

The impact of competitive intelligence on firms “ Case Study of China”

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Abstract :

Competitive intelligence includes gathering , selection processing and analysis of economic information about the market , the market competition , current economic development , consumers and competitive products.

This article contains the evolution of competitive intelligence generally and CI in china especially

Key words :Competitive intelligence; CI process; competitive intelligence in china

Résumé :

L'intelligence compétitive comprend la collecte, le traitement et l'analyse des informations économiques qui concernent la concurrence sur le marché, le développement économique actuel, les consommateurs et les produits concurrents.

Cet article représente l'évolution de l'intelligence compétitive en général et particulièrement en Chine

Mots clés: l'intelligence compétitive , le processus CI; veille concurrentielle en Chine

Introduction:

Debates on the subject of competitive intelligence rank high among modern economic theories of expansion and current development. In other words modern economic diplomacy. There are many reasons for this; one of the key reasons is the knowledge which is spread in all the world and in recent economy either the company or country which intends to try out at the world market and take one piece of it for himself must previously use the advantages of the modern organized competitive intelligence. Without that, they are doomed to great risks and probably failure. In modern time, competitive intelligence cannot be replaced with the so called feeling for business, experience or capability for useful machinations. The example I'm to present “China” confirms this most convincingly.

Since 1978 China has been carrying out economic reforms and opening policies. As a result of the reforms Chinese enterprises gradually became the host of market competition and enlarged enterprises' right to autonomous management and decision making in system of market competition. Meanwhile domestic markets in China became part of the global market and enterprises faced a more intense competition .

1. Conceptual background :

1.1 Brief History of the competitive intelligence “CI”:

Prescott wrote one of the first modern insights into the evolution of CI. He identified three stages of CI development and contended that stage one occurred during the 1960's and 1970s. He defined CI activities at this time as being mostly associated with data gathering, and that they were informal and tactical. He explained that CI was poorly linked to decision making and involved little analysis.

Prescott's second stage of CI Development was defined as CI activities in the 1980s when competitor and industry analysis became popular. According to him, competitive intelligence personnel switched from library functions to marketing and planning functions. He explained that competitive intelligence activities remained tactically oriented whereby the spy image began to evolve, and there was very little by way of quantitative data analysis .

The third stage of Prescott's CI Development that began in the 1990s, showed CI contributing to strategic decision-making that was built into dedicated formal units, either on their own or within their marketing or planning. Since then, competitive intelligence activities have been oriented to both tactical and strategic decision-making and included qualitative and quantitative analysis. Competitive intelligence receives moderate attention from top management and is often a valuable contributor to strategic decision-making¹

1.2 Definition :

Competitive intelligence (CI) is recent term and can be defined in several ways. First, it can be defined as an obligatory part or prerequisite to performance strategy of a company or economy in the market. It is a complex activity on gathering, selection, processing and analysis of economic information concerning market, competition, current development and other conditions, consumers and competitive products, on the basis of which the performance strategy and conduct at the market is prepared. Competitive intelligence is a part of everyday economic competition of various subjects (companies, national economies, multinational concerns, economic integrations, etc.) at both domestic and world markets. For many analysts the key feature of competitive intelligence is that its functions are based on strict ethical codes and standards, in other words that it uses legal devices for collecting and analyzing data and turning them into the *economic knowledge* of a

company or country. These ethical standards are guaranteed by the domestic laws of each country or by strict standards of domestic or international associations of CI professionals (for instance, The American Society of Competitive Intelligence Professionals).²

1.3 How Competitive Intelligence is Used :

The role of CI analysts is to analyze and present the information gathered so it is in an actionable form for management. CI supplies the inputs that tell managers what they need to know about current and future competition, including their own organization's strengths and weaknesses, financials, major clients, what detailed inspection reveals about existing products in the marketplace, what new technologies (particularly disruptive technologies) are on the horizon, how competitors responded to your previous initiatives, competitor strengths and weaknesses, and more. The objective is to obtain an edge on your competitors and to defend your firm against their efforts. The operating principle is "be forewarned so you are forearmed."³

1.4 What CI Can Do for Your Company :

Suppose you were going to hire a consulting firm. Both come highly recommended, both have the same capabilities but one was much less expensive than the other. Be honest. Would your first thought be that the lower cost consultant could not be as good as the more expensive one? Of course. It's human nature to think so.

