

Designing A Suitable Espionage Control Process In Competitive Arena

Brian Pratistha

LAPAN/ Universitas Padjajaran¹

An achievement acquired by a company by the end of a year is a starting point of a new problem which will be faced by the company the following year. Why? This is because competitors will react differently to the achievement, from capacity development to seizure of your company's current market. More often than not, a competitor's reaction towards that achievement can make the company quickly collapse. Espionage control is the solution for the company to observe their competitors' reactions. This becomes crucial if the company still wants to build a sustainable competitive advantage in the future. After reviewing the intelligence process of Ashton and Stacey, Rouach and Santi, and April and Bessa, this study proposed intelligence or espionage process that can be applicable for competitive business arena in Indonesia.

Keywords: competitor's reaction, espionage control, sustainable competitive advantage.

Introduction

The situation faced by a company today is obviously different from the ones they previously faced. It happens because company's strategic environment becomes more dynamic. The strategic environment dynamic comes from inside and outside the company. The dynamic that comes from the inside generally can still be controlled by the company because it is still within its scope of control. Moreover, these days a company has to be able to anticipate the strategic environment dynamic that comes from outside the company. Today's globalization pushes the world's boundaries even further; there are not only competitions between governments, but there are also competitions between businesses in each country. Global competition, the emphasis on quality management, and the realization by managers that actionable intelligence can be a key competitive advantage have spurred this growth (Prescott & Gibbons, 1993).

More often than not, there are many companies who will allocate a lot of their resources in order to anticipate what other companies will do in its business activities. With its strategy in place, every business unit's profitability can be disaggregated into two components: the industry average level of profitability, and the divergence from that average that is attributable to the competitive advantage (or disadvantage) that the firm's strategy produces within the industry (Collis and Montgomery, 1998). Other companies, the so-called laggards, worried more about preserving the past than conquering the future (Hamel and Prahalad, 1994). The notion of strategy refers to a firm's action on its environment and reflection on that action (Ansoff, 1965; Poirier, 1987).

The above anticipation requires quite a large number of resources. Therefore, it can act as a profit reductor for a company. However, in business, it is inevitable. Such effort is done as a different attempt to shape a sustainable competitive advantage for a company against its competitor. As we already know, the achievement of competitive advantage cannot be attained in a short time. A company has to wholly fix its resources in order to be able to seize its targeted market. Such market

¹ **Corresponding author's e-mail:** pratistha_brian@yahoo.co.id

seizure can be done if the market, in this case consumers, can be satisfied by the company's performance in fulfilling their needs.

According to Barney (1991), *“For a resource to provide a firm with the potential for a sustainable competitive advantage, it must have four attributes. First, the resource must be valuable in the sense that it exploits opportunities and/or neutralizes threats in the firm's environment. Second, it must be rare among the firm's current and potential competitors. Third, the resource must be difficult for competitors to imitate. Fourth, the resource must have no strategically equivalent substitutes.”*

Competitive spirit between companies is common nowadays. The strategy of a performance achievement that is now successfully attained by a company will be very easily copied by a competitor who applies the imitating strategy. Strategy uses foresight and innovation (Godet, 2000). A problem arises if the competitor is not only able to imitate the strategy done by the company to achieve its performance, but is also able to inject additional strategies that are obviously more effective in fulfilling consumer's needs. Competitors are always interested in stealing each other's buyers and in copying successful strategy (Walker, 2007). Big traditional companies who are unable to predict this will likely only become a case study of failed companies in strategic management books.

The ability to predict external strategic environment dynamics obviously requires art and knowledge. Art is emphasized more on the ability of the company's CEO in building a non-business relationship with the market where the company is. Whereas knowledge refers to the ability to apply strategic management process in reading the strategic environment where the company is.

The Essence of Control

Basically control is an activity expected to identify a potential gap when strategic management process is done. This activity obviously requires time and other resources that more often than not many companies ignore it. After the author's version “high risk, high return” theory fails, it is perceived that companies, both business and even non-business, are obliged to execute prudential system. Companies often involve stakeholders, both internal and external. Any mistake in making a business decision can cause a company collapses in the market. That risk has the multiplier effect, because it is implicated in internal stakeholders, where the lives of many employees and their family depend on the company. Apart from that, it will also affect external stakeholders, for example the government will have to accept the fact that the taxes paid by the company will decrease, to the loss of company's corporate social responsibility (CSR) activities that would develop the economic situation of the community around the company.

