

Copyright is owned by the Author of the thesis. Permission is given for a copy to be downloaded by an individual for the purpose of research and private study only. The thesis may not be reproduced elsewhere without the permission of the Author.

**THE RELATIONSHIP BETWEEN  
COMPETITIVE INTELLIGENCE AND  
COMPANY SUCCESS**

**Wilna Amoritha Fourie**

**1998**

**THE RELATIONSHIP BETWEEN COMPETITIVE  
INTELLIGENCE AND COMPANY SUCCESS**

**A thesis presented in partial  
fulfilment of the requirements  
for the degree  
of Masters of Business Studies in Marketing  
at Massey University**

**Wilna Amoritha Fourie**

**1998**

## ABSTRACT

The past few years have seen a growing interest in competitive intelligence amongst academics and practitioners. This growth has been affected by a high degree of scepticism regarding the ability of competitive intelligence to effectively support business performance.

The objectives of this study was to determine whether a relationship exists between competitive intelligence activities and company performance in a sample of New Zealand companies; to determine the level of competitive intelligence activities undertaken in this sample; and to determine the impact of the results on marketing strategy in general.

To achieve this a mail survey was conducted and results based on a sample of 125 strategic business unit managers from various sized manufacturing, importing and distributing companies, in four respective industries of the Chemical industry sector.

A composite competitive intelligence score was developed that included the following elements of the competitive intelligence cycle, namely: gathering activities, focus of intelligence, analysing activities, dissemination channels, use of intelligence, top management involvement and counter intelligence. Performance measures were self reported measures of growth over a three-year period (1994-1997).

Although the results revealed a significant positive correlation between the composite competitive intelligence score and market share growth, it was a weak relationship with only three percent of the variance in market share explained by the composite competitive intelligence score (assuming this was the direction of causation).

The competitive intelligence approach in the Chemical industry sector was found to be an ad hoc approach, characterised by informality and uncoordinated actions. Strategic business unit managers indicated that, even though using a predominantly informal approach, competitive intelligence activities:

- Improved their understanding of the dynamics of the market place.
- Improved implementation of new products or projects.
- Led to concrete actions.
- Helped shape policies.

Although above mentioned benefits did not directly explain the variance in market share and only provide weak empirical support for an investment in competitive intelligence, it could indirectly play a significant role in the formulation of marketing strategies and ultimately in the creation and maintaining of a competitive advantage for a company.

## ACKNOWLEDGEMENTS

I would like to express my sincere thanks to the following people:

- My supervisor professor Phil Gendall for his excellent guidance and encouragement.
- The administration staff of the Department of Marketing at Massey University for their effective assistance and organising of on-campus visits.
- Colleagues at Manukau Institute of Technology for pre-testing questionnaires and providing grammatical and stylistic advise.
- My husband and three daughters for their unconditional support, patience and understanding.

# TABLE OF CONTENTS

<b>ABSTRACT</b>	<b>ii</b>
<b>ACKNOWLEDGEMENTS</b>	<b>iv</b>
<b>SUMMARY</b>	<b>x</b>
<b>1. INTRODUCTION</b>	<b>15</b>
<b>1.1 Objectives</b>	<b>17</b>
<b>1.2 Structure of the Research Process</b>	<b>17</b>
<b>2. LITERATURE REVIEW</b>	<b>19</b>
<b>2.1 Introduction</b>	<b>19</b>
<b>2.2 Background</b>	<b>19</b>
<b>2.3 Role of Competitive Intelligence in Marketing Strategy</b>	<b>20</b>
<b>2.4 Commercial Intelligence</b>	<b>22</b>
<b>2.5 Defining Competitive Intelligence</b>	<b>23</b>
2.5.1 Properties of Competitive Intelligence	26
2.5.2 Multistage Process – The Competitive Intelligence Cycle	28
2.5.3 Focus of Competitive Intelligence	34
2.5.4 Purpose of Competitive Intelligence	36
2.5.5 Outcome of Competitive Intelligence	38
<b>2.6 Growth in Competitive Intelligence</b>	<b>41</b>
2.6.1 Growth of Competitive Intelligence in Various Countries	43
2.6.2 Reasons for Growth in Competitive Intelligence	44
2.6.3 Questions surrounding Competitive Intelligence	45
<b>2.7 Competitive Intelligence and Business Performance</b>	<b>48</b>
2.7.1 Empirical Evidence	49
2.7.2 Measuring Business Performance	51
<b>2.8 State of Competitive Intelligence in New Zealand</b>	<b>52</b>
<b>2.9 Summary of Literature Review</b>	<b>54</b>
<b>3. METHOD</b>	<b>56</b>
<b>3.1 Procedure</b>	<b>56</b>
<b>3.2 Population</b>	<b>57</b>
3.2.1 Definition of the Population	57
3.2.2 Population Size and Response Rates	58
3.2.3 Characteristics of the Population	59
<b>3.3 Sample Characteristics</b>	<b>61</b>

