning to CI in his work, edited by Roukis et al [1990] in *Global Corporate Intelligence*.

²⁶ Miller's work on CI and strategic planning is edited by Gilad; see list of sources.

validates multiple roles of CI. A company may have won an intelligence battle momentarily but the obtaining of the lead may also be costly in the end. Mistakes that characterize such failure:

- the company utilized its information once, or on a short-term period;
- improper usage of information or disregarding reactions of competition;
- no application of CI, only marketing analysis (László O. et al [2001]).

The double-lined arrows designate the role of CI in the strategic management processes, and the effects in which CI is affected in a way. It is clear that the objectives of CI support the following in strategic management:

- preparation of planning, setting of goals;
- work process of planning;
- implementing strategic and operative plans;
- controlling of execution, the strategic modifications if be needed.

The role of CI during strategic planning has evolved as military organizations developed their own intelligence services throughout the millennia. As mentioned in earlier chapters military organizations (just like modern businesses) utilized intelligence services and incorporated it into its structure. The business oriented organizations learned from militaries in how to apply CI as a structural element. This could be explained by the fact that in military services all over the world, the intelligence as a function grew into spotlight and its relevance became undoubted. When we evaluate competition on markets between rivaling companies, we could also consider how military organizations – or armies of nations – “compete” in the sense that competition is among countries and rivaling may happen in the form of wars.²⁷ Of course, winning in this case does not only mean losing of market share; so strategic decisions rely on intelligence at least as much as in the case of competing firms.

“The necessity of developing workable, logical plan consistent with the CC’s²⁸ objectives requires the interaction of the J-5²⁹ staff with the other functional staffs, particularly with the intelligence (J-2) staff. This interaction can range from coordination of a draft

²⁷ Interestingly I do not only refer to wars with explicit strategic military actions but also to cold war, where the importance of intelligence increased as the battle is fought with covert actions behind the curtains.

²⁸ CC: acting Commander.

²⁹ J-5: planning staff. J-2 and J-5 designate staff teams or departments in charge of a specific function. J-1 is personnel; J-3 is operations; J-4 is logistics; J-6 is command, control and communications. All these report to the CC.

planning document to participation in a working group developing a plan. (...) The success of the entire planning operation rests with the regular (usually daily) interaction between the CC, J-2, and J-5 staffs.” (Miller [1996] p. 204-205) To briefly conclude the quote, it emphasizes the importance of intelligence involvement in strategic planning. It is this experience that has been adopted into the business world. The decision to apply intelligence has proven to be productive.

The figure above assumes that CI is involved in each of the phases of strategic planning. During the first phase the planning staff – including decision makers – articulates their main concerns to which the answers give the basis of the situation report. This only represents the frame of all the tasks that CI will deal with on different levels of management.

In this system of planning and collaborating with intelligence staffs, the company needs to focus on two distinct but interrelated aspects of strategic management:

1. strategic planning and CI;
2. operative planning and CI.

It is clear that the framework briefly presented joins the two approaches to strategic management. The planning and decision making processes happen in strategic and operative contexts at the same time. These areas are inseparable regarding effective functioning of an organization, and the decision makers must decide in each case, to what extent, with what methods, and with how big an emphasis are they assigning intelligence functions to strategic and operative planning. To facilitate strategic planning supported by CI, it is imperative to understand the framework of planning because that allows the proper involvement of CI. Once strategic planning is underway with help from CI, in the end, strategic decision making will be enhanced.

The strategic goals are defined but eventually given circumstances will call for modifying the strategy, which involves feedback to the planning process to start re-planning the strategy with new set of information at hand. CI is involved to analyze the environment, identify causes of change, to present useful intelligence for decision makers to alter the course minimally. Ultimately, the planning process is guided along by CI to reach the profit zone with as little modifications as possible Garth et al ([2001]).

I dedicate the Raytheon case study to illustrate and demonstrate the core issue of this chapter (see supplements).

3.4. Competitive Intelligence in Industrial and Competitor Analysis

Analyzing the industry in which a company competes, and analyzing rival companies – these two tasks have always been core elements of CI. Analyzing the industry and the competitors means to provide valuable intelligence to both strategic and operative planning staffs in the form of a reliable database (László O. et al [2001]). To manage this database is a complex procedure, involving constant maintenance, expansion, refreshing, etc. From the above it follows that the analysis of industries and competition is a truly compound intelligence process.

Reflecting on the purposes of CI, this form of application is vital to maintain business safety in a corporation.³⁰ In a dynamic global environment of today, acquiring as deep knowledge as possible with given amount of resources (capital, time, and personnel) is a necessity. For the sake of efficient competing, it is required to operate both active intelligence used for gathering information to benefit business development and/or growth, and passive intelligence to protect that knowledge. These actions are further emphasized with the potential threat from other rivals in form of their own active CI – or the illegal version of intelligence obtainment: industrial espionage.

Competition is a “dynamic state”³¹ where same or similar products/services contend to please the demand to increase market presence of an organization in relation to its rivals.

Pearce and Robinson [1997] mention that competition is a battle inside the bounds of an industry, which is not happening by accident. Competition does not only manifest among rivals, it transcends them. Its root is the economical phenomenon that gives context to the industry, and this phenomenon surpasses the competitors and defines the whole of that industry. From this definition it is obvious why industry and competitor analysis is so interconnected; they “walk hand-in-hand”.

The solution is formulated by the CI department to support management. The CI activity that focuses on industrial and competitor analysis is called the “competitive analysis” (László O. et al [2001]). Companies often commit the mistake of directing competitive

³⁰ See chapter 3.2. on purposes and forms of CI.

³¹ Dynamic meaning the potential for continuous changing of circumstances that define competition; and state referring to the momentary status of a company enveloped in competition.

analysis under strategic management with the marketing department in charge of its execution – without formally defining what competitor analysis covers. This problem was realized from the 70's onward, especially by Michael E. Porter. In his book published in 1980, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*,³² he provides specific guidelines for industry and competitor analysis.

His model of the five forces is used in benchmarking also, which is a more effective method of analysis than marketing's market analysis techniques. The double-objective of benchmarking is to set goals based on external standards; and learning what, how much and how to realize. The implication is that benchmarking could give initiative to outdo competition. However, benchmarking is not a substitute for CI. There is some overlapping; in some cases CI might even contain the whole benchmarking function.

It is competitive analysis that gives a more enhanced structural and functional approach to top management to battle competition. As Robert Flynn³³ describes: "*Competitive intelligence keeps us from acting in a vacuum. It keeps us from sealing ourselves off from the real value of our business interests in the marketplace and the real threats to our success.*" (Kahaner [1996] p. 215)

But how could we define the limits of the industry we compete in so that we know the domain that needs to be analyzed and evaluated by CI? Pearce and Robinson [1997] highlight four questions regarding the topic:

1. Where are the boundaries of the industry?
2. What is the structure of the industry?
3. Who are competitors?
4. What factor defines the competition?

