# Empirical Study of Competitive Intelligence Practice: Evidence from UK Retail Banking

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# Empirical Study of Competitive Intelligence Practice:
## Evidence from UK Retail Banking

**Abstract**

This paper presents the findings of an empirical study of the major UK retail banks, the purpose of which was to investigate, not only how they operate their competitive intelligence gathering activities, but the degree to which they "buy-in" to the information sharing attitude. The findings were applied to a best practice model which provides a clear picture of the current status of CI in these establishments and the attitudes of senior managers toward such activity. Recommendations are made on the improvements which would be required for the sector to be considered effective and efficient operators of CI practice.

# Empirical Study of Competitive Intelligence Practice: Evidence from UK Retail Banking

## Introduction

Few can doubt the increased significance of competitive threats which companies face in today's highly complex and dynamic environment. Consequently, in order to create and maintain advantage, firms must monitor a competitor's mission, vision, goals, plans, operations, products, services, new products, new services, pricing, revenues, decision-making, their decision makers, financial statements, financial situation, markets and suppliers. In such an environment Competitive Intelligence (CI) has become a valuable tool in providing a framework for the gathering, analysis and dissemination of this effort.

## The CI Process Model and its Limitations

There are a number of CI models currently utilized by companies in an effort to organise their CI activities (Kahaner, 1996; Wright & Roy, 1999; Fitzpatrick & Burke, 2003). These range from a process driven approach, typically referred to as the "Intelligence Cycle" (Miller 2007) to an all encompassing, total firm, network type process as proposed by Bertacchini & Dou (2001), April (2002), Wright & Calof (2006). All CI process models though, will include one or more of the accepted generic "steps" of planning, collection, analysis, dissemination and feedback yet, as with the lack of an agreed definition for CI activity, there is no recognised 'definitive' CI process model which applies to all organisations or all situations. These models also have a distinct disadvantage and naivety in depicting CI as a sequential process with each phase following seamlessly from one to the other, with no apparent intervention or iteration. In reality, this rarely happens, as all activities tend to take place simultaneously, or haphazardly, as the situation demands. McGonagle (2007) produced a thought provoking analysis of the various process models which have been offered since the 1980's and concluded that the "classic CI cycle model" no longer serves practitioner needs, or pays attention to, the dynamic rapidly evolving environment within which most of them operate. In short, it doesn't work any more.

There is however, agreement that the CI process is not just a function in the firm, rather it is an attitude towards organisational learning, information sharing, a co-operation driven management culture and a desire by decision makers to capitalise on gathered intelligence (Wright & Calof 2006). All of this needs an appropriate structure, which enlightened firms recognise as being worthy of support (APQC, 1998, APQC, 2000, APQC, 2003).

## CI in the Banking Sector

As reported some 10 years ago, by Cetorelli (1999), in her analysis of competition in the US banking sector, it is recognised that banks are employing some aspects of CI practice in order to answer the pressing need for increasing, and increasingly relevant, information about their competitive environment, competitor insight and competitors. Banks are also using CI to assess strategic opportunities by locating in areas with the desired demographic and economic attributes, identifying appropriate firms with which to partner, joint venture or merge, all in an effort to gain a foothold in those areas (Vella and McGonagle, 1986).

Three short, practitioner articles were written in the late 80s/early-mid 90s which "teased" the banking sector with the notion of CI (Myers, 1993, McHugh, 1986, Landau, 1995, Boucher, 1996), with one more recent white paper type piece by Bernstel (2004). This latter article looked at the more macro subject of sizing up the competition in the banking sector but also puts forward the case for the value of CI in the context of two short case studies.

Journal articles which were published in the mid-late 80s were MacMillan *et al* (1985) which focused on competitors' responses to new products in the commercial banking sector, using the case study approach, Kenneth & Wong (1988) who produced competitive marketing profiles of differing financial services structures in the US, and Pottruck (1988) who reminded the banking community that they should be using their information as strategic weapons. In the 1990s, Kitchen & Dawes (1995) looked at MIS in small building societies and Ruíz (1998) presented first, a strategic group analysis of Spanish savings banks. Ruíz (1999) followed this with a dynamic analysis of competition in marketing, using strategic groups in Spanish banking as the focal point. Virgoana & Purusitawati (1998) also presented a discursive paper which linked the terms "technology watch" and CI in the banking sector, but incorrectly termed this as "benchmarking".

In the past 10 years there has been a shift towards understanding what drives competition in the sector. At one end of the spectrum, Laeven & Claessens (2003) addressed what drives competition and Shaffer (2004) presented an analysis of patterns of competitive behaviour. At the other end of the spectrum, Lymperopoulos & Chaniotakis (2005) published work on using the internet as an MIS tool in Greek bank branches and Ali & Ahmad (2006) offered a theoretical "Banking Knowledge Management Model" which was subsequently applied to case studies of two Malaysian banks, Tiger and Camel. More recently, DeSarbo *et al* (2008) looked at the underlying dimensions for assessing an industry's competitive structure, using public banks in the New York-New Jersey-Pennsylvania (NY-NJ-PA) tri-state area as their sample frame.