<b>3.4</b>	<b>Non Respondents</b>	<b>62</b>
<b>3.5</b>	<b>Instruments</b>	<b>64</b>
3.5.1	Phase One	64
3.5.2	Phase Two	65
<b>3.6</b>	<b>Analysis</b>	<b>66</b>
<b>4.</b>	<b>RESULTS</b>	<b>68</b>
<b>4.1</b>	<b>Validity and Reliability</b>	<b>68</b>
4.1.1	Construct validity	68
4.1.2	Content validity	68
4.1.3	Discriminant validity	69
4.1.4	Reliability	69
<b>4.2</b>	<b>Competitive Intensity</b>	<b>70</b>
<b>4.3</b>	<b>Results of Competitive Intelligence Activities</b>	<b>72</b>
4.3.1	Gathering Activities	72
4.3.2	Focus of Competitive Intelligence Activities	74
4.3.3	Analysing and Processing of Competitive Information	75
4.3.4	Dissemination of Competitive Intelligence	76
4.3.5	Competitive Intelligence Use	77
4.3.6	Responsiveness of SBUs to competitive intelligence	78
4.3.7	General Aspects of Competitive Intelligence	79
4.3.8	Overall Competitive Intelligence Approach	83
<b>4.4</b>	<b>Results of Performance Measures</b>	<b>84</b>
<b>4.5</b>	<b>Relationship between Competitive Intelligence and Company Performance</b>	<b>86</b>
4.5.1	Development of the Composite CIScore	87
4.5.2	Refining of the Performance Measures	88
4.5.3	Results of the Relationship Analysis	88
<b>5.</b>	<b>DISCUSSION</b>	<b>90</b>
<b>5.1</b>	<b>Level of Competitive Intelligence activities in New Zealand Companies</b>	<b>90</b>
<b>5.2</b>	<b>The Relationship between Competitive Intelligence and Measures of Business Success</b>	<b>94</b>
<b>5.3</b>	<b>Implications for Marketing Strategy in General</b>	<b>95</b>
<b>5.4</b>	<b>Limitations of the Study and Future Research Areas</b>	<b>97</b>
<b>6.</b>	<b>CONCLUSIONS</b>	<b>99</b>
	<b>APPENDICES</b>	<b>101</b>
A:	Code of Ethics of SCIP(1997)	
B:	The variables used in Kohli et al., (1993) and Raju et al., (1995) studies to assess Business performance.	
C:	Details of companies that refused and did not fill in the non-response form	

- D: Characteristics of Population (Companies)
- E: Characteristics of Sample (Strategic Business Units)
- F: Characteristics of Non Respondents
- G: Phase One - Response Form
- H: Phase One - Cover Letter and Reminder Letters
- I: Phase Two - Main Questionnaire
- J: Phase Two – Cover letter and Reminder letters
- K: Comments to Open Questions
- L: Factor Loadings for Discriminant validity test
- M: Results for Part C: Competitive Intensity and Speed of Change
- N: Results for Part A
- O: Results for Part B
- P: Factors in Composite Competitive Intelligence Score (CISCORE)
- Q: Factors in Composite Competitive Intensity Score (COMSCORE)
- R: Correlation coefficients for individual elements of CISCORE with Market share change

## **8. BIBLIOGRAPHY**

**160**

## LIST OF TABLES

Table 1:	Formal Definitions of Competitive Intelligence
Table 2:	Response Rates for Phase one
Table 3:	Cronbach Alpha Reliability Coefficients
Table 4:	Sources for Competitive Intelligence Gathering
Table 5:	Population in terms of company size
Table 6:	Population in terms of the four industry types
Table 7:	Geographic location of population compared to New Zealand total company distribution
Table 8:	Industry type according to size of the company
Table 9:	Geographic location of population companies in each industry
Table 10:	Average current annual turnover of companies who filled in the non-response form
Table 11:	Sample in terms of company size
Table 12:	Sample in terms of the four industry types
Table 13:	Industry types versus SBU company sizes
Table 14:	Company size of non-respondents compared to the sample
Table 15:	Industry type of non-respondents compared to the sample
Table 16:	Geographic location of non-respondents compared to the total population
Table 17:	Competitive intensity results
Table 18:	Speed of Change Results
Table 19:	Gathering Competitive Intelligence (question 1)
Table 20:	Focus of Competitive Intelligence Activities (question 2)
Table 21:	Analysing and Processing of Competitive Information (question 5)
Table 22:	Dissemination of Competitive Intelligence (question 6)
Table 23:	Use of Competitive Intelligence (question 7)
Table 24:	Involvement of Top management and Counter intelligence (question 9)
Table 25:	Approach to Competitive Intelligence

## LIST OF FIGURES

- Figure 1: Overall Research Structure
- Figure 2: The Competitive Intelligence Cycle
- Figure 3: Porter Five Forces Model
- Figure 4: Actors and Forces in the Organisational Environment
- Figure 5: Self-sustaining Nature of Competitive Advantage
- Figure 6: Framework for analysing Individual Resources driving Sustainable Competitive Advantage (VRIO Framework)
- Figure 7: Shift towards an Environment Driven Approach
- Figure 8: Main Characteristics of the Population
- Figure 9: Main Characteristics of the Sample

## SUMMARY

The objectives of this study were:

- (1) To determine the level of competitive intelligence activities undertaken in a specific New Zealand industry sector;
- (2) To determine the relationship between competitive intelligence and measures of business success;
- (3) To assess the implications of this relationship for marketing strategy in general.

The literature review revealed:

- Confusion regarding a common acceptable definition. Competitive intelligence for the purpose of this study was defined as being both a product and a process. As a product, competitive intelligence means ethical, timely and useful value-added information on customers, competitors, other key stakeholders in the competitive environment and the company itself. As a process, it involves establishing intelligence needs, generating information, analysing and disseminating actionable intelligence to key decision makers, to build a competitive advantage and enhance business profits.
- Consensus exists regarding the Competitive Intelligence Cycle (a multistage intelligence process). Studies revealed that competitive intelligence focussed mainly on the direct competitive environment, which includes customers, competitors and the organisation itself. The purpose of competitive intelligence was continuously described as providing actionable intelligence for use in strategic decision making, and the outcome of undertaking competitive intelligence was reported to be the creation of a competitive advantage with resulting increase in business performance.
- Global economies, the information era, defusion of technological and managerial capabilities, advances in computer information systems and communication technology advances contributed to the growth in competitive intelligence in the 1980's and 1990's.

- Growth in competitive intelligence led to an increase in problems regarding this activity. The one persistent problem encountered by competitive intelligence active organisations, is the lack of full integration of intelligence activities with actual decisions - especially at the top - resulting in inferior strategic decisions and doubt whether investment in competitive intelligence activities are justified.
- No studies could be found that directly linked business performance and the level of competitive intelligence activities.
- Current research regarding competitive intelligence focus on eight main areas, namely: how to conduct competitive intelligence; competitive intelligence and its role in marketing strategy; competitive intelligence in specific industries; comparative studies regarding competitive intelligence in various countries; reasons for the failure of competitive intelligence activities; counter intelligence issues; the future of competitive intelligence; and the effect of competitive intelligence on the success of companies. Very little research on the state of competitive intelligence in New Zealand had been conducted.

The methodology followed in the primary research was to conduct a mail survey on strategic business units from a population of 610 companies belonging to the New Zealand Chemical Industry Sector, including the following four industry types: (1) Chemical Manufacturing; (2) Drugs and Medicines; (3) Soap and Cleaning and (4) Perfumes, Cosmetics and Toiletries.

The primary research process consisted of two phases where the purpose of phase one was to elicit participation in the study from the population companies and phase two consisted of mailing out the 'main questionnaire pack' to each of the strategic business unit (SBU) managers who agreed to take part in the study.

The decision to survey SBU managers rather than companies as a whole was taken in order to avoid an over-representation of small companies, as a large company would have been given the same weight as a small company. The use of strategic business

unit managers also identified the business entities assumed to be responsible for the competitive intelligence activity and related decisions.

Of the 542 eligible companies in the population, 91 companies (17%) agreed to take part in the study and provided the names of 155 SBU managers. The response rate in phase two of the study was 80.6% and constituted 125 SBU managers returning the main questionnaire.

The SBU managers in the sample were manufacturers, importers and distributors from various sized companies that together held up to 90% of the market share in the four respective industries of the New Zealand Chemical industry sector and can therefore be seen as representative of this sector.

Specific characteristics of competitive intelligence activities in the Chemical industry sector, were:

- The level of competitive intensity experienced was 'high' with a tendency to compete on price, numerous competitors, slow growth and low switching costs for buyers. The speed of change, also a contributing factor to competitive intensity, was 'steady'.
- Sixty two percent of the SBU managers described their approach to competitive intelligence as Ad Hoc. This approach can be described as informal and uncoordinated.
- The main source for intelligence reported as being 'often' used, were: personal contacts followed by trade literature; talking to suppliers and distributors who influence end users; newspapers and magazines; and interviews with company employees.
- Competitive intelligence was balanced in its focus on all three stakeholders in the immediate environment namely, competitors, suppliers and customers. The only immediate environment roleplayer that seemed neglected was the focus on new entrants.

- In the analysis of competitive intelligence the SBU managers indicated a commitment to data being analysed by experts inside the company, but low commitment to using external experts and storing information on databases.
- Dissemination patterns were good with SBU managers indicating formal, informal and interfunctional dissemination patterns. Limiting factors in terms of dissemination were that 69% of the SBU managers indicated that they were responsible for their own competitive intelligence gathering. SBU managers also indicated hesitancy regarding whether top management prioritised their competitive intelligence needs. These two factors demonstrated that although the channels of dissemination were in place, it did not necessarily mean the most appropriate information was flowing through them.
- The use of competitive intelligence reflected the informal nature of the competitive intelligence function in the Chemical industry sector. SBU managers reported an ‘agreement’ that competitive intelligence improved their understanding of the marketplace; improved the implementation of products and projects; led to concrete actions and shaped policies.
- The budget allocated to competitive intelligence activities was low with the majority of SBU managers in small and medium companies reporting a ‘nil budget’ and the majority of SBU managers in large companies reporting a ‘below \$25 000’ annual budget.
- In terms of counter intelligence, results showed that SBU managers were very conscious of ensuring that other companies could not get access to their information. However, respondents ‘disagreed’ that they have put counter intelligence measures in place.

Overall, although the competitive intelligence approach followed in the New Zealand Chemical industry sector is one characterised by being informal and somewhat uncoordinated, it is an approach that is unique to a country with a small domestic market and a specific informal business culture.

A composite measure of the level of competitive intelligence was calculated by using information regarding 'gathering activities', 'focus of intelligence', 'analysing activities', 'dissemination channels', 'use of intelligence', 'top management involvement' and 'counter intelligence'. Performance measures were self reported measures of growth over a three-year period (1994-1997).

This study established that a significant positive relationship exists (at the 90% confidence interval) between a composite measure of competitive intelligence activities (CISCORE) and a self reported measure of performance (market share growth). However, the relationship proved to be weak with only 3% of the variance in market share explained by competitive intelligence activities (assuming this is the direction of causation).

Although the results provide weak empirical support for an investment in competitive intelligence, the above mentioned reported benefits experienced by the SBU managers could indirectly play a significant role in the formulation of marketing strategies and creation of a competitive advantage for a company.