By asking these questions we provide a stable starting point to ask more specific questions to be answered by intelligence. To facilitate efficient answering of these questions, CI is involved in a competition analysis process that is often based on a model that is applicable for most companies to characterize their competing environment and define its interrelations. This model is Porter's already mentioned Five Forces Model, first presented in his work: *Competitive Advantage: Creating and Sustaining Superior*

³² One of the source materials used to build the strategic management perspective in my study.

³³ Robert Flynn took over as chairman and CEO of NutraSweet from Bob Shapiro in the late 80's.

Performance.³⁴ I intend to demonstrate what purpose this model serves in competition analysis, having the model updated in the process.

As Porter [1985] points out, these forces could affect profitability in any industry. To understand them means to understand the internal processes of an industry, thus the first logical step when evaluating competition is to analyze the industry. This includes the five forces, which I will briefly detail.

I. The appearing of new competitors implies more to CI than to management. A new rival in the market poses new questions and assumptions that CI must solve in short time:

- has the new competitor found a gap in the industry's structure where it can position itself;
- how does this affect its own market position;
- has the newcomer prepared itself for penetration – is it a result of meticulous analysis;
- does it have sufficient financial, technological HR background at its disposal;
- does it have stable supply chain;
- does it possess innovations, new solutions that would affect the industry;
- what are its momentarily marketing successes in case of market penetration.

It is also possible that the arrival of the new rival is a result of espionage, not just intelligence activities using legal means. This is in fact difficult to prove. Among the immediate reactions, an internal safety audit would be rational.

II. It is expedient to constantly monitor the suppliers depending on how close their ties are to the company and how difficult it would be to bare them being substituted. From CI's point of view the suppliers as information bearers are just as much potential sources as are potential threats. Threats due to the fact that suppliers might come to possess fragile information as their work is integrated into the supply chain. On the other hand they could

³⁴ See: list of sources.

provide information (even unconsciously) of competition, especially when there are only a couple suppliers present in the industry.

- III. In the case of customers I do not refer to the end-users, but the corporations from other industries that acquire products from this industry. Once again, the information flow is an articulated aspect, requiring continuous monitoring. Is the buyer willing to contact the newcomer?
- IV. One of the biggest threats for the industry is the potential of similar or substitutable products/services entering the ring. These companies remain on the peripheral as they do not compete with their products directly, though they could snatch away shares of the market thanks to their similar products. CI should analyze
 - what kind of product development are they concentrating on;
 - whether they are preparing for a price war;
 - whether they are able to cut prices through technological development;
 - whether they boast with a strong distribution network;
 - where the weaknesses are in their products or technology;
 - how stable their suppliers are;
 - is there an internal competition present, if yes, how to capitalize that.
- V. The most imperative of all; the competition in the industry is what ties down most of the intelligence efforts due to its strongest effect on the company. However, during the long and taut competition there could develop a sensitive balance among rivals that is by nature not too stable and not statutory. Nevertheless it stays low-level intense enough for competitors to focus on quality, R&D and internal stability. In CI terminology this means the temporary business safety; when they can concentrate the forces towards the other four and they only monitor the moves of rivals with low intensity. This is an unstable state that could be disrupted by any force of the remaining four.

I find it important to include two external factors in the model, technological development and the effects of state, legal and economic regulations. These will be the foundation on which the next chapter builds on. The Five Forces Model could serve as a key starting point for competition analysis – though we mustn't forget that these factors are not constant elements of the economy. A corporation that is part of the competition in the

industry could in fact be filling a different role in a related industry (supplier, buyer, etc.) or in extreme cases some companies might be playing more than one role in the same industrial environment.

This is why it is necessary to extend the perspective of the model, and to evaluate

- the rivals who positioned themselves in other markets but are involved in the same industry;
- the actions of companies in other industries if operating in multiple industries;
- mergers and acquisitions especially originating from outside of the industry.

Once the competition and their roles are defined, the competitor analysis is ready to be performed. In order to predict the moves of competitors as effectively as possible, and to turn that capability into an advantage, the competitors need to be understood, need to be known (László O. et al [2001]).

One of the most crucial elements is the size of the competitor; the number of employees, its capacity superiority, market share, etc. are all valuable details. Also, how soon did the competitor reach its present market presence and what rate of development and growth it had in the past are all relevant. Profitability in this context is the rate of strengthening its market position; in case of high profitability the company is a potential target of investors that in turn further increases the company's growth and market dominance.³⁵

The image and market positioning strategy is the personality trait of a competitor. Its marketing campaigns, promotion and distribution tactics all inform the rest of the rivals what the competitor highlights as its image – in other words the analysis gains a base regarding the strengths the competitor is concentrating on. It also hints at the target of its products/services in markets, what the product developments focus on. Sometimes the showing off of strengths also uncovers the weak points of the competitor's strategy, which is something CI is looking out for.

To know the real goals and commitments of a rival is CI's main task among others. The prediction of a shift in strategy, potential investing activities, the targeted role it's about to fulfill in the market – all these could be deduced from investigating the competitor's supposed goals. The question is what strategy will be implemented to achieve the weakening of competitors through engaging in one of the five forces.

³⁵ Profitability here is not regarded as a financial index to measure actual profit-making capability.

When a strategy proved to be ineffective, the competitor most probably will make changes or develop a new strategy. In these events the competitor will search for or build on existing core competencies, the presence of which could alter the course of the competition. The aim of CI is to uncover the sources of dependencies the competitor might have when generating a strategy. This helps in creating a strategy that counters that of the competitor.

The organizational and operational culture is a mirror of the competitor's management, its efficiency, professionalism, competency. It also shows which of the functions the competitor builds on more often (marketing, finance, etc.). The attitude towards risks and uncertainty is also an aspect of this element. It is also noteworthy to recreate the rival's organizational structure, the rate of centralization, bureaucracy.

To comprehend the cost structure of the competitor means to potentially look into its price policy, price strategy. In this sense it is useful to obtain information regarding the break-even point; below which the product or service is not profitable. This will require the investigation of the number of employees, costs of production, costs of raw materials and components, invested amounts, sales results.

The industrial flexibility of the competitor reveals to what extent the company is forced to operate in the bounds of the industry. It is necessary to know the value of specialized assets³⁶, to know the fixed costs, the rate of specialization in the distribution network and the rival's dependency on that network, external regulating factors and ties to society, and the emotional attachment of the management to the industry.

CI also uses the SWOT Matrix during analysis. This tool is used to characterize the competitor with the four elements of the matrix. It is obvious that the presented elements of the figure are rather complementary to one another (László O. et al [2001]). This makes it possible to create cross-references during analysis and re-check results of analysis in one area by using the findings from another. This approach to competitor analysis will maximize its efficiency and by-pass errors that might arise when analyzing from only select perspectives.

³⁶ Special equipment, tools, facilities, the substitution, modification of which would be expensive; re-usage would not be economical.