As can be seen from the above, empirical studies on the practice of CI in the banking sector, regardless of continent, are, at best, minimal. This is in spite of the fact that a successful banking operation is vital for any country and any community. Bear in mind also the ease with which a bank's officials, business development officers and customer service representatives connect with their customers, and the frequent opportunities which arise when CI on better deals, competitor offerings and customer service satisfaction can be obtained (Bergstrom, 1992).
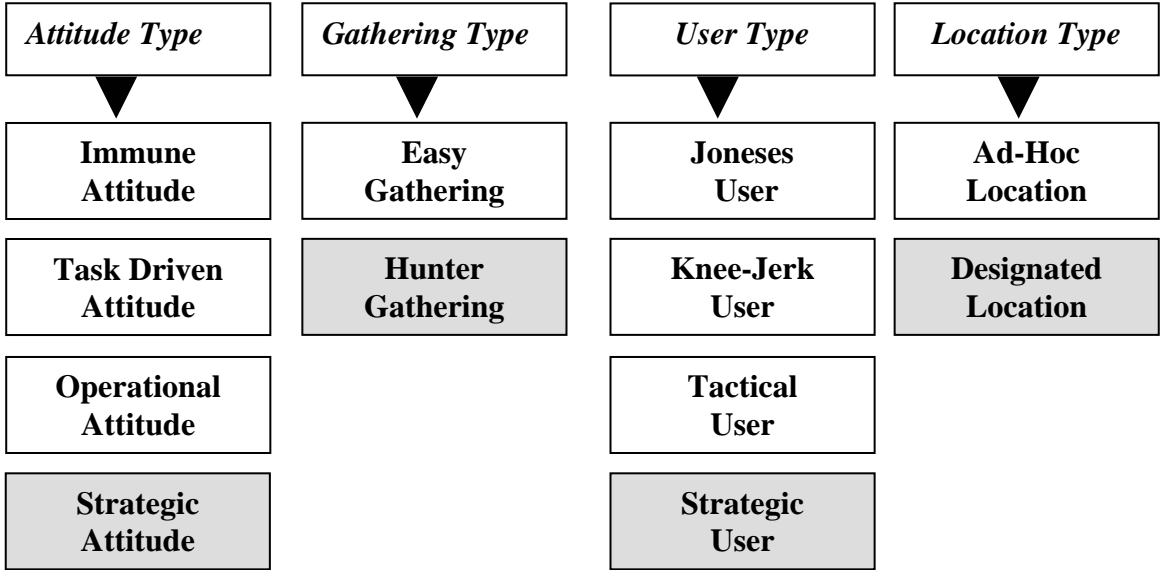
It is not surprising therefore, that the theoretical foundation for this study was found in the CI literature rather than the banking literature.

**Research Methodology**

The main research questions were determined having due regard for the 'best practice' model developed from a study of CI active firms in the UK by Wright *et al* (2002) and also integrated in Wright *et al* (2004). The findings of that study revealed that UK firms operated at many different levels with regard to the four strands of study: Attitude, Gathering, Use & Location. Whilst appreciating that not all firms can immediately go from a cold start to the ideal situation, nor would it make sense to recommend this as universally ideal, it was

possible to conclude a structure for a utopian CI situation across the fours strands. This is indicated by the shaded boxes in Figure 1.

**Figure 1 - The Wright-Pickton Best Practice Model for Effective CI**

| *Attitude Type* | *Gathering Type* | *User Type* | *Location Type* |
|---|---|---|---|
| Immune Attitude | Easy Gathering | Joneses User | Ad-Hoc Location |
| Task Driven Attitude | Hunter Gathering | Knee-Jerk User | Designated Location |
| Operational Attitude | | Tactical User | |
| Strategic Attitude | | Strategic User | |

The framework shown above, and articulated in Appendix 1, was considered to be the most appropriate model to use, given that the empirical study and results which produced it, was conducted in the same country as that reported here. The state of understanding and sophistication regarding CI could safely be assumed to be similar, and there were no language or interpretation differences. This framework has also been used successfully by other researchers as a suitable basis to assess CI effectiveness, for example, Badr (2003), April & Bessa (2006), Lui & Wang (2008), Hudson & Smith (2008). Whilst it was not intended to classify each individual bank against this typology, the framework provided guidance on the areas on which questions could be asked. Subsequent analysis of responses enabled a general allocation to be made within that Typology which is presented in the conclusions section.

**Identification of Interview Sample**

It was not possible to identify, among the entire population of senior UK banking executives, those responsible for CI. Therefore this study selected the big seven UK banks and a series of interviews were conducted with senior UK banking executives which allowed discussion to be focussed on areas of particular interest, and permitted the selection of interviewees according to relevance as opposed to the degree to which they represented a status quo. "Snowballing", in which interviewees are asked to identify other informants who they felt would be good sources of information, was used. This helped identify recognised experts within each bank: Abbey National, Alliance & Leicester, Barclays, Halifax/Bank of Scotland, HSBC, Lloyds TSB, and Nat West/Royal Bank of Scotland. Each bank was randomly allocated a letter code for the purposes of analysis and reporting. When looking at the various features of case study research, Yin (1994) reminds us that the interviewing of informants who play a key role in the organisation is a critical element in determining a good result. This validated the choice of interview participants.