Even though there might be other factors involved, the lower priced consultant would beg questions of competency.

Now, suppose I told you that instituting a competitive intelligence system would require only minimal resources and a minute change in organizational structure. In other words, the start-up costs were low and the rewards extremely high.

Would that change how you felt about it? Would the low cost make it seem unworthy? I'm sure it would. It's only human nature.

But you'll find that instituting a full blown competitive intelligence system is neither costly nor disruptive and pays off in ways you can't yet imagine.

So if it is good , why doesn't every company do it ?

First, competitive intelligence is not a function; it's a process. As a result it should appear in all aspects of your business as one seamless process not relegated to one area, division or unit.

Although the main job of competitive intelligence is to support management decision making, having a formalized competitive intelligence system in place can help your company address many different issues.

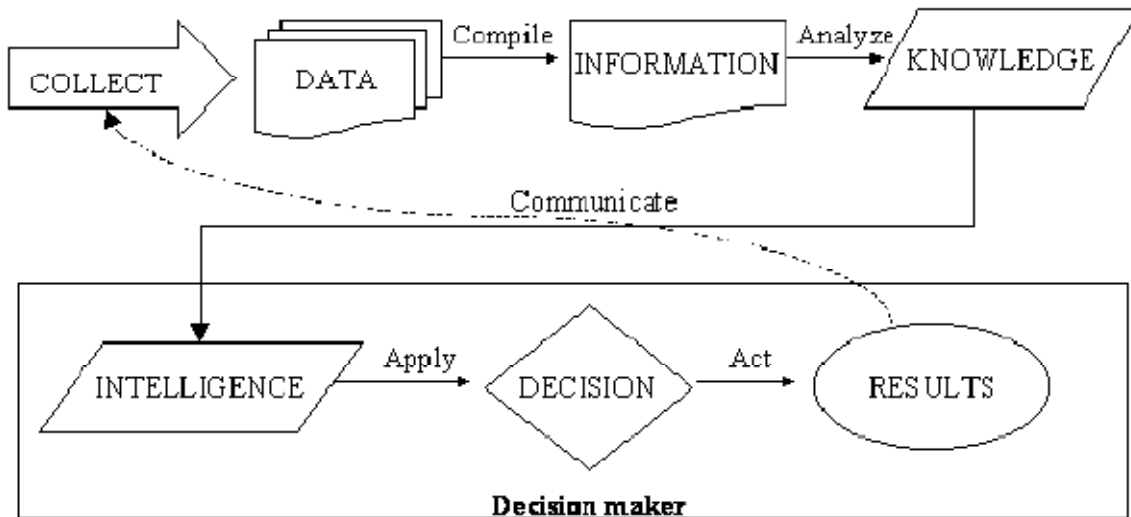
A formalized competitive intelligence program can:

- Anticipate changes in the marketplace.
- Anticipate actions of competitors.
- Discover new or potential competitors.
- Learn from the successes and failures of others.
- Increase the range and quality of acquisition targets.
- Learn about new technologies, products and processes that affect your business.
- -Learn about political, legislative or regulatory changes that can affect your business.
- -Enter new businesses.
- -Look at your own business practices with an open mind.
- -Help implement the latest management tool's⁴

1.5 The CI process :

we can explain the CI process through the next figure

Figure 1 : the CI process



1- Source : The competitive intelligence process and how to locate informations/ San Diego Association of Law Librarians San Diego, California November 2, 2001/⁵

Figure 1 shows the CI process and how it is related to both business intelligence (BI) and knowledge management (KM). Business intelligence is used to find and analyze data about the firm from its various data sources and repositories. That data is mostly internal and about firm operations. Knowledge management involves collecting, codifying, and disseminating the intellectual capital of the firm. Knowledge is both explicit (e.g., facts you can record such as a competitor’s reported revenue) and tacit, but only explicit knowledge can be dealt with routinely in knowledge management.

BI and KM (see the first three steps in Figure 1) are both inputs to competitive intelligence. Competitive intelligence adds collecting and analyzing external data, selecting knowledge, and then communicating it to decision makers. The decision makers, in turn, act and observe the results.

Figure 1 does not show the feedback that can occur along the way, such as decision makers going back to the CI analysts to obtain more data or more knowledge.