To conclude I emphasize that both offensive and defensive CI are effective tools in competition analysis. Apart from the traditional statistical analysis methods, CI is able to gather information on a wide basis and analyze them while considering non-economic factors also. All this is meant to predict opportunities and threats in the industry, to predict the direction competition is taking, to eventually dodge surprises of bad nature. This serves the ultimate goal of business safety to support strategy.

In case someone would still question the significance of competition analysis, let me quote Porter: “*Companies can never stop learning about their industry, their rivals, or ways to improve or modify their competitive position*” (Porter [1980] p. xiv). As I have pointed out elaborately, CI is an excellent tool to facilitate this process for strategic management.

3.5. Competitive Intelligence in Environmental Analysis

Another crucial field of application for CI is the environment of a company, environment of an industry. As industry and competitors was the subject of analysis in the previous chapter, I examine how other external forces affect the industry, the organizations, and how CI is involved. Often we hear about “dynamic market conditions” yet not all market players deal with the issue seriously. Whereas managers should be aware of forces affecting the company’s tighter-broader; horizontal-vertical; direct-indirect environment.

Even if competition never changed (which is completely impossible), there are other factors to calculate with: natural disasters, accidents, political changes, crime, technological breakthrough, epidemics, and so on. To go further, some industries are more sensitive to one factor than to others; or more sensitive to a set of factors than other industries (László O. et al [2001]). To cap this train of thought, most of these factors induce changes that affect an organization and the situation releases information that need to be captured by CI. The obtained intelligence then aids in developing the proper responses. It becomes apparent that CI has an important role in environment analysis as well, predicting such events, following changes, drawing conclusions – even analyzing the environment’s effects on rivaling corporations too. To exclude environmental forces and concentrating on competition analysis is a mistake.

The generally applied environmental analysis breaks the evaluated environment into three categories:

1. Remote environment, an indirect environment where the aspects considered are the economic, social, political, technological and ecological.³⁷
2. Industry environment that includes the industrial analysis processes based on Porter's model, topic being discussed in the previous chapter. This could be considered as the direct environment, according to Pearce – Robinson [1997].
3. Operating environment, the true atmosphere enveloping operations of a company. Factors evaluated include: competitors, creditors, consumers, and workforce.

Professionals have expressed opinions regarding the significance of not only analyzing the factors above but exploring the two-way interactions between the company and the factors. But why would all this be so important for businesses? Let the question be answered by Pearce – Robinson [1997] when they refer to the fact that numerous external factors have an effect on what direction the company's operation will pursue, especially putting an emphasis on the effects targeting structure and functional traits. The combination of these factors is the basis for opportunities and threats that the companies face all the time.

Although the idea provides a realistic view of environmental analysis, it is not complete. To really grasp environmental analysis it is necessary to go into details; for this the mentioned three categories of environment will serve as the spring-board: indirect, direct and operational environments. Because there are no different set of factors universally agreed upon for each of the categories, we need to examine the three categories of environment using a comprehensive set of factors that relate to all three in one way or the other. The following factors may be more important in a given industrial context for one company and less important for other competitors, however all these factors affect the environment analysis and will be examined by having them correlated with the three categories of environments. The referred factors can be seen below (László O. et al [2001]).

- a) Geographical environment
 - location
 - geographical features
 - available energy sources, minerals

³⁷ Notice that this category is a perfect opportunity to use analyzing methods like the PEST Model and its extended versions.

- b) Regulating system
 - political situation
 - legal regulations
 - economic regulations
- c) Social issues
 - demography
 - cultural and educational standards
 - migration
 - ethnical and religious issues
 - state of pension and healthcare system
 - crime rates
- d) Economic situation
 - development and state of infrastructure
 - availability of capital
 - level of economic development
 - economic stability
- e) Technological factors
 - level of technology development
 - research and development standards
 - level of technical development
- f) Market situation
 - level of concentration (links to demography)
 - state of consumer base, solvency of demand
 - structure
- g) Environmental protection issues

We should never underestimate these factors, although they might not have serious effects in all the cases, regarding differing environments and companies. Some of them may even seem insignificant for one company and be vital for other market players in given industries.

Case #7: Epidemic

In 1998 an epidemic swept through Cleveland in Ohio, USA. The topic lead news stories for days as the strand of the virus was a rare type. A company that supplied the car manufacturers in Detroit experienced an embarrassment as it had to send 30% of its workforce on sick leave (László O. et al [2001]).

After breaking down the factors I am able to provide a more complete definition for environmental factors. It is a set of factors that affect the operation of a company as external forces in distinct environmental aspects – indirect, direct and operational – independent from the features of the given company. These factors are present in different forms and degrees in all of the market segments, their existence is predictable and measurable but not extinguishable; however their effects are avoidable, or exploitable by the company (László O. et al [2001]).

To explore interaction of the introduced set of factors and the three categories I provide three examples that demonstrate practical implications, from which we could draw conclusions how the interaction works for all factors in the real world.

Case #8: Manifestation of Factors in Environmental Analysis

Considering the geographical environment (a), the distance (1) from the company to its market(s), suppliers and consumers, the raw materials, etc. define its functioning fundamentally. These are rational perspectives that may provide competitive advantage or in some cases monopolistic opportunities. On the other hand there are examples for irrational solutions as well, when considering the production philosophy of Airbus; having components of aircrafts manufactured all over the world and then transporting them with huge costs to the central assembly plant in Toulouse, France, for final assembly. It is also worth to consider geographical features (2) when accessibility is a question. However, the Bagolyvár Restaurant benefits from a beautiful panoramic view due to its position. Finally, the availability of minerals and energy resources (3) may have a high value especially when the company is heavily reliant on energy. It is not surprising that energy corporations place their plants as close to these resources as possible; the wind mill farms in the Netherlands or of Exelon Corp. in the state of Illinois, having headquarters in Chicago, USA – the “windy city”.

Considering the geographical aspect of the three categories of environment, the indirect environment of the research facility of Siemens in Budapest would be the global environment; the direct would be the EU and the operational would be the capital itself.

MÁV cPlc³⁸ operates in an indirect environment of the EU, whereas Central Europe serves as its direct environment. Operations-wise, Hungary is its environment. Relating to the regulating systems (b), the operational environment is obviously determined through the regulations for national transportation in the country. This falls into the class of legal regulations (2) usually supported by laws. In its direct environment the neighboring countries of Hungary play a definitive role as MÁV holds bilateral and multilateral agreements with specific companies abroad – therefore the foreign regulations and policies also have effect on operations (3). Last but not least, the policy of the EU regarding transportation also has an effect on MÁV which is more politics oriented (1).