In recent years, we have seen paradigm shifting in the way CEO view the competitions. The company must look the condition of industry where the company is in. Like in war situation, they must do espionage or intelligence activity for knowing what the enemy do to win the combats. Espionage, or intelligence, for increasing the understanding of enemy's or competitor's strengths and weaknesses. In the other hand, Du Toit (2013) explained that Competitive intelligence is a strategic tool to facilitate the identification of potential opportunities and threats.

This means answering questions such as: what are the competitor's objectives?, what are the competitor's comparative strengths and weaknesses?, how has the competitor performed to date?, and what is current strategy? (Bernhardt, 1994). Competitive intelligence moves beyond traditional environmental scanning and market research by focusing on all aspects of the firm's environment (i.e., competitive, technological, social, political, economic, and ecological), at various levels of the firm's environment (i.e., remote, industry, and operating) (Prescott and Miree, 1998). And then, Rouach and Santi (2001) added that competitive intelligence tracks the activity of direct and

indirect competitors in a range of fields: general business activity, business development, strategy and tactics in different sectors or new activities (sometimes designed to confuse and mislead), market penetration, patent registration, research activity and so on.

Organization As A Complex System

Nowadays a company is defined as an organization with a complex system where there are many variables that need to be paid attention to in each of the process of business decision making. Such variables include: employee, trade union, CEO, commissioners, government, to non-governmental organizations, as well as other interested organizations. Because there are too many variables that must be considered, it is not seldom that a business decision is made by applying a win-win solution. CEO is no longer capable of solely optimizing the interest of the company's business. That complexity is a necessity that must be met by the company.

Starting from the initial activities of the company's business plan, the CEO must involve above variables with their respective interests as a premise in determining the company's business plan. Whether it is a short, a medium, or a long term.

Within the process of executing (implementation of the strategy) said business plan, CEO is concerned with the effort to build a business process to ensure the conversion of the entire business plan is appropriate at the level of mid-level management to lower level management. The complexity is reflected from the regulations related to the business processes that will be built and executed. Ranging from the regulations related to the environment, the fulfillment of the labor force, up to the social impacts (CSR) that must be considered.

The next process that is no less important is the performance evaluation. Business processes must be carried out with the established standards, deviations in execution must be within a reasonable span of control, and can still be tolerated. Deviations that are outside the span of control may be implicated in the demands coming from the business environment (e.g. the violation of product sales activities). Surely such situation can lead to the threat of a competitor complaint to the Commission for the Supervision of Business Competition (KPPU).

Previous Espionage Control Process

The development of theory of espionage (or competitive intelligence) start from pre-1980. Recently, espionage be a main issue for management to make it to be direct input for formulating the strategy (see table 1 below).

Table 1. Evolution of Competitive Intelligence

Time Period	Pre-1980	1980-1987	1988-Present	Future
Stages	Competitive Data Gathering	Industry and Competitor Analysis	Competitive Intelligence	Competitive Intelligence as a Core Capability
Key Defining Event	Porter's 1980 book, <i>Competitive Strategy</i>	The founding of the Society of Competitive Intelligence Professionals	The establishment of the Competitive Intelligence Review	CI courses taught in business schools across the world
Attributes:				
Degree of Formality	Informal	Emerging Formal Units	Formal	Integration of formal and informal
Orientation	Tactical	Tactical	Mixed	Strategic
Analysis	Little or none	Limited quantitative	Both quantitative and qualitative	Qualitative emphasis
Top Management Attention	Low	Limited	Moderate	High
Link to Decision-Making Processes	Little	Weak	Strong	Direct input
Location:				
Principle Location of CI Personnel	Library/Marketing	Planning/Marketing	Marketing/Planning/ CI Unit	CI Units/Marketing/Planning
Key Issues:				
	Development of skills in information acquisition	Building a business case for CI Spy image Analytical skill development	Demonstrating bottom-line input Demand vs. supply-driven CI Counter-intelligence International CI CI Technology Role of information technology	Managing the parallel process Intelligence infrastructures for multinationals CI as learning Network analysis

Source: John E Prescott, 1999, "*The Evolution of Competitive Intelligence : Designing A Process For Action*".

Prescott (1999) describes five key concerns in competitive intelligence, they are early warning of opportunities and threats, strategic decision making support, tactical decision making support, competitor monitoring and assessment, and strategic planning support.

In 1995, Ashton and Stacey (1995) developed intelligence process which is divided into six steps. They are plan intelligence activities, collect source materials, analyze source data, deliver information products, apply intelligence results, evaluate program performance (see chart 1).

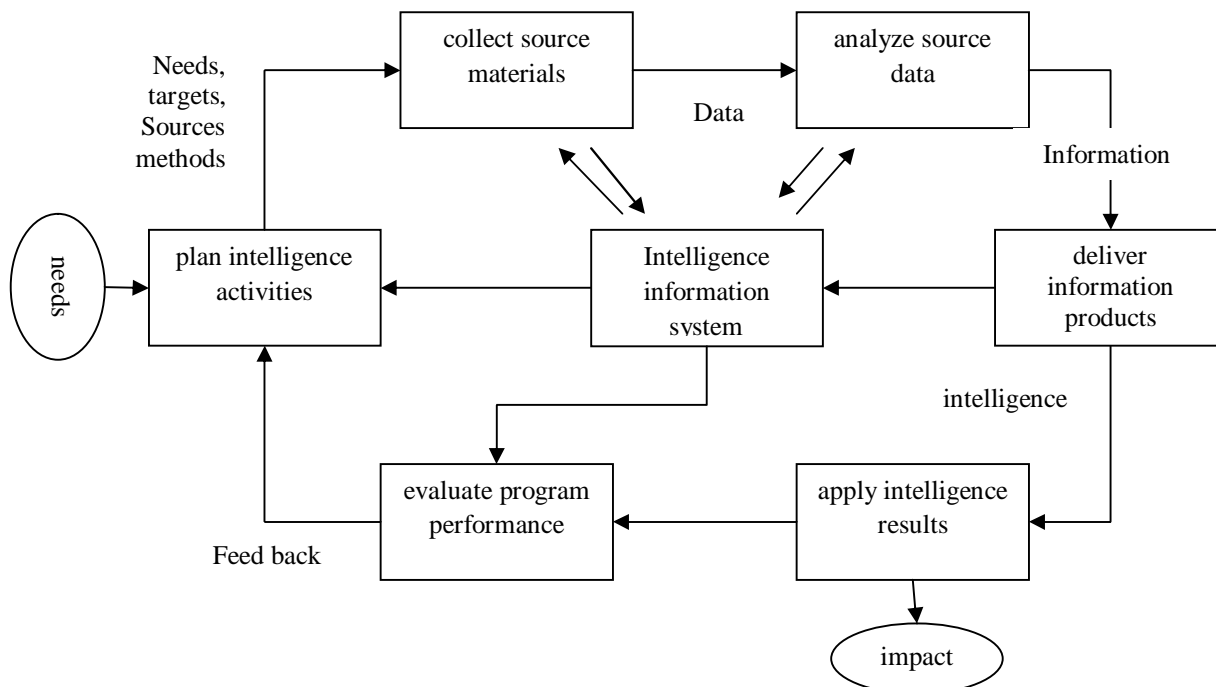


Chart 1. Intelligence Process of Ashton and Stacey, 1995

In the intelligence process above, there is no feed back from customer. It will be not good for the firm, because we must look from the external paradigm to assess what will we do for the next intelligence activities. The intelligence here is to be direct input for the top management. Because of that reason, we should make a comprehensive view when we do a feed back mechanism.

Then, Rouach and Santi (2001) also developed competitive intelligence process (see chart 2). The process who developed by them involves five critical processes. They are incubation phase, conception, implementation, structuration, and evaluation.

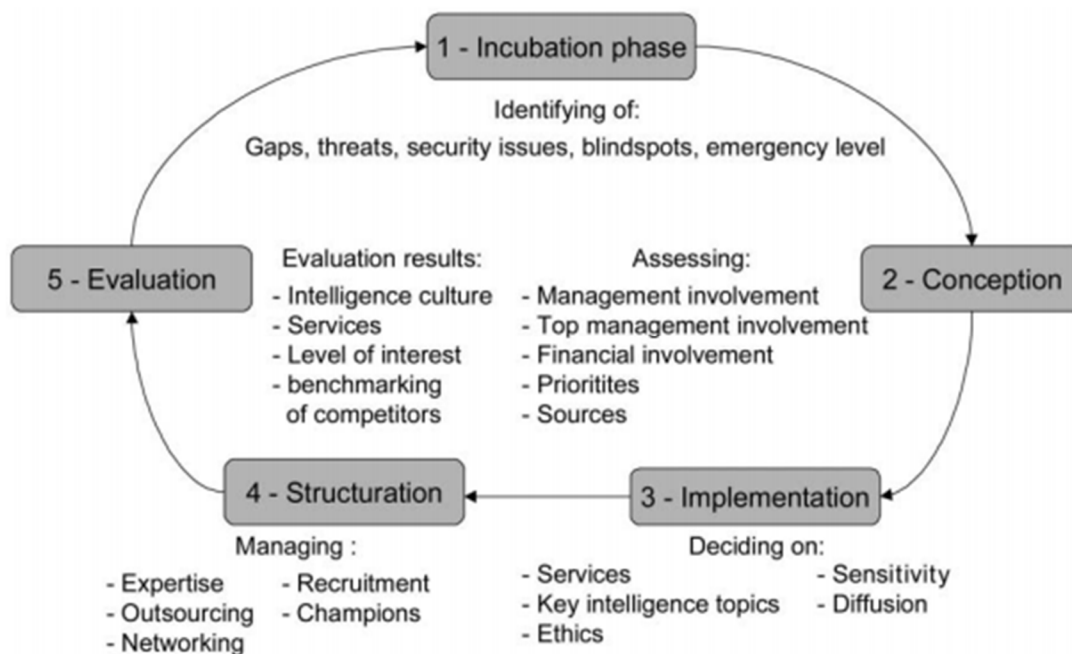


Chart 2. Development of a Successful Competitive Intelligence Unit (Rouach and Santi, 2001)

Incubation phase include identifying of gaps among competitors, threats, security issues, blindspots, and emergency level. And conception here, includes the involvement from management and top management, financial involvement, deciding the priorities, and sources. In the phase of implementation, they must decide on services, key intelligence topics, ethics, sensitivity, and diffusion. In structuration phase, they must managing on expertise, outsourcing, networking, recruitment, and champions. And, the last is evaluation phase, they must evaluate the results from intelligence culture, services, level of interest, and benchmarking of competitors.

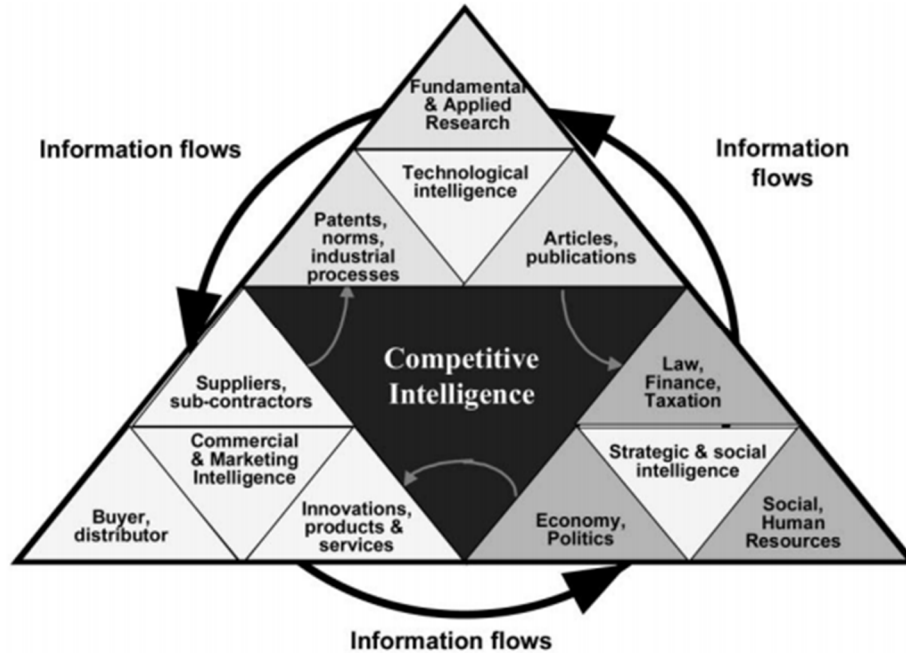


Chart 3. Aspects of Competitive Intelligence (Rouach and Santi, 2001)

Then, April and Bessa (2006) also proposed intelligence process, which is divided into six steps (see chart 4).

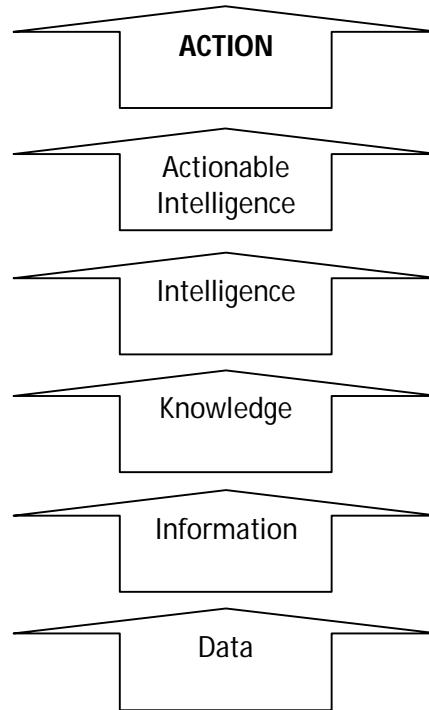


Chart 4 The Firm's Strategy and Business Intelligence Process

Primary sources for intelligence activity are historical databases, SEC press filings, company annual reports, minority owner reports, and webcasts. And primary and secondary sources including new services, press releases, investment bank analyst reports, industry analyst reports, scouting groups, meetings and conferences. In the phase of knowledge, they must analyze competitive analyses (swot, blind spot, competitor benchmarking), financing analyses (cash flow, SGR, balance sheet health checks), organizational analyses (personalities and power mapping), industry analyses (porters five forces). In the intelligence phase, they must do forecasting and scenarios partnering studies, one-page competitive environment analyses, acquisition analyses, analyses of coveted assets, competitor monitor reports, impact matrices highlighting threats and opportunities. In actionable intelligence there are strategic kits, statement of scenarios and predicted outcomes with necessary decision points and advice. And, the last, action taken at the highest level in the organization based upon Competitive Strategic Business Intelligence (CIAD) information and personal knowledge.

Strategic analyses focus upon SWOT, Blind Spot, Four Corner and Scenario techniques. Established procedures have developed from proven experience in what works and what does not work in providing actionable intelligence to top management in the layered organization (April and Bessa, 2006).

Table 2. Devising Established CI Procedures from Proven Experience

What Works	What Does Not Work
Direct demand from top management	Attempts to provide a service to all (CI is not an information desk)
Physical proximity to top management	Unfocused wide distribution of CI products to top management
Top management provides focus on key intelligence topics	Long CI reports (> 4 pages)
War games to get inside the competitors' minds	Production of historical knowledge documents

Source: April and Bessa (2006), "A Critique of the Strategic Competitive Intelligence Process within a Global Energy Multinational"

Designing A Suitable Espionage Control (Proposed Process)

With so many variables described above, in this study, the researcher focuses on how to build a company's ability in identifying the competitors' movements that can jeopardise the company's existence. One of the steps offered by the researcher in this study is building espionage control. The previous intelligence process, there is no control mechanism to make sure that the data and information taken from intelligence activities are good to be implemented in the company. Issues and agenda can appear and make the data and information taken will be bias.

Such a step was taken into account from the empirical experience of the researcher who saw many big companies that earned big profits in the year X, but then experienced a performance regression in year X + 1. As mentioned above, the company's performance today is the starting point for the problems which will be gotten by the company in the next years. This happens because the competitors feel threatened by the performance of the company. They make improvements, one of which is by mimicking the strategy that the company uses. In fact, they can form a better strategy, with better quality to penetrate the source of profit owned by the company now.

Espionage control needs to be built in the company's strategy management process. Regarding its position in the strategy management process, espionage control is placed at the end of the activity (post action). It is not seldom that espionage control is interpreted to be the same as post action control. In the chart 5 below, it shows the position of espionage control.

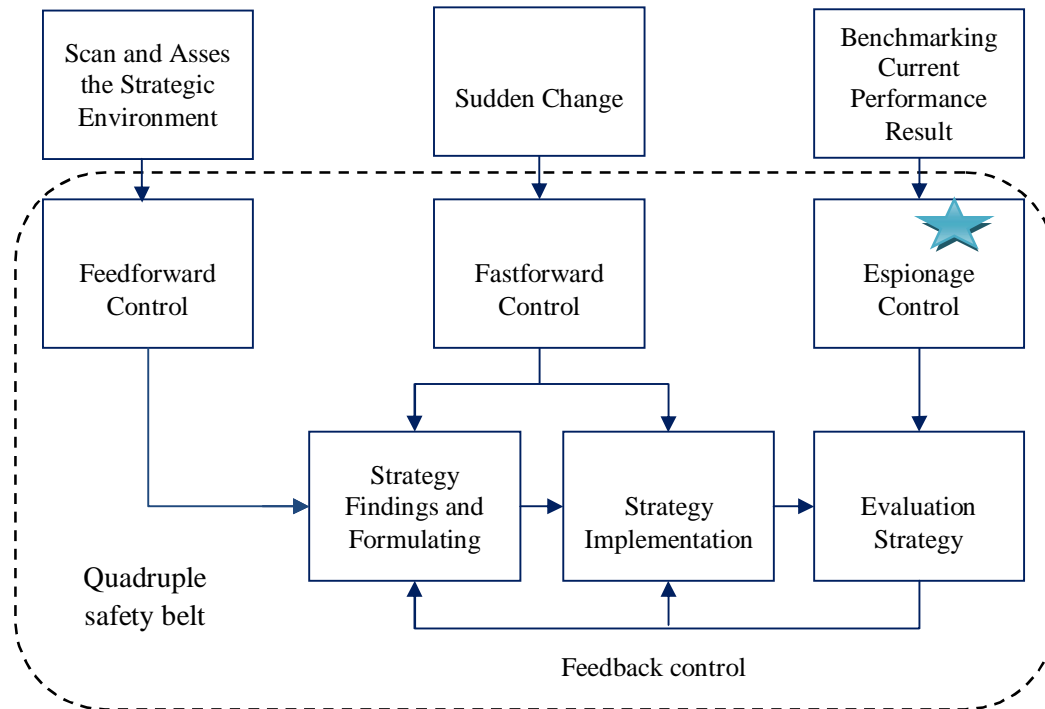


Chart 5. The position of Espionage Control. Chart is quoted from Brian Pratistha, 2015, Proceeding International Journal (Building A Strategic Control Model for the Space Technology Program in Indonesia)

From the above chart, espionage control is part of the strategic control, and it is placed at the level of evaluation strategy. This is done as a part of anticipating the reaction of competitors to the company's performance in year X. Steps that need to be taken is benchmarking the performance of the company today with the performance of competitors. It will generate output in the form of recommendations on the strategy that will be executed in the year X + 1. In addition, by performing espionage control, we will also be able to obtain the actions the competitors will take in the year X + 1. Whether competitors will make efforts to capture market share, or increase the size of the company with a merger or acquisition, or improve the quality of the product or the efforts to acquire product license by competitors.

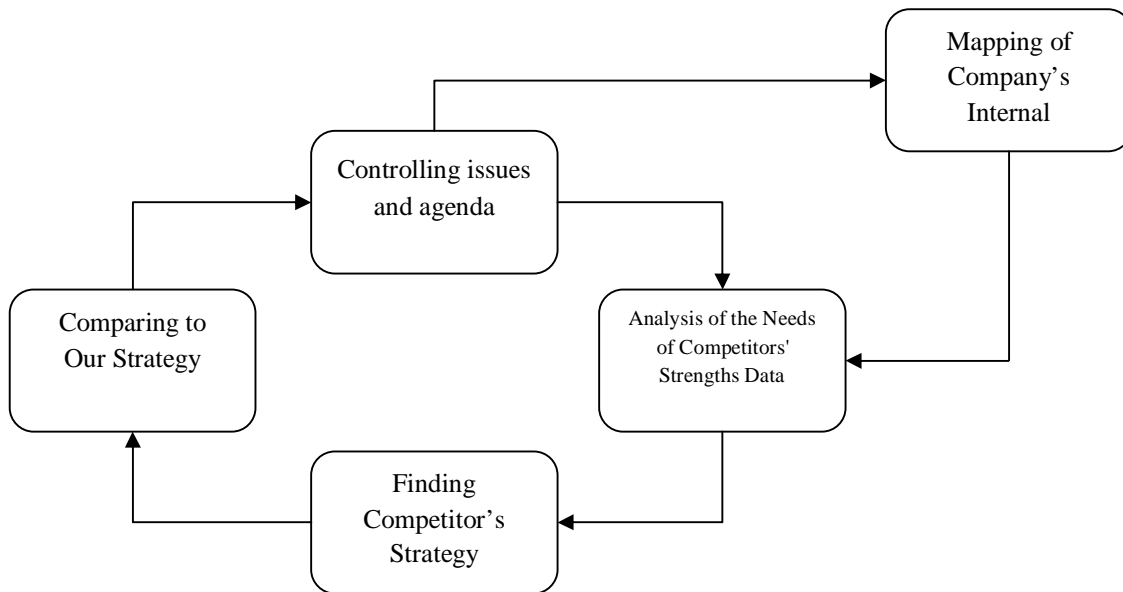


Chart 6. Espionage Control Process

In chart 6, espionage control process explains that espionage activities of the company begins from the mapping of the internal condition of the company. This is related to the condition of the company's performance as well as the core resources and supporting the achievement of the company's performance in the year X.