2- CI in China:

2.1:Institutional and Historical Context:

China has long practiced what Westerners call economic intelligence (EI). Chinese leaders have considered intelligence as a useful means of helping the country to overcome its relative isolation from other economic and global trading systems . China established the Scientific and Technical Information System (STIS) under the National Science and Technology Commission in 1956, one year before Japan adopted a similar group called the JICST . STIS provides intelligence for national science and technology (S&T) research, engineering projects, and long-term planning. Circa the year 2000, STIS had over 80,000 employees in institutes as well as cells or information stations spread across the country. On the EI front, China established its economic information

system (EIS) under the National Planning Commission in 1986, employing over 10,000 staff members by the end of the 1990s. Its major role has been to provide economic analysis and forecast support for government agencies. These two efforts have provided extensive foundations for subsequent Chinese CI-related development and actually provide much of the context for contemporary Chinese CI activity.

Before 1980 and the onset of Deng Xiaoping's economic reforms, there would have been little need for CI in what was then a centrally planned economy. The distribution and production of goods was tightly planned and controlled by the government. Competition did not take place among state-owned enterprises (SOEs). Politically appointed managers of these organizations exhibited behaviors such as:

- extensive bargaining between themselves and the government;
- little concern for efficiency due to the "soft budget constraints" and
- general disregard for knowledge about concepts such as accounting, competitive strategy, customers, finance, markets, or strategic planning

At this time, most SOE managers had inappropriate, or no, managerial backgrounds or expertise, minimal business/management education, and little motivation to demonstrate successful managerial performance . SOEs also typically lacked the scale of financial resources necessary to compete in a marketbased global economy. This was a key reason compelling them to develop network based strategies, building on strategic alliances based on *guanxi* and a system of relationships cultivated by their managers . The last 20 years have seen the Communist government reduce economic controls, as evidenced by the introduction of market-based reforms, the decline of centralized decision making, and a measured integration with the global economy . To the present day, China still has an institutional environment that has the characteristics of a political framework of Communist control and heavy government influence. This has apparently been loosening in recent years, although in the context of less developed information infrastructure and strategic markets, the relative absence of property rights-based legal frameworks, and enduring structural imprints from the former planned economy .As first expressed by Frankenstein , there are several other key changes occurring that will greatly impact the future development of Chinese management and organizations, including:

- The economic influence of nonstate managers and enterprises has been steadily increasing.
- The *guanxi* that for so long characterized the Chinese business system is rapidly being replaced by more Westernized facets of transparent rules and regulations. Somewhat surprisingly, the implications of *guanxi* practice are also now being questioned .
- Economic vision is moving away from Stalinist command and control models toward market-oriented ones .

These changes may well be among the key reasons for China's GDP showing the remarkable increases it has since 1978. Change and modernization are prominent on the Chinese organizational horizon. China was admitted to the World Trade Organization (WTO) in December 2001, ending an approximately 15-year period of a protracted admissions process (EIU, 2008a).

In the last 10–15 years, Chinese SOEs have come under increased pressure to be more effective competitors for several reasons. First, the government has been displeased with their mediocre performance and has gradually relinquished its financial responsibility, thus creating pressure for SOE managers to perform well on an economic basis. Second, local firms are being pressured by an increasing number of experienced foreign firms (known as "foreign invested enterprises" [FIEs]) that have penetrated their formerly protected markets. Third, a new class of private and collective firms, more entrepreneurial than their SOE counterparts, has been allowed by the government to flourish . In the past decade or so, there has been political recognition that SOEs must become aggressive and smart competitors if China is to achieve the economic prosperity it

seeks , and this is one reason why China is taking on more of a “mixed ownership” economy (EIU, 2008a).

The Chinese generally believe that good relations with the government and public officials, at multiple levels, are important for commercial success . Many commercial decisions are still made based on primarily political, not necessarily economic, criteria.

This is often termed as the “socialist market economy,” where decisions are heavily influenced by Chinese political officials (EIU, 2008a). Local governments act not only as regulatory authorities, but also as market participants . Groves, Hong, McMillan, and Naughton and Lu found that key resources are frequently controlled and administrative hierarchies strengthened by political power. Some economic sectors remain mostly or totally closed to outsiders/foreigners, although these are lessening at an increasingly rapid pace (EIU, 2008a). China’s entry to the WTO in December 2001 has been viewed as accelerating the country’s progress toward standardizing its commercial operating practices with its largest global competitors (EIU, 2008a). It has also provided a formidable impetus for the growth of Chinese CI practice and understanding ⁶

2-2: Chinese CI Management and Practice :

China has been steadily progressing toward a free market economy and shedding the planned economy of its past (EIU, 2008a). This has led to a number of initiatives from within and outside China to introduce CI to the Chinese.

Among these initiatives have been:

- numerous visits by Society of Competitive Intelligence Professionals (SCIP) dignitaries;
- national and regional conferences on CI (Society of Competitive Intelligence in China [SCIC], 2008);
- the establishment of the Society of Competitive Intelligence in China aimed at the scientific and academic community (SCIC, 2008); systematic research on Chinese CI initiatives by the Shanghai Scientific and Technical Information Research Institute; and
- growth in CI scholarship and course development among Chinese universities, including recent translations of popular Western CI books .

The growth in Chinese CI was rapid in the 1990s. This is demonstrated by SCIC, which by the mid- to late 1990s already had over 100 organizational members, over 350 individual members, half a dozen departments, regular conferences, publications, and a Beijing-based administrative office (Changhuo et al., 1998). The new millennium appears to have continued this growth pattern. The SCIC Web site tells us that CI in China has been growing since 2003, and that more than 15,000 senior managers and CI practitioners have been trained. In addition, between 2003 and 2006, 150 Chinese firms invested in CI software, all purchased through local suppliers. The forecast is that by 2010, Chinese companies will represent a significant demand for CI software licenses, equating to a market value of approximately 250–500 million RMB (SCIC, 2008). Only a few empirical studies have been conducted on Chinese CI practice, the most notable of which would most likely be the three-phased research project conducted by Tao and Prescott (2000) of over 150 SCIC members. Although this study was completed some eight years ago, it still provides the richest source of evidence on the evolution and understanding to date of the status CI in China. Tao and Prescott (2000) summarized the differences they identified between Chinese and US CI practitioners, an adaptation of which is provided in Table 2. The quality of information that exists in China has, however, long been suspect (EIU, 2008a) by Westerners. Lasserre (1993) suggested that both data/information quality and accessibility was below the Asian average, which in turn, was

below Western standards. Nevertheless, it is progressing rapidly, so much so that in 2007, China passed the United States in terms of becoming the world's largest broadband market (EIU, 2008a). Managers' use of the Internet and World Wide Web for information gathering is still perceived to lag the West on a per-capita basis, but recent attempts to develop Chinese CI systems using the Internet have been gaining ground. At the time of this writing, there are still relatively few Chinese CI consultancies, although there is a growing demand for Western-based information services. Several business consultancies have seen this and established bases in China (SCIC, 2008; SCIP, 2008).

Zhang (2008) also reports on an empirical study on the status of enterprise-based competitive intelligence in China. The investigation comprised 415 firms, and 28 CI experts were interviewed. The findings were illuminating:

- More than 60% of the large-scale enterprises in the sample were aware of CI.
- For the sample as a whole, around 31% were aware of CI, of which 48.7% regarded it to be a very important activity, with 35% saying it was somewhat important, giving a total of 83.7%.
- For those enterprises that had not established a CI capability, 26% expressed a desire to do so. The main obstacle cited as being responsible for restricting further CI development was said to be the lack of CI experts. Given the development of the educational course in CI in China, the increasing interest shown by the Chinese government in the practice of CI, and the injection of expertise from the United States and Europe (particularly France), China would seem to be uniquely placed to take its CI expertise to the next level. From this, and other evidence previously presented, it can safely be assumed that Chinese managers have not only begun to recognize the benefit of CI to their firms, but are actively trying to satisfy the thirst for more knowledge about its tools, standards, and practices.

Table 2 Comparison of U.S. and Chinese CI Practice and Practitioners

	United states	China
Size of CI unit	Larger: Average 6 persons	Smaller: Average between 1 and 3 persons
Personnel characteristics	Spends over half their time on CI responsibilities over four years experience Higher degrees (many have master's degrees) Average salary compared with other staff managers	Spends about a third of their total time on CI Less average years of experience Less university education (most just have bachelors) Very low salaries vs. U.S. CI managers
Products and services	Range of coverage High public source usage (secondary source; internet) Use more sophisticated analysis and techniques	Technologically oriented
Strategic focus	Perspective: enlarge decisions makers perspectives	Operational: avoid surprises and identity opportunities

Source: adapted from Tao and Prescolts (2000)

3.2 CI practices in enterprises(the OTC industry)

1.3.2 Background :

In the 1980s and 1990s, with the coming of new Chinese economic reforms and the opening up of the country's economy - especially the transfer from planned economy to market economy – the Chinese government asked enterprises to take part in more market competition in China and abroad. Chinese enterprises had to depend more on themselves to survive and develop. This caused an increase in competition and meant they had to become more self-aware. This made Chinese enterprises become more focused on information collection and analysis for market intelligence and competitor intelligence. Many foreign companies such as IBM and SONY entered the Chinese market, bringing their own concepts of CI practices into China. At the same time academic organizations with their information institutions and the government encouraged Chinese enterprises to meet this challenge

2.3.2: CI practices in Chinese enterprises:

In 1999 Prof. Xie and his students systematically surveyed the situation of CI practices among Chinese enterprises. Based on their surveys, they divided the level of Chinese CI application into:

- Having no CI workflow and network;
- being in the process of constructing and forming;
- having a regularized CI organization and network; and
- having a CI workflow institutionalized and having world-wide CI networks.

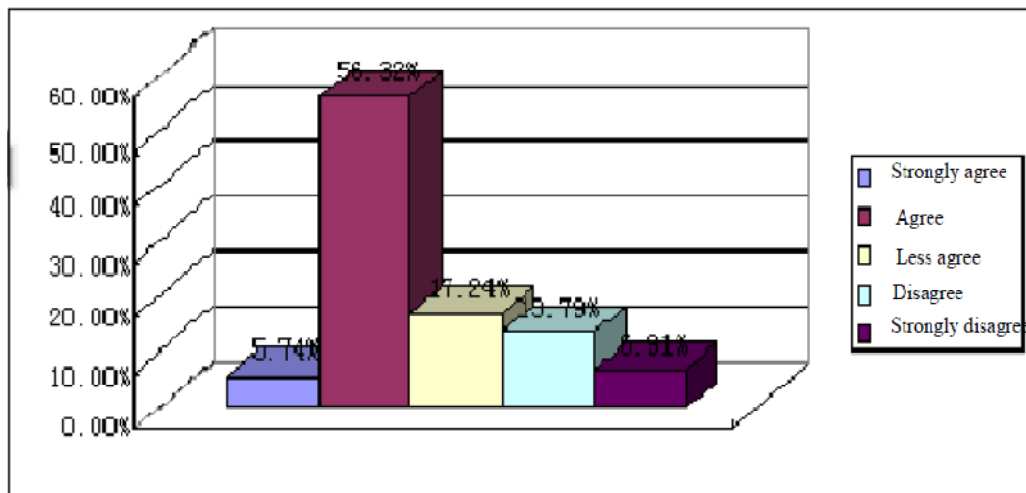
The nationwide questionnaire survey done in 1999 shows the development level of CI in Chinese enterprises (figure 7). From the figure we see that most companies, 53.47%, found themselves at level [2]. 27.78% of the companies found themselves at level [1], 18.75% at level [3] and none at level [4]. This data suggests that by 1999 most Chinese enterprises were in the forming status. The level of CI was not high. With the rapid development of IT and the enhancement of enterprises' “informationalization”, acquiring information was now easier than in the past. On the other hand the information explosion made enterprises decision-making more difficult.

After about ten years (2009), we visited and re-investigated 93 companies with 87 valid questionnaires. The situations of industrial and regional distribution of CI implementation can be seen in figures 8-10. Due to limited time, the regional distribution of the companies involved in the survey was insufficient. The samples are mainly limited to Beijing and Shanghai. Beijing and Shanghai have the most companies among Chinese cities, and they are more developed economically than other Chinese cities so far.

Respondents were mostly managers or CI staff in the companies. In order to grasp the basic situation of CI in their companies and to make sure that the respondents completely understood what CI is (what was measured), we explained the subject before they answered our questionnaire. We also made a survey about the degree of attention these companies pay to CI by asking the respondents:

According to your own experience, do you think CI is indispensable before you make important decisions? (You can pick answer “strongly agree”, “agree”, “less agree”, “disagree” or “strongly disagree”).

Figure 2: Chinese enterprises attitude toward CI



Source :Journal of intelligence studies in Business(2011)/the evolution of CI intelligence in China p 71

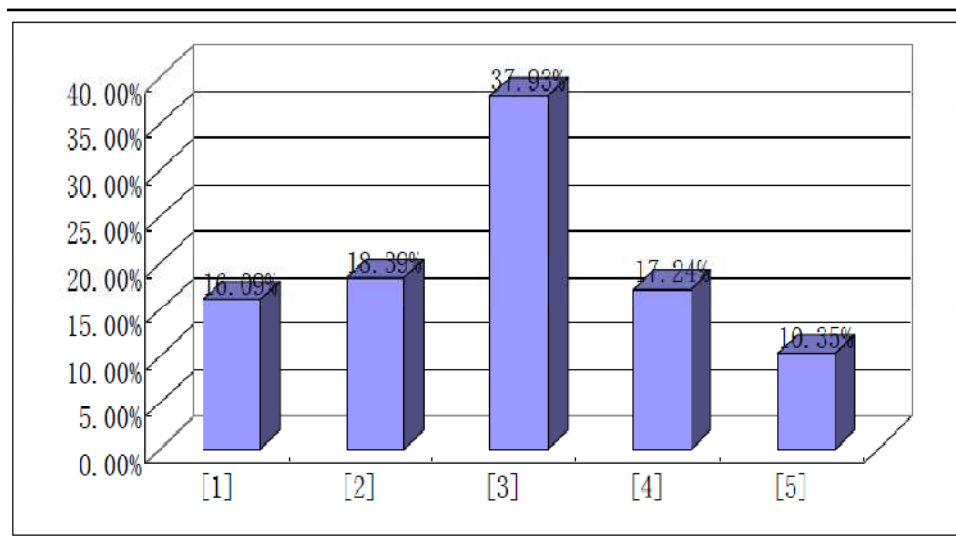
The results are seen in Figure 11. In China many companies thought CI was equal to market investigation. For that reason CI was often undertaken by the market or sales department in their company (Xie et al., 2001). From figure 8 we find that the awareness of CI has improved and the percent that thinks CI is indispensable for decision-making account for more than half of those surveyed (strongly agree is 5.74%, agree 56.22%).

On the basis of previous divisions of CI involvement, we divided the development level of CI into:

- no CI work at all;
- having CI work, but no CI department;
- formal CI department and network being planned;
- having formal CI department and network;
- CI institutionalized.

According to the survey we found that more than half of the Chinese companies dealt with CI. The sum of the levels of [1], [2] and [3]

Figure 3 :CI development level in Chinese enterprises in 2009



Source :Journal of intelligence studies in Business(2011)⁷

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According to the survey we found that more than half of the Chinese companies dealt with CI. The sum of the levels of [1], [2] and [3] accounted for 65.52% (10.95%+17.24%+37.93%), but most companies are in the position of forming or about to form formal CI functions ([3] accounted for 17.93%). Comparing this with the survey from 1999 we see that the level of CI practice in China has made significant progress. But overall the level of CI practice in China is still not very high and it has still not matured. 16.09% of Chinese companies were completely unfamiliar with the CI function.

3.3.2: The impact of the Competitive intelligence on emerging “OTC” markets :

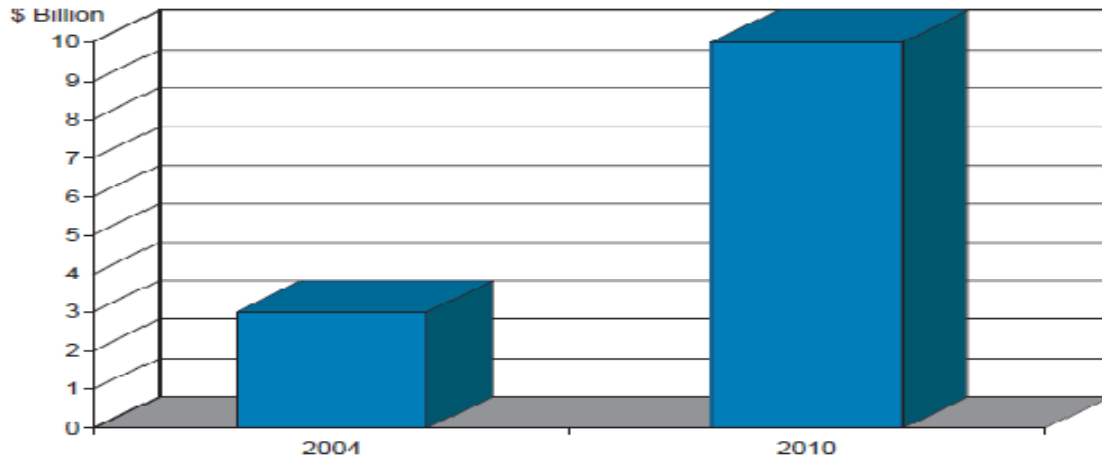
The OTC industry in China is valued at US\$3 billion in 2004 (RMB 24 billion) and is forecast to reach over US\$10 billion (RMB 80 billion) by 2010, as shown in Figure 1. Most major multinational corporations are already present in the Chinese OTC market and are working with local companies to take hold of this burgeoning marketplace. Along with vast opportunities presented by a huge, aging population with increasing disposable income, there are major challenges to marketing OTCs in China. OTCs must compete with traditional Chinese medicines (TCMs), which are often the preferred first-line therapy by Chinese consumers, as shown in Figure2.

Retail channels that sell OTCs in China are highly fragmented, and the choice of which wholesalers and retailers will sell these products is critical to the success of OTC brands. There are nearly 150,000 outlets that sell OTCs and more than 15,000 wholesalers who distribute the products across the country.

Chain drug stores are rapidly expanding their presence as an important retail outlet for OTCs and related products. In 2003, several discount drug stores emerged as retail channels important to OTCs, where "economical" and "fair" prices are offered at as much as 45% below other channels. See Table 1 for a list of the largest chain drug stores ranked by sales in China.

China's consumers are being encouraged to self-medicate with OTCs, and more consumer advertising, promotions and education will help foster increased OTC trial. The State Food & Drug Administration (SFDA) has removed many OTCs from official reimbursement lists in China, thereby encouraging market pricing and a more open market for OTCs.

Marketing OTCs in China is a complex process, as indicated in Figure 3. The challenges and opportunities of this vast and rapidly growing marketplace will be addressed through this research study.⁸

Figure 4 : sales of nonprescription Drugs in China,2004 and 2010

Source: Competitive Intelligence in Emerging OTC Markets:⁹

Table 2 : Top 10 chain drug stores,2004

Drug store	Totale sales(RMB millions-a)
Hunan Laobaixing	1.820
Liaoning Chengdafangyuan	1.260
Hubel Tongjitang	1.150
Shenshen Halwangxingchen	1.015
Chongqing Tongjunge	882
Shanghai Huashi	751
Jiangxi Kaixinren	87
Chongqing Heping	78
Haerbin Renmintongtai	60
Shenzhen Zhonglian	58
A-for all products sold	

Source: Competitive Intelligence in Emerging OTC Markets:
China(<http://www.klinegroup.com/reports/brochures/y625/brochure.pdf>)

Conclusion:

Competitive intelligence is not market research, nor it is industrial espionage, it is a completely legal and increasingly essential element in the formulation of corporate competitive strategy which provides the decision-makers with invaluable insight into the competitor's capabilities and intention. It serves as an early warning of future events, which may have an impact on company performance.

The role of competitive intelligence is to support management in the decision-making process. CI, when done ethically, is the process of ensuring marketplace competitiveness through legal means. It requires understanding both the overall external competitive environment and individual competitors. It also involves protecting your own firm against your competitor's CI. In performing CI, you can use whatever you find in the public domain, your own internal data, purchased data, and analyses.

China is in a state of transition, impacting its management and organizational practices across a myriad of fields. CI in China is still relatively embryonic and patchy compared with its practice

in some other nation-states, but its practice is growing rapidly and gaining capability at an accelerated pace. Major strides have recently been made in institutionalizing CI among various sectors such as academe, government, and management, but there still has to be further growth in the development of CI infrastructural items such as CI education, leadership, management processes, business systems, technology, and training. In general, China still has a long way to go until it reaches Western levels of CI development, outputs, and outcomes, but there should be little doubt, based on the growing Chinese interest and activity in the field, that it is moving forward quickly.

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