The third example will focus on the economical situation (d) from the list, and analyzing how the factors interact with the three categories of environments at Nokia Komárom Ltd. In its indirect environment of the global competition the subsidiary located in Hungary articulates a whole lot different approach to economic stability (4) as in the global market the subsidiary depends on the economic stability of the parent company, its strength to compete (which has decreased with the boom of the smart phones). Also the stability of the global financial market further affects the subsidiary, as it was noticeable recently during the crisis. The latter indirectly affected capital availability also (2). In the direct environment of Hungary and its county of Komárom-Esztergom, it is mainly the state of infrastructure (1) that is analyzed when planning to create a facility. An example is the state of transportation, as logistics is one of the subsidiary's major tasks in the region. On this level, economic stability (4) is affected through economic policies and fiscal interventions of the acting governments. The operational environment is the municipality of Komárom that developed a decent local infrastructure (1) and economic development is also sufficient (3). Oddly enough, the last factor not only affects Nokia Komárom, but is affected by the company itself, due to its sheer size – it is a two-way influence.

The list could be expanded but the purpose is served. The examples represent that environmental factors play a serious role in the analysis, and the cross-referencing of these factors with the scope of the environment – the three levels of environment – results in useful intelligence when making strategic decisions to penetrate a market, enter a competition in a specific industry, or when making operational decisions on how to enhance the advantages the local environment has to offer to serve strategic goals.

To utilize CI in the analytical processes illustrated above, executives must decide the methods and approach of the analysis. Going further, once information gathering is complete, it becomes even harder to evaluate the environmental factors. In chapter 3.3.,

³⁸ Closed company limited by shares.

during the detailing of the intelligence process I listed methods and models for analysis. In the next section, I intend to demonstrate how the dynamic analysis model of War Gaming is applied in environmental analysis with a practical approach to it, instead of focusing on theoretical descriptions of the model.

The model of War Gaming could rather be linked to strategic planning. *“In the frames of the model hypothetical interactions and conflicts are analyzed in multiple probable situations assuming multiple strategies, with analyzing offensive and defensive opportunities, simulating actions and reactions”* (László O. et al [2001] p. 146). To apply War Gaming is expensive, not every company can afford it. This is explained with the model being relatively complex, its usage requires long preparation and it distracts leaders, professionals from their day-to-day duties. Often the War Gaming model is simplified to a basic model applying game theory complemented by a decision making model (Shaker – Gembicki [1999]). In practice, game theory is fundamental to War Gaming.

Case #9: Medicine Industry in Hungary

The political changes that characterized Hungary in recent years urged the members of the medicine industry to analyze scenarios to predict the next couple of years, in order to prepare for potential changes. The reason is understandable as the budget for medicine is always a sensitive issue. The modification of regulations, the intervention of the government, the modifying of the prices by authorities and the changing of the financial contribution system all had serious implications. Meanwhile, headquarters of companies in the industry conducted environmental analyses. However it became clear that the regular offensive CI tactics are not enough; and War Gaming was brought into focus. The environmental factors were evaluated in the direct environment that resulted in following policies of the governments. Since the information and tasks are kept secret, I cannot include specifics. What is certain is the modeling, including preparation, lasted about a week. Based on the findings, a new strategy was formulated.

In this model, the game theory (room for political maneuvering), the risk factors (effects of regulations, political decisions), the behavioral model (behavior and reaction of market actors, especially consumers), the economic model (effects of the crisis, affecting rules of the game by politics) and the decision making model (potential new strategic orientation) were applied. The analysis required the intelligence professionals of the parent company and local experts and consultants at the same time. In this case, the two teams in War Gaming were the company and

*the state administration.*³⁹ *The model focused on the actions of the government and authorities and put competitor analysis second to analyzing this aspect of the environment (László O. et al [2001]).*

As I listed in chapter 3.3., there are static analytical methods also, useful in evaluating the environment. To briefly reflect on these methods, I reintroduce a couple of these methods from an environmental analysis perspective. Regarding opportunity analysis the central question is “how”, disregarding “if” and “whether”. During analysis it searches for opportunities and threats that answer to the “how”. It aids the executives in implementing strategies, its operative planning and execution. The viewpoint of the analyst is the decision maker.

One of the most common methods of analysis is the combination of qualitative and quantitative aspects, during mathematical analysis of trends. The future is predicted through designing the trends based on analytical results. In essence this approach builds intelligence activity onto a platform of mathematical probability calculations. This method is used when there is little need for generating assumptions in the analysis process, because this method favors the calculation based on exact figures that are reliable and proven (László O. et al [2001]).

Environmental analysis, just like competition analysis is truly complex and demands the viewing of multiple dimensions along the process. Based on the level (or scope) of environment chosen to evaluate, decision makers should also discuss what environmental factors should be considered, and CI must report to the decision makers what other factors it found important to include during analysis. All the while, the method or model of analysis is also a question of resources, the goal of the analysis and the characteristics of the environment. Not to mention the forms of CI applied in the procedures, whether the situation calls for more offensive or more defensive type intelligence. What is certain is that each analysis is unique in some way, and the examples show that the right combination of dimensions is necessary to execute a successful evaluation. When strategic goals, purposes of the analysis and environmental features are paired up properly, decision support with intelligence is effective.

³⁹ The nature of War Gaming is to substitute real-life actors of the market with „teams” in the model. Usually the color red is associated with the team substituting the company doing the analysis, and the blue team means an actor involved in the analysis – a competing firm, or in our case, a government.

3.6. Competitive Intelligence and Competitive Advantage

Before I connect CI to competitive advantage and explain the significance of pairing them up, it is inevitable to define what competitive advantage means. Who else to turn to for a more than satisfying description, if not to Michael E. Porter, a guru of competitive advantage and strategy? In this spirit I start the chapter by quoting Porter and building up the concept of competitive advantage.

“Competitive advantage grows fundamentally out of the value a firm is able to create for its buyers. It may take the form of prices lower than competitors’ for equivalent benefits or the provision of unique benefits that more than offset a premium price.” (Porter [1985] p. xxii) The above was quoted from the preface of Porter’s *Competitive Advantage*. This quote suggests that the concept of competitive advantage is something hard to grasp but once properly managed could provide success in competition. The concept is in fact intricate; it is a result and at the same time root of a series of questions. In a way this explains the huge variety of definitions for competitive advantage. Even Porter realized that competitive advantage is a phenomenon in a company that intertwines competencies, intelligence and knowledge with the functions of the firm.

Moreover Porter emphasized the thought of competitive advantage giving the edge to a company by almost exactly restating the above in the section explaining core concepts of competitive advantage. When value is created at lower costs than what it is worth for customers, and when that offered price is competitive, superior value is added to the business (Porter [1985]). This is the heart of competitive advantage: effectively providing value based on core competencies that beats the competition’s, thus generating added value. Porter goes on to say how the two types of advantage branch off from this idea; the types being cost leadership and differentiation.

The added value generated by competing with competencies is sometimes referred to as the “business value” (Marchand [2000]). One of the five business capabilities that generate value in Marchand’s opinion is information. *“This invisible asset is emerging as a key resource in the search for competitive advantage”*, he states (Marchand [2000] p. 29). He goes on to explain that information is a tool that adds value and builds competitive advantage *“and should be used to support management”* (Marchand [2000] p. 30).

Competitive advantage serves competitive strategy in the sense that an advantage must be enhanced, capitalized in strategic planning. The choosing between strategies depends on *“the attractiveness of industries for long-term profitability and the factors that determine it”* (Porter [2001] p. 1) where profitability is an obvious sought goal, and where factors that determine these are incorporated into the competitive environment in the Five Forces Model. I’ve covered the implications and analysis of these factors before. The competitive strategy formulation also depends on are *“determinants of relative competitive position within an industry”* (Porter [1985] p. 1) which hints at not only industrial dimensions but internal capabilities and the intelligence a company possesses. The two main questions to decide upon competitive strategy are permeated by the strategic use of CI.

Having said all that, what does competitive advantage mean from the CI’s perspective? Remembering Marchand’s view of information as an asset that is used to create advantage, it is clear that CI enhances competitive advantage. Although sounding paradoxical, it is the CI that becomes the “capability” of the company to create competitive advantage. To reflect on competencies of a company: *“positional advantage is a distinctive set of assets and capabilities”* (Day et al [1997] p. 57). These assets and capabilities are acknowledged as competencies. It is these competencies that make an essential part of exploiting advantages.

The intelligence process helps understand and turn core competencies into competitive advantage, while analyzing the competitive environment and defending knowledge that enables the creation of advantage. In this logic, CI provides and secures core competencies.

The core competencies include:

- To know what the competition does not (or not yet) know. This includes knowledge of the markets, industries, competitors and the environment. It also involves knowing what kind of information, when and from what sources does top management demand. Looking at the list it is clear that CI is utilized to assess all these dimensions of competition as it was described in chapters before. To “know” means to gather, process information to create intelligence, then filter and give context to intelligence to provide the knowledge for strategic decision makers who decide upon strategies.

- To be able to apply the knowledge, once given. This means strategic planning and implementation, also covered before. This springs from the proper gathering of information and analysis of circumstances, and strategic modeling of situations (all tasks of CI, among others). CI plays a significant role in supporting strategic planning, as supported by examples in earlier chapters.
- The ability to realize and analyze trends, events that may be invincible for competitors. Consequently a firm would be able to forecast or predict future events, which is a combination of planned information gathering; specialized analysis; even applying preemptive strategies; ability to defend the above. In the end, defensive intelligence has engaged and the intelligence cycle is initiated and sustained. If these are missing, the company would have to chase the trends in competition, it would gradually lose competitive edge. The above are key when formulating strategy (which also requires protection from passive intelligence), however in the case of no forecasting, strategic planning is severely devastated and the company will ultimately be able to react exclusively, not lead the competition. Thus the competitive position is damaged.

Once developed, it is vital to sustain the advantage in a competitive environment. Sustainability means the continuous collaboration between strategic planning and CI as the constant intelligence cycle serves the maintaining of the competitive edge in ways explained above. Sustainability is unquestionably important as during competition the advantage of a company may erode. In fact, the “*greatest threats to the advantages of most firms are changes in the “rules of the game”⁴⁰ to which managers have been accustomed, and the creation of new advantages by competitors*” (Day et al [1997] p. 67). The implication here is that the eroding of advantages is not only influenced by indirect effects of the environment, but by the competitive advantages developed by rivals to challenge the temporary state of competition. With the above, competitive advantage, CI and strategic decision making is linked together in a chain of processes that define an orientation of a corporation. It is vital to comprehend how competitive advantage and intelligence interact to support strategic management. The described competencies represent the core issue of this chapter.

⁴⁰ It is worth to consider the „rules of the game” as effects and circumstances of the competitive environment.

4. COMPETITIVE INTELLIGENCE IN PRACTICE

Previously I illustrated how different aspects of CI manifested themselves in the case boxes throughout the study. I will now introduce how CI actually “works” in real life by dedicating a short chapter to the topic, and in another I will also present what it means to develop CI in an organization. A case study is attached to this chapter to better demonstrate how CI contributes to success.

4.1. Competitive Intelligence Manifesting in Business Conduct

The practical application of CI could be approached from two aspects. The first one is its international-national aspect. In an international approach I briefly reflect upon the CI practices in the following nations or regions: United States, Japan, European Union, Russia and China.

Intelligence in general showed the fastest development in the US. Most of the companies in the States have and perform CI in one way or another, and they approve of its applicability and effectiveness (László O. et al [2001]). Of course this was in a way inevitable as USA grew to become one of the economic superpowers; the companies headquartered there are often among the most influential corporations in the global market. However American CI is characterized by short-sightedness – and they concur to this. The reason for this is the typical attitude that involves the following:

- “we know it all”
- “what we don’t know isn’t important”
- cleaving to secrecy as there is a strong distrust towards the government – this also obstructs the long-term thinking

What makes intelligence in the US highly competitive is the detailed, careful way of evaluation based on real facts. They tend not to mix emotion, instinct and intuition into decision making. Although there is cooperation between state intelligence services and the private sector, the mentioned tensions limit its efficiency. The laws allow the legal means of CI, and protect conduct against illegal intelligence methods (like industrial espionage).

Though the number of corporations incorporating CI function is less in Japan, intelligence has the oldest roots here. Japanese show great respect towards intelligence, its traditions

in Japanese culture dates back to a time way before other nations started to comprehend the concept. The way Japanese regard intelligence is somewhat extreme: “*the cost of gathering competitive intelligence is never questioned. There is no need to justify the practice*” (Kahaner [1996] p. 184). Japanese also initiate extensive information sharing among competitors, something that would rarely happen in the US. Japanese are also known for amassing huge amounts of information. When studying intelligence practices in Japan, one will be amazed how serious a part it became of the everyday business. The next quote supports this: “*Information is the lifeblood of the company.*” (Kahaner [1996] p. 159) This is the motto of the Mitsui Corporation.

Regarding CI, Europe is an interesting example. The differences still present among European countries and are strong enough to develop a unified business philosophy and system.⁴¹ Inside the EU the companies of Great-Britain, Germany, Sweden and France deserve attention. The circumstances for Britain changed a lot in the last few years. CI functions developed in companies and independent consulting firms were rapidly increasing in number. Their information banks, databases have created tight ties with American firms. However in England there is no close cooperation between the private sector and the state. The CI activity is strongest in the sectors of services and commerce, while the banking sector shows the weakest signs of application (László O. et al [2001]).

Germany also has deep traditional ties to intelligence. The gathering of data and analysis is always very precise and efficient, but the distribution of intelligence among companies is too slow, too bureaucratic. In contrast, the French attitude does not value the structured, precise intelligence processes as highly as the Germans. They prefer effectiveness over efficiency. This is confirmed by the fact that to reach goals in CI, French companies turn to illegal means – in professional circles French intelligence is rather called spying (László O. et al [2001]). Sometimes intelligence activities are quite aggressive. As mentioned earlier in my study, the French state intelligence (DGSE⁴²) often supports domestic companies. This is the consequence of the intelligence being held as a national interest, something that serves the country’s economic safety.

Sweden should be studied as the CI culture is probably the most developed in domestic firms in the whole of Europe. Its societal acceptance is also very high. Similarly to

⁴¹ This becomes more obvious when following the developments of the turmoil in the EU nowadays.

⁴² DGSE = General Directorate for External Security (in French: Direction Générale de la Sécurité Extérieure)

Japanese corporations, Swedish also share their intelligence to enhance cooperation in the global environment and putting competition among them to second place. They never conceal that intelligence is the leading force in supporting business.⁴³

As the former superpower still very influential, Russia conducted intelligence throughout the Cold War and gained experience that is affecting present day practices. As the Soviet Union disintegrated, the KGB's offspring, SVR⁴⁴ continued developing the intelligence. Their main target is USA and Japan. The companies in Russia are likely to use covert actions that surpass espionage. Information obtaining is so important that not only illegal methods are used, but some covert actions mean to harm other actors to create competitive advantage for Russian firms. Also the determining of ownership in some cases proves difficult as organized crime infiltrated top management in numerous organizations.

Finally Chinese general conduct is revealed. As economy is still centralized and the government still decides over the "invisible hand" of Adam Smith, intelligence is also amassed to serve the need of central control. However by opening up of the markets another process commenced. The immigrating multinational companies brought their CI conduct with themselves which caught the attention of the Chinese. Just like in the case of Russia, Chinese companies also tend to complement CI with aggressive means and spying. Most often targeted firms are in American control. Beside the huge demand for information, the need for espionage tries to counter the inefficient information management, the outdated databases and the uncoordinated information flow (László O. et al [2001]).

The reason to evaluate the major pioneers in CI was to understand what the global market demands from CI and what the sources of threats may be in specific environments. The other aspect of CI in practice brings up the question: what happens when two companies with common national-cultural backgrounds compete in the global market? What if both of them are partners to both domestic and foreign buyers?

In reality there is a two-front battle in CI. On one hand, the "national CI" backed up by official services with national interests and secured by cooperating with the intelligence of the private sector, and on the other the CI of a specific corporation considering

⁴³ There is extensive CI utilized in Dutch and Swiss companies as well. Both countries are export oriented.

⁴⁴ SVR = Russian Foreign Intelligence Service; the Russian version of CIA.

company interests that is made for competition (László O. et al [2001]). The US market is characterized by this as a great portion of intelligence happens in the country. However we can expect increasing intensity of CI in the EU, which is a consequence of the changing environment (free flow of workforce and capital, unified customs regulations, common currency, coordinated security policy). The competition will thus be determined by:

- expertise and preparedness;
- technology;
- leadership culture;
- information culture;
- creativity, development

CI is to be assigned to each of these factors.

The practices of applying CI in given sectors of markets, economies, provide another aspect to the issue. Companies operating in heavy industries, service or commerce sectors have unique features that affect their intelligence activities. Application of CI in the industrial sector usually implies its alignment to the corporate structure and functions. Priority of CI actions is to concentrate on R&D. Usually this sector shows signs of centralized CI with its staff not being large in numbers. The results of CI are mostly used at the strategic level. The objectives of CI (beside the introduced basic purposes) are the following: focusing on

- strategies of competitors;
- structural changes in competitors;
- productivity rates of competitors;
- state and level of education of their HR, social status, proportion of leaders and employees, leadership culture in competitors;
- technology and its level in competition;
- conditions of productions for competition

The industrial-competitor analysis plays a significant role in determining the above and environmental scanning is also common in this sector. The service sector uses a much more diversified CI; it is present in all levels of organizing. It contributes to operative tasks and keeps a close contact with the marketing department. The priority of

intelligence operations is to monitor service development in the competition. Furthermore it deals with issues like:

- competitors' relationships with the market;
- organizational efficiency of competitors;
- price policy of competitors;
- leadership and information culture;
- financial performance of competitors;
- strengths and weaknesses of operative functioning of competitors

In this case CI places more emphasis on the operative approach. The tightest relationship between CI and marketing characterizes the commercial sectors, where CI is mainly used only for planning and evaluating on the strategic level, even though CI is placed under strategic management. It has an expanded information gathering network and is in direct contact with customers. The direct contact between customers and competitors; their CRM and their marketing strategy constitute the focus of CI. Other tasks include:

- structural efficiency of competitors;
- their commercial partners;
- their market strategy;
- their system of price policies;
- logistical background of competitors;
- liquidity of competitors

We can see that depending on the sector the company maneuvers in it will most likely focus on different methods for utilizing CI and will assign CI to different objectives, its results will be used on different levels and to different extents.

4.2. Implementing Competitive Intelligence

As an ancient Chinese proverb points it out “*a journey of a thousand miles began with a single step*”.⁴⁵ In the next section I will provide a schematic approach to implementing the CI function into the corporate structure.

To begin planning of a CI system it is helpful to know what type of CI is preferred by leadership, what type actually fits into the company profile and what type the company could in fact operate. Demand, opportunity and capability should be harmonized (László

⁴⁵ Attributed to Lao Tzu.

O. et al [2001]). These dimensions reflect the strategic goal of CI, it being offensive, defensive, complex or simply a tool for liaising. The opportunity dimension projects whether a centralized or decentralized CI would fit better. Capability eventually defines specialized focus for CI, it being R&D, technology oriented, market and business oriented or CI in general application.

When choosing the executive to head CI in an organization, the following considerations apply:

- intelligence background, field expertise, theoretical knowledge;
- practical experience;
- leadership experience;
- ability to report intelligence in a comprehensive fashion;
- being unbiased towards aspects of offensive and defensive CI;
- further knowledge of functions, specific businesses if required

Before developing the system of CI, once the executive is picked out the following issues need discussing among the decision makers and the CIO:

- what the information culture and information system should be like;
- what the communication culture and system should be like;
- the personnel demanding intelligence – independent from hierarchy;
- performing of an audit in connection with CI

The developing of an efficient information system with proper information flow, the adopting of CI perspectives by the HR, the communication of the value of information is necessary. On the side the command chain must be clarified. External communication of the company will likely need strong monitoring and an audit before the CI function is set up. This audit could shed light on intelligence performed up this point, how structured it was, how well it supported decision making. Furthermore CI will need the proper amount of resources to be assigned to it – this is also a subject of negotiation. This could limit the complexity and size of CI in a corporation. Speaking of fitting into the structure, the positioning of CI in the hierarchy is also an issue. Connecting to this, the authority of the CIO also needs defining.

“In examining the structure of the corporate intelligence system, three major aspects were identified. These are intelligence needs, organizational structure, and information

technology.” (Farid in Roukis et al [1990] p. 132) It is believed that these components build up an intelligence system. They are interrelated and affect one another. These components are not just static units in a structure; they present dynamism and flexibility. As a consequence the following criteria requires considering when developing the CI system:

- CI should be positioned directly under the CEO and strategic management;
- it should develop relationships with all the major functions in the company;
- its control system should be simple;
- in contrast to multiple business practices the control of CI is not team-based leadership, responsibility and decision making concentrates in one position⁴⁶

In creating a CI system the demands from the intelligence function and its purposes should be evident from its structure. Also the elements that characterize the market performance of the company are dominant when articulating the purposes of CI in optimal cases.

With this design a complex demand for CI is served; well beyond executing a specific, concentrated intelligence task. It is important to consider business safety when articulating the complex demands. The elements that are unique features of a company should also be incorporated. One example is R&D, or counter –intelligence in case of industries heavily threatened by industrial espionage.

Operating CI activity requires a meticulous management, just as in the case of its development. This is partly attributable to the fact that operating CI is different from controlling other functions. Examples for differences:

- as mentioned before, team leadership is extinct in CI;
- HR management is a sensitive topic because of the information security consideration;
- although the role of CI is increasing, executives know the least about this specific function contrary to others (finance, marketing, logistics, etc.);
- as a function CI penetrates the whole organization

During operational control of CI the elements below pose serious questions. With listing these factors I also reflect on the more important considerations when managing the

⁴⁶ As if in a military organization.

operations of CI. This is fundamental for the implementation phase in a practical environment (László O. et al [2001]). The list also concludes the chapter.

- who take part in managing CI;
- aligning CI to other functions;
- time management in CI;
- HR management in the CI department;
- information grading and security;
- external, market and business relationships management from a CI perspective;
- managing cooperation with authorities, other companies;
- budget and finance management at the CI department

To illustrate how this happens in real life, based on a true story, I provide the case study on Procter & Gamble (see supplements). It helps to understand how CI operates in a specific environment with real objectives.

In this chapter I mentioned some key issues regarding the creation and managing, coordinating the operation of a CI function. As a direct implication to the operative side of CI, its efficient management contributes to strategic management. Operational control is responsible for executing tasks designed on the strategic level, and their results are ultimately used in supporting decision making. To successfully operate intelligence activities and to effectively implement CI in a corporate environment, both dimensions should play a crucial role in the preparation process.

5. CONCLUSION

Anyone, who wants to initiate a new investment would like to know as much as possible about the environment, the business arena, the market, the competitors, the political climate, the social circumstances – and the list goes on containing truly significant elements. Competitive intelligence, as proven in my thesis, serves with answers for these problems. CI is able to determine:

- How the data and information are collected, on what basis and system
- How the data and information are processed and disseminated
- How the data and information are used to create intelligence
- How the data and information are validated and justified

Nowadays, CI is exploited in many ways, employed in different forms, with CI gaining more attention from the global economic community as years pass. Unfortunately in Hungary its strategic ability and competence is not utilized extensively. In my hopes this is about to change, and I intended to contribute to making this a reality somewhat, by introducing how strategic management could benefit from CI and how to do it.

In my view, based on my findings, examples and thoughts of experts and executives alike, CI is helpful in various circumstances on several levels of the given company, depending on the purpose it is employed for – however the strategic aspect, strategic intention and strategic application to support or enhance strategic decision making should be the foundation for all.

Considering the fact that a company leader accepts a wide range of applicability of CI and all its potential capabilities, this manager will or could face a number of questions. To understand the value and effectiveness of CI one must identify underlying need, as a first step. Second, one should comprehend the next two factors:

- A decision maker should be able to resist the temptation to build a strategy on the latest or even ongoing trends
- This decision maker should have the ability to find future trends' sources and indicators and to reveal their consequences

Lately, business strategy must become innovative – as also the capability of the company for flexibility and continuous innovation –, specific – as the market always requires something new and different from the existing products or services –, and competitive –

as the way to gain competitive advantage against competitors – but all these features could be completed efficiently with huge amount of relevant, timely and analyzed information. According to my researches, understanding, based on numbers of relevant books and articles I'm convinced that CI is the key and the most effective, advantageous and beneficial tool to achieve that.

Summarizing the core issue of my thesis, I indicated that effective strategic management could be accomplished with the employment and utilization of CI as the most suitable device for strategic decision making; the basic issue of strategic management. I have proven this by introducing CI with related features, capabilities and potential, along with its proven history through some examples and by representing fields of applicability where CI could provide essential support and assistance for strategic management.

I feel that I have provided a useful approach for the above mentioned issues in connection to the topic. To finish off my study, I wish to share one last quote that really emphasizes what I've been intending to communicate, and might add more weight to the conclusion. I hope it makes it obvious what CI is and what it's not – this is imperative if an executive wishes to apply CI in strategic decision making, for which CI has a lot to contribute to.

“If you look at the Fortune 500 companies, about 7 percent have a highly developed competitive intelligence system. However, about 80 percent of the firms have some informal system or ad hoc methods that they use. It can be anything from subscribing to a clipping service that looks for key words in articles to using online database. When you poll these companies and ask if they have competitive intelligence system, they'll say yes.” (Kahaner [1997] p. 35)

SUPPLEMENTS

Raytheon – Case Study for Competitive Advantage Involvement in Strategic Planning

Raytheon, as a prominent actor of the US defense industry has acquired significant experience in employing competitive intelligence. One can imagine how fierce the competition is in the high-tech related industries – not to mention the potential to become a supplier for the Ministry of Defense. Beyond that of course, the civil sector also remains interesting in terms of producing and selling high-tech equipment for companies involved in civil aviation. Raytheon's products range from radar systems for all kinds of aircrafts, through electronic components for missiles, to even partnering up with consumer electronics producing companies to engage in joint ventures. Obviously Raytheon could be considered as a serious actor of the high-tech industry, with a lot to lose.

Raytheon has always been known as a pioneer in putting innovation into systematic use. As such, it was Raytheon who recognized the advantage of utilizing the capabilities of CI, after taking the severe competition and its possible future into consideration. It occurred in the 80's when certain factors became obvious for the management of Raytheon – like the competition in the high-tech industry seeming ever so cruel, the technology development expected to be accelerating with a brutal speed, the market being even more dynamic in the near future. To be able to achieve significant profits requires extra potential, competence and additional resources. In other words, Raytheon must be better and more qualified than its competitors. The company's decision makers realized that they need something new that elevates them above the competition. CI proved to be the answer.

Before I continue I think the following is worth to consider:

“Again and again in business history, an unknown company has come from nowhere and in a few short years overtaken the established leaders without apparently even breathing hard. The explanation always given is superior strategy, superior technology, superior marketing, or lean manufacturing. But in every single case, the newcomer also enjoys a tremendous cost advantage, usually about 30%. The reason is always the same: the new company knows and manages the costs of the entire economic chain rather than its costs alone.” (Gilad – Herring, [1996] p. 138)⁴⁷

The highlighted words above make a viable message: to be informed and prepared regarding the cost structure and cost map of the industry, the market and the entire economic chain is a clue to having competitive advantage. But for Raytheon it wasn't enough. Raytheon went further, beyond the cost factor; the company set out to gather all types of industry related information. This meant

⁴⁷ Quote is from Peter Drucker's The Information Executives Truly Need. Harvard Business Review, 1995.

possible development trends, technology innovation, competitors' capabilities, results of direct and indirect processes of environments and even possible demands of buyers and customers. The mass information flow and the consequent deep and thorough analysis procedures provided new dimensions for the management for establishing revised goals, and as a result the opportunity to plan the most efficient strategy yet.

Just one great example of how Raytheon had changed its approach to competition and the market by employing CI: the company was able to overcome its competitors by gaining advantage in producing weapon systems that had been developed by the competitors. Raytheon decided to initiate a new strategy – instead of developing and spending huge amounts on R&D, it was more effective to spend on existing outcomes of various developments with high regards to quality, allowing the exploiting of the potential to put them to production fast and successfully. The point is to cut expenses on development and creating a weapon system from ground zero, because it could surpass an even well planned budget, and the capability to withstand competition could decrease year by year. CI had been able to provide useful and well evaluated information, and had examined models that showed the difference between the previous approach and the cost effective, profitable new solution.

Obviously one must understand how the system of this specific market worked. The government decided that a supplier could be a part of the system by having the company exclusively develop and produce the expected product. The reason was that the government wanted to control the costs of creating weapon systems, so the price came under its control too. The government left out of consideration the possible reality of the future cost/price ratio. It could change according to the differences of future industry and market factors and their influences on costs. Raytheon recognized this with the help of CI and decided to shut out uncertainty as much as possible – again with using CI – and to apply aggressive lobbying for liberalization of the purchasing system of the government to convince politicians to modify the system. They indicated that this way competition will result in cost effectiveness and lower prices that goes without saying, and not having the government trying to control costs and prices. The competitors of Raytheon didn't realize its move and they lost competitive advantages. But it wasn't the end of the real "game". Raytheon's leadership went further again with CI and analyzed the new situation. It resulted in a whole new method of being profitable in the industry. CI again collected information about the production and its costs from all over the industry and assessed it with the help of financial experts and other professionals. The outcome amazed the decision makers. CI suggested to give up all development processes, also most of the production procedures and to focus on assembly only. This means that Raytheon evidently became the last link in the chain as the assembler. Instead of dealing with cost structures and production expenses Raytheon could efficiently

manage to establish a system of subcontractors on a wide range with a much better cost effectiveness.

One must also consider the opinion of Raytheon's competitor, how they saw this change from their perspective in the beginning. It proved to be appealing. All competitors initially had almost the very same expectations: Raytheon will lose everything because its cost structure is unusual; purchasing at higher prices is not effective while Raytheon's production could still be as costly as theirs. Consequently, Raytheon's prices will not be competitive after a while. They were wrong. Because Raytheon didn't purchase raw materials only pre-produced and developed products and parts for the final assembly. Furthermore, the assembly proved to be cheaper than the complicated production chain. The competitors had false information with false analysis.

Summarizing the CI application of Raytheon and its interaction with strategic planning:

- *The CI's course of action concluded substantially effective preparation of strategic planning.*
- *CI pointed out the effectiveness of diversification of production and of concentrating on assembly.*
- *CI provided a solution for lobbying and dealing with politicians.*
- *CI "revealed" the future of the industry.*
- *CI could present a reliable image of competitors and their operations.*

But the most convincing outcome of the CI application in the case was the way it could reduce the company's vulnerability – especially regarding costs, the way it could enhance the effectiveness of decision making, and modernizing it without any player of the industry noticing anything.

Case study based on relating sections in László O. et al [2001] and the homepage of Raytheon: www.raytheon.com.

Procter & Gamble – Case Study for Competitive Intelligence in Practice

Procter & Gamble has been considered as one of the leading players of its industry for a long time. According to decision makers of the company CI has been a significant part of their success from the beginning. The competition in the industry where Procter & Gamble has built its credit is viewed as one of the fiercest. Exploiting capabilities of CI is essential; the question is not about employing CI services, but how to build and integrate it into the organization and what should the focus of CI operations be.

After years of unquestionable efficiency of CI in 1999 the CEO of Procter & Gamble decided to improve CI in terms of organizational capabilities and operational effectiveness as well. The reason according to the CEO's explanation was that the leader of the company must think ahead and not accept static systems as fundamentals in the company's organizations. He should rather always seek the challenges and adapt to them with dynamic answers. In this case, CI was in the focus as an organization and service had to be reformed and refined. The CEO considered the next factors as influencing features, which could affect greatly the company's future:

- The globalization forced information flow to be faster and made it spread into channels hardly controllable*
- Gathering and evaluating information required more and more specialization regarding professional knowledge*
- The company size, as it grew, called for larger CI with improved capabilities*
- As the developments in the industry turned into a progressive race, dealing with opportunities and threats as core competence of CI called for expanded and more advanced intelligence*
- Enlarged marketing operation and aggressive competition called for more responsive CI organization*
- Technology development became so fast that CI could barely forecast the possible course of progress*

The above listed factors had also been a result of a special and complex evaluation where CI put itself under serious examination together with the top management of the company, on behalf of improving its effectiveness. As a matter of fact, CI operated as a highly centralized organization before 1999 in the corporation with the following features:

- CI had been tied exclusively to strategic decision making*
- CI had regional centers that also served only strategic interests with no connection to any operational aspect*

- *Major functions of CI had been arranged for assisting strategic planning and implementation along with the control of competitors*
- *CI had not been part of the information network of the company*

Obviously there had been reasons why CI functioned before 1999 as is featured above. First of all, CI operation strongly depends on the management and leadership culture, furthermore CI could be resource consuming and expensive. Therefore, CI should be regarded with accurate and well defined expectations, loaded with real tasks and useful assignments and put into motions with supporting the organization. The point is that establishing and operating CI shouldn't mean that it could adapt itself automatically to the changing environment – rather its application will always depend on the leadership attitude and culture.

Returning to the decision of the CEO, the following characteristics had been chosen as determining factors:

- *CI must be able to adapt to the challenges of the decision making procedure and its requirements for changes*
- *CI must be prepared to perform deeper direct/indirect environmental analysis*
- *The organization of CI should support R&D requests*
- *Beyond its strategic roles, CI must be able to assist and serve the operational level*
- *CI must be integrated into the information network of the company and be part of the information flow*
- *Lower level decision making should also be backed up with CI operation*
- *CI organization should be decentralized, so regional leaders could have access to CI functions*

After the change had been implemented in regard of the CI organization and its operation at Procter & Gamble, the company was able to sustain its leading position in the market. The formation of CI according to the needs and new expectations proved to be successful, that has been resulting in the profits of Procter & Gamble year-by-year, and the capability to hold its market share and position.

Case study based on relating sections in László O. et al [2001] and the homepage of P&G: www.pg.com.

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I, **Bence Ormosy** (ORBOAAK.PTE), declare that the contents of my study are the result of my own research and analysis, and I only used source materials that are referred to. I also declare that this copy and the uploaded electronic versions are completely identical.

Pécs, 14th November, 2011.

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Bence Ormosy