Then, after the mapping is done, the next step we need to identify and analyze the requirement of the data relevant to the strengths of the competitors that the company does not possess. This is necessary as an anticipating mode against the competitors if they want to campaign to surpass the performance of the company in year X + 1.

In practice, the intelligence or espionage requirement cannot be said to exist without appropriate answers to three basic questions : what do we need to know?, why do we need to know it?, and what decision is to be made, or action taken, once we know it? (Bernhardt, 1994).

Next, we can search for information to find the competitors' strategy in the year X + 1. Finding competitor's strategy, or competitive intelligence, helps firms define and understand their industry and identify rivals' strengths and weaknesses (Walters and Priem, 1999). This includes the intelligence gathering associated with collecting data on competitors and interpreting such data for managerial decision making (Dess, et al, 2007).

Actually, it will be difficult for company to know competitor strategy, because of secret reason. The competitor will not ever publish the strategic point for running their business in the future years. In this study, the action of espionage only focusing on competitor intelligence and competition environment. From competitor, we can search data for their profiles, events, and relations. And for competition environment, we can search for their macro environment and business environment.

Then, we can do a comparison with the strategy that we want to build for the year X + 1. Competitive intelligence helps a company avoid surprises by anticipating competitors' moves and decreasing response time (Prior, 1999). Competitive intelligence serves to highlight the critical gaps in the knowledge of decision makers, illuminate the key uncertainties, clarify the ambiguities to the extent possible, and provoke debate whenever necessary (Hopple, 1984). It prompts the most central of questions : how are our competitors trying to beat us? And therefore, how are going to beat them? (Bernhardt, 1994).

The most crucial stage is in the next stage where we have to control issues and agendas that certainly affects our company. This is very crucial because we will be psychologically affected by the results of the espionage that we do. Control here is intended that the company should then remap the internal power possessed as a form of adjustment to the strategy that will be implemented by the competitors.

Rationality is, of course, necessary by looking at the capacity and the company's position in the same market as competitors.

In addition, the control mechanism on the issues and the agenda that will come up can also be used in the calculation of the risk management on the indicators of the strategy that will be executed by competitors. In their foundation, all companies have a level of uniqueness because of the cultural differences. Some of said indicators are used as input on acceptance test action on the company's internal conditions. Every company's CEO has a critical step in its efforts to build a company. So of course not all competitors' strategies can be fully adapted by the company if it can damage the system or increase the time it will consume to build its business process. Executives must be careful to avoid spending so much time and effort tracking the actions of traditional competitors that they ignore new competitors (Dess, et al, 2007).

Strategic Control Management Office (SCMO)

In an effort to build espionage control, companies need to establish SCMO as a special unit that can be attached to each business unit of the company. This can be applied for a company that has many business units. Companies that implement product diversification or build many lines of business will surely face competition between one business unit with another company (Business Unit Vs Business Unit). Which is why SCMO needs to be placed on each business unit.

On the operational level, each company or business units of a company needs to establish the Head of SCMO, who is responsible for doing strategic control in the form of espionage control. Each Head of SCMO would then must periodically report their performance to the board of directors. In this research, researcher also recommends a system that allows a direct access of SCMO to the board of commissioners. This is done as a form of convenience for the board commissioners in monitoring the performance of the directors. When this is applied, surely the board of commissioners can also reduce agency cost.

Chart 7 below elaborates the position of SCMO in a company.

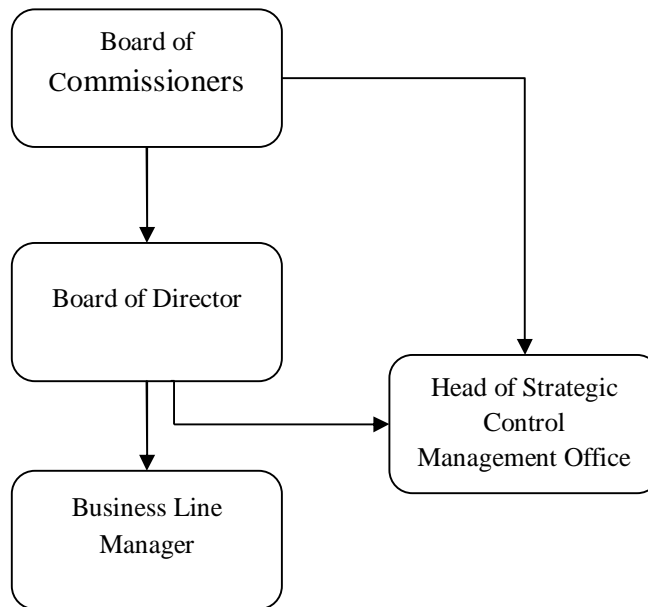


Chart 7. Position of SCMO in a company

Conclusion

A company is a complex organization. The diversity of necessities ranging from commissioners, directors, until the employees must be addressed with the establishment of control mechanism so that the company's goal is not neglected. Efforts to form and implement control espionage is part of the company's effort in order to constantly achieving sustainable competitive advantage against competitors. The dynamics of strategic environment changes can cause a panic within companies that are not prepared. Revamping the internal resources is needed to strengthen the capacity of the company in determining position on the market. A strong position in the market will create competitive advantage against its competitors in the long term.

REFERENCES

Ansoff, I. Corporate Strategy. McGraw Hill, New York.

Aprill, K, and Bessa, J. (2006). A Critique of the Strategic Competitive Intelligence Process within a Global Energy Multinational. Problems and Perspectives in Management / Volume 4, Issue 2.

Ashton, W.B. and Stacey, G.S. (1985). 'Technical Intelligence in Business: Understanding Technology Threats and Opportunity', International Journal of Technology Management,

Special Issue on the Management of Technological Flows Across Boundaries, Vol. 10, No. 1, pp. 79-104.

Barney, J., (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management*, 17 (1): 99-120.

Bernhardt, D.C. (1994). I Want it Fast, Factual, Actionable'-Tailoring Competitive Intelligence to Executives' Needs. *Third International Symposium On National Security & National Competitiveness: Open Source Solutions Proceedings, 1994 Volume II*.

Collis, and Montgomery. (1998). *Corporate Strategy: A Resource-Based Approach*. Mc Graw-Hill Irwin.

Dess, et al. (2007). *Strategic Management : Text and Cases*. Mc Graw-Hill Irwin.

Du Toit A.S.A. (2013). Comparative Study of Competitive Intelligence Practices between Two Retail Banks in Brazil and South Africa. *Journal of Intelligence Studies in Business*, vol. 2, pp. 30–39.

Godet, Michel. (2000). *The Art of Scenarios and Strategic Planning: Tools and Pitfalls*.

G.W. Hopple. (1984). Intelligence and Warning Lessons, In *Military Lessons of the Falkland Islands War*, ed B.W. Watson and P. M. Dunn, Arms and Armour Press, London.

Hamel, G., and Prahalad, C. K.(1994). *Competing for the Future*. Harvard Business School Press, Cambridge, MA.

Poirier, L. (1987). *Stratégie Théorique II*. Economica, Paris.

Pratistha, Brian, (2015). Building A Strategic Control Model For Space Technology Program in Indonesia. *Conference Proceeding, Book of Abstract BESSH 2015 Volume 18 Issue 2* ISBN: 978-969-670-014-2.

Prescott, J. (1999) *The Evolution of Competitive Intelligence : Designing A Process For Action*. APMP.

Prescott, J. and Gibbons, P. (1993). *Global Perspectives on Competitive Intelligence*, Alexandria, VA: SCIP.

- Prescott, J. and Miree, C.E. (1998). Small Business Solutions: Building And Leveraging A Competitive Intelligence Capability Without Going Broke. *Journal of Small Business Strategy*.
- Prior, V. (1999). The language of competitive intelligence, part 4. *Competitive Intelligence Review*, 10 (1): 84-87.
- Rouach, D, and Santi, P., (2001). Competitive Intelligence Adds Value: Five Intelligence Attitudes. *European Management Journal* Vol. 19, No. 5, pp. 552–559.
- Walker, Gordon. (2007). *Modern Competitive Strategy*, 2nd edition. Mc Graw-Hill Irwin, New York.
- Walters, B.A., and Priem, R. L. (1999). Business Strategy and CEO Intelligence Acquisition. *Competitive Intelligence Review*, 10 (2): 15-22.