**Findings and Analysis**

An analysis of responses to the research questions produced the following summary for the sector as a whole.  It was then possible to allocate these to the Wright-Pickton Best Practice Model.  This is shown in Table 2.

**Table 2 - Summary of Findings**

| Research Questions | Most Common Response | Wright-Pickton Best Practice Verdict |
|---|---|---|
| What is the longevity of intelligence use in your bank? | Over 10 years | Task Driven Attitude |
| What terminology is used for the intelligence gathering process? | Competi**tor** Intelligence | Task Driven Attitude |
| What is the process and/or procedures for acquiring intelligence | No particular procedure | Ad-Hoc Location |
| What are the reasons for intelligence gathering? | Understanding markets and trends | Joneses Users |
| What is the purpose of intelligence gathering in your bank? | Strategic Planning | Tactical Users |
| What is the attitude of senior executives towards CI activity? | Management attempting to develop positive attitudes | Task Driven Attitude |
| What types of intelligence is gathered? | Market intelligence and market share | Easy Gathering |
| What sources of intelligence are used? | Public domains, internet | Easy Gathering |
| What methods of analysis are used? | Elementary | Joneses Users |
| What dissemination methods are employed? | Interpersonal | Knee-Jerk Users |
| What accuracy mechanisms are employed? | Triangulation | Jones/Knee Jerk Users |

**Conclusions**

Data analysis convincingly showed that banks regard CI as one of the underpinning factors of their business operations, especially in the degree to which they can make competitive offerings to customers.  There was a clear recognition that a good CI system leads to increased revenues and profitability, and consequently to increased share value.  However, there was little evidence of high-level commitment to fund the establishment of the right processes, procedures and training for this to be accomplished.

It would appear that the concept of CI is an area that is increasingly being recognised in the financial services industry in general and banking in particular. Even though the basic foundations of CI have existed for a long time, the management and implementation framework still needs improvement.

**Recommendations**

It is now possible to overlay the findings against the Wright-Pickton Best Practice Model and suggest what actions are now required for the sector to improve its performance.

**Table 3 - Improvements Required for the UK Retail Banking Sector**

| Typology Element | Sector Verdict | Desired Best Practice State | Commentary |
|---|---|---|---|
| **Attitude Type** | Task Driven Attitude | Strategic Attitude | A task driven attitude is very comfortable. Questions are asked, and answered with little value added. The supportive attitude needs to embrace all strategic issues and be seen as essential for future success, otherwise the CI effort will never mature beyond a "stick-fetching" activity |
| **Gathering Type** | Easy Gathering | Hunter Gathering | Too much effort being spent on easy tasks producing volume not value. More focus on "need to know" rather than "like to know" will produce more intelligent intelligence |
| **User Type** | Joneses User Knee-Jerk User Tactical User | Strategic User | The sector is confused about what intelligence is used for. Although the respondents think they are inputting to strategic decision, their understanding of a strategic issue is misplaced and there is no evidence to support heir claims. It the sector really does want to embrace CI at the strategic level, then it has to include all levels of staff, the CSF's have to be articulated and shared, and a management culture of trust and openness has to be maintained |
| **Location Type** | Ad-Hoc Location | Designated Location | The firms in this sector need to define roles, responsibilities and establish a defined location for the collection, interpretation and dissemination of all competitive intelligence elements. Only then can economies of scale be achieved, duplication of effort eliminated and the technical and cognitive skills of full time staff be developed |

CI provides banks with actionable intelligence that can help them strategise and make effective decisions in the face of constant challenges thrown up by a dynamic, challenging and competitive market, shrinking global boundaries and increasingly customer-centred markets. This would also have the added benefit of not only encouraging, but actually

requiring decision makers to think through the consequences of their actions, before, rather than after, the event.


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## Appendix 1

### Wright-Pickton Typology - Attitude Descriptors

| | |
|---|---|
| Immune Attitude | Too busy thinking about today to worry about tomorrow. Thinks that CI is a waste of time. Minimal or no support from either top management or other departments. |
| Task Driven Attitude | Finding answers to specific questions and extending what the firm knows about its competitors, usually on an ad-hoc basis. Departments more excited about CI than top management who don't see the benefits. |
| Operational Attitude | A process, revolving around the company as its centre, trying to understand, analyse and interpret markets. Management try to develop positive attitudes towards CI for short-term and personal bonus gain. |
| Strategic Attitude | Integrated procedure, competitors are identified, monitored, reaction strategies are planned and simulated. Gets top management support, co-operation from others, seen as essential for future success. |

### Wright-Pickton Typology - Gathering Descