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WE NEVER EXPECTED THAT

A COMPARATIVE STUDY OF FAILURES IN NATIONAL AND BUSINESS INTELLIGENCE

Chapter 3

Intelligence Failures in Business

The research literature on business has dealt with competition between companies, and globalization has made competition more dynamic (Chan Kim & Mauborgne 2007; Grant 2005). Business strategy literature, which has dealt with the early identification of the intentions of the competition (Fellman & Post 2010) and of the main measures taken by competitors and their strategies, targets, strengths, and weaknesses, as well as marketing trends (Hughes et al. 2013), notes that they all have been critical for a company's success. A study done of 800 organizations showed that the most important factor for the success of a company is recognition of customer demands and the measures taken by competitors (Nunes & Breene 2011). The importance of monitoring the external environment has been very important because of the rapid development of technology (Grant 2005, 507-508). It has been impossible to win a strategic competition without having had a familiarity with the competitors, receiving warning of threats (Henderson 1981) and an analysis of the information regarding the competitive environment (Benssousan & Fleisher 2008, 19, 23-24; Chernev & Kotler 2012, 67-70) As in national intelligence, in business there have been diffused surprises, and often the causes have been a combination of factors: for example, when it has been a case of measures taken by the competition (a concentrated surprise) and the conduct of customers or changes in the competitive environment, such as technological changes (a diffused surprise).

Research into intelligence failures in business has found it hard to isolate the factors in the competitive environment causing intelligence failures; it also has not distinguished between the types of failures. The research has analyzed the types of failures, and financial, organizational, and psychological factors have been examined, as have the relations between workers and management. In addition, research has examined the failing measures in the competitive environment that have been based on a great deal of information, and which have increased since the technical revolution. Generally speaking, not enough advanced research has been done into the issue of intelligence failure as a central cause of business failure, usually because of insufficient awareness. Sometimes a comparison of successful companies and failing companies shows that the latter had not correctly read the competitive map. Competitive intelligence has attempted to improve its capabilities in both types of surprises at the same time, despite the fact that the concepts and methods used in this book have been unknown to them. That is, they have not known about preventing concentrated surprises, by using the methodology of business management and national intelligence, and also using analyses of the customers' needs and expectations, which is in the field of preventing diffused surprises.

THE PLACE OF INTELLIGENCE IN BUSINESS FAILURES

Most of the research into intelligence failure and the study of concentrated surprises has dealt with concentrated surprises that had occurred following measures taken by competitors that had led to their gaining significant advantages. Intelligence failure has been a significant surprise for a business (Porter 2000, 79-97) and it has stemmed from an incorrect assessment of the competitive environment and its risks; it has caused financial damage and commercial difficulties (Chussil 2005, 26-33; Feder 2001; Kaplan & Mikes 2012). Such a failure usually has been implicit in information about business failures and has been difficult to isolate. It has been expected that companies would identify threats in time (Horn et al. 2005). Known intelligence failures have occurred in companies such as Motorola, Xerox, Nortel Networks, Lucent, Johnson & Johnson, IBM, Kodak, Polaroid, Compaq, Mattel, Swissair, Levi Strauss & Co., and Barco Medical Displays, as well as in the American automotive industry.

Tsitoura and Stephens (2012) discuss failures in competitive intelligence as errors in one of the stages of the intelligence cycle, which could have caused financial loss or the loss of a commercial opportunity. They focus on errors in intelligence activity in companies and less on the use of intelligence made by the decision makers. In their opinion, business intelligence failure, similar to national intelligence failure, can occur when a company lacks an intelligence unit and when the company fails to identify threats and has not sufficiently prepared itself to make changes.

Several researchers (Day & Reibstein 1997, 1-18; Montgomery, Moore & Urbany 2005) relate the aforementioned failures to the functioning of company directors and to employees who do not support intelligence activity, while others (Evangelista 2005; Gilad 1998; Straus & du Toit 2010) add the lack of communication between intelligence and senior management. Most of the research deals with concentrated surprises.

The discipline of business intelligence has been based on the intelligence cycle of national intelligence (Fuld 1995; Herring 2008; Miller 2007; Waters 2010). The definition of key intelligence topic, which has been the first stage of the intelligence cycle, has been integrated into the discipline (Herring 1999; McGonagle & Vella 1999). Researchers have highlighted the need for an intelligence base in business to help businesses succeed and to prevent surprises in their organizational activity, but they have noted the difficulties in implementation, which apparently have arisen from the lack of management's familiarity with the discipline of intelligence and with psychological and organizational failures (Hedin et al. 2011).

At the beginning of the millennium, competitive intelligence became formalized, as a discipline, and now has collaborated with market research, focusing more on strategy. Especially in the field of preventing surprises, competitive intelligence has become more valuable to management (Gainor & Bouthillier 2014).

Despite the great amount of academic information about intelligence failures in business, studies have found it difficult to isolate the influence of factors in the competitive environment, for which intelligence has been responsible, from other business factors operating within the company. The research has dealt with analyzing company failures relating mainly to factors noted above. Competitive intelligence has attempted to prevent both types of surprise: concentrated surprise, by using the methods of business management and national intelligence, and diffused surprise, by analyzing customers and their expectations.

FACTORS FOR INTELLIGENCE FAILURES IN BUSINESS

Collection Capabilities

In business, only open-source information has been collected and dealt with. The information revolution has enabled easier and more rapid access to information, mainly through the Internet. Automatic tools also have been available, such as alerts, allowing the user direct access to new information, according to key intelligence topics. Extensive use of the Internet has made it possible for companies to improve the surveillance of competitors and to focus on those that have been relevant (Baum & Korn 1996). Of seventeen parameters examined, competitive intelligence was in second place for influencing the effectiveness of a company (Nelson et al. 2008). The focus has been on preventing a concentrated surprise, but since the social media explosion, the possibility of preventing a diffused surprise has improved, although it still has been difficult because of the large number of factors that have to be monitored.

Using Key Intelligence Topics to Focus Collection

In the digital world, there has been no lack of information. The problems have been collecting it, according to the current key intelligence topic (the first stage of the intelligence cycle) and recognizing changes in the business environment, in order to be alerted to and to identify threats. Mistakes, which sometimes have occurred, later, as a result in having hit blind spots, generally have not been the result of lack of skill in monitoring the external environment, but rather of not having focused correctly on important subjects (Gilad 1998; Holtzman 2005; Zajac & Bazerman 1991).

Skill in Recognizing Indicators

Indicators have been the product of focused intelligence collection. The intelligence failure generally has not taken place because of lack of monitoring of the competition, but of not having identified indicators in time and of the failure of the decision makers to act appropriately (Finkelstein 2004; Gilad, 1989, 2004).

A Noisy Information Environment

A company collects information from a large number of varied sources. Most of the information has come from external sources and less from internal sources, which have included employees, and has been of higher quality. The first challenge of the intelligence analyst has been to classify, synchronize, absorb, and distribute the information according to the intelligence cycle, which also has been used in business (Wilson 2008). The correct organization of information has been very important (Kahaner 1996, 94; Porter 1991, 83). It also is important to distinguish between signals (which can be significant), and noise (which is not), as mistakes can be critical.

Other reasons for intelligence failures have been lack of attention paid to important information, because of the volume of data received, lack of resources, the difficulty in distinguishing between misinformation and disinformation, and the need to focus on new, relevant information even if it has been contradictory or at odds with information that the organization already possesses. Advanced information systems tools can be used, which have helped treat the information. Greater awareness has been needed on the part of intelligence analysts and managers, both in preventing a concentrated surprise, generally from competitors, and in preventing a concentrated surprise, generally from many customers. Intelligence analysts and managers also have needed to be open to receiving support from tools from various fields, to prevent surprises.

Failure Caused by Human Error

Mistakes in assessment in a competitive environment have been caused when intelligence analysts and management have relied too closely on existing assessments and have ignored new information, even though they have had advanced tools for identification and analysis and capabilities from external research factors. Despite the progress made in information sharing within an organization, wrong analyses have been made and companies have not been prepared or have not reacted in time to threats in the sales environment. As mentioned above, attention paid to preventing concentrated surprises needs to be the same as that paid to preventing diffused surprises, and the analysis is carried out as a combination of the two.

Cooperation between Intelligence Analysts and Managers

In the era of the information revolution, managers have been regarded as being responsible for information in the organization (Mintzberg 2009), but that has yet to be absorbed. The result has been a lack of identifying of the intentions of competitors and of changes in the competitive environment (Amit et al. 1988, 431-442; Dishman & Calof 2008; Fleisher & Wright 2010, 717-730; Montgomery & Weinberg 1979; Zajac & Bazerman 1991).

Failures Caused by Bounded Awareness

Intelligence failures have not been sudden occurrences. They have been processes that have developed over time (Barnea 2010). Bazerman and Chugh (2002, 88-97) relate to the bounded awareness of management to threats as an important factor in a company's intelligence failure. Intelligence has to help management see beyond its bounded awareness. There has been a difficulty in absorbing and processing new information, which has caused vulnerability to surprises (Bazerman & Watkins, 2003, 2004, 153-224).

Ignoring Competitors or Incorrect Assessment of Their Capabilities and Intentions

Another explanation for failures has been ignoring competitors, and blame for that has belonged to executives who have disregarded them. Kahneman argues that the competition is not consciously ignored, but that cognitive biases play an important role in the process (Kahneman 2013, 290-291).

Cognitive biases and group thinking have raised the question of how critical information can be brought to the attention of people making decisions, when there are political and internal organizational difficulties (Fahey 1998). Sometimes, intelligence failures have been caused when competitors have been ignored or there has been an incorrect assessment of their capabilities and intentions (Montgomery et al. 2005).

Additional Biases and Cognitive Failures

A study done of about 1,000 investment companies showed that a decrease in the information of bias in decision-making improved business results (Lovallo & Sibony 2010). Collins investigated 60 model companies, whose financial performance had been weakened, and noted that one of the five reasons for the fall of the companies was their denial of danger and incorrect deployment in the face of the threat (Collins 2009).

Organizational Difficulties and Faulty Collaboration

One role of intelligence in a company has been to provide management with updated information. Management has needed to interpret a sudden move made by a competitor; it has had to know about competitors' strengths and weaknesses; and, when the company has been weighing a move, management has needed to discuss what the competitor's expected response would be (Cotler & Hornik 2000, 271). According to the Arthur D. Little consulting firm, intelligence management improves the decision-making process and leads to better performance (Johansson et al. 2010). While a company's need for an intelligence unit and its methodical activity have been understood, implementation sometimes has been faulty. To overcome difficulties in dealing with information and to formulate an intelligence picture, experts employed by the company have had to collaborate with external factors specialists. The existence of a designated intelligence unit has increased the chance of preventing both concentrated and diffused surprises, since the unit will integrate the information.

Implementing Intelligence in Business Faces Organizational Problems: The Need for a Dedicated Intelligence Unit

According to Fuld (2013) and Prescott (2001), a company's intelligence unit has to identify threats, and Herring (1990) claims that the number one role of a company's head of intelligence is to create actionable intelligence which is responsible and unbiased. However, Fahey, Gilad, and Reger note that it is sufficient to develop the awareness of management; there is no need for a specific intelligence function, as that is the role of everyone in the company (Fahey 1998; Gilad 2004, 129; Reger 1990).

Exploiting Information about the Competitive Environment around an Organization

In business, there is a unique situation in which company employees have important information about the competitive environment, which they receive from outside sources, such as suppliers, clients, competitors, and business partners. Drucker (1993 42) calls it the only meaningful resource. Such information must reach the intelligence analysts and decision makers of the company (Calof 2008, 39-42; Moran 2005). Problems of internal cooperation in organizations make it difficult to understand the external environment (Fleisher & Wright, 2010).

Organizing Intelligence Analysis in a Company

As opposed to national intelligence, in a business the intelligence unit is usually a small unit in the organization. Its role is not to issue an alert but rather to create a situation in which management gives the organization the attention it deserves (McMullen et al. 2009). Lower management has to be exposed to information, especially to threats, and must pass the information along to upper management (Pascale 1984), according to Andrew Grove, former CEO and Chairman of Intel Corporation (Grove 1996).

Giving Accessibility to Information to Many Individuals in an Organization

In the business sector, internal information sharing has been developed, which has been the primary tool for improving the company's capabilities. In organizations where a great deal of information has been amassed, tools should be developed that will enable many employees to access information and use it with the information-sharing tool (Nonaka 1991), known as knowledge management.

Relations between Intelligence and the Decision Makers

In companies, the issue of intelligence usually has not been at the core of their activities, as it has been in national intelligence. The competitive intelligence units usually have been small and have not had interactions with senior management, to the detriment of both sides. Intelligence has received neither instructions nor feedback, and management has not made the best use of the intelligence that it has received. Intelligence has not received the importance it should have, and management has been able to ignore alerts, especially when they have been ambiguous. Management can only be concerned about threats to their business if they are aware that there are concentrated and diffused surprises. The tendency to be concerned about intelligence work has come into play when management has defined its needs.

Grove (1996) discusses the problem and suggests to senior executives to maintain contact with middle management, who receive competitive information from subordinates, who are also more objective. Others, including Weick and Sutcliffe (2001) and Calof and Wright (2008), support that position.

The tendency of management not to have delved deeply into intelligence analysis also has been manifested by the fact that managers have not customarily defined their intelligence needs, which has made it difficult for the intelligence unit to function. Coyne and Horn (2009) explain management's dismissal of information about the measures taken by competitors, by saying that this dismissal is the result of norms, biases, and patterns of behavior characteristic of company directors, leading to intelligence failures.

Examples of Surprises According to Environment and Type in the Business-Economy Field

Concentrated surprises: the collapse of Kodak, the fall of IBM (1993); the fall of Levi Strauss (1996); the appearance of Ford Model T vehicles (1908), the collapse of Compaq (2001); the launch of the DVD by Sony (1997); the launching of the LCD monitor by Hitachi and NEC (2005); the Swiss Air's declaration of bankruptcy (2002); Hoover vacuum cleaner lost its global leadership (2005); the collapse of Blockbuster (2010); the ending of Digital Equipment Corporation (DEC) activities (1998); the loss of the Barbie Doll market to Bratz (2001); the entrance of Japanese cars into the American market (1970s); the fall of Crown Cork and Seal (the world's largest manufacturer of food packaging: 2002)), the launch of the iPhone (2007); the collapse of Nortel Networks (2009); the collapse of Nokia (2011); the collapse of Netscape (2003).

Diffused surprises: the 2008 financial crisis; the failure of New Coke to enter the market (1985); the Great Depression of 1929–1939; the failure of the Daimler-Chrysler merger (2007); Polaroid's declaration of bankruptcy (2001); the fall of Novell (1999); the collapse of Palm (makers of the Palm Pilot) (2009); the fall of Lego (2003); the fall of Blackberry (2012); the end of the *Encyclopedia Britannica* (2012); the closing of the Iridium telephone project (2000); the collapse of Gateway Computers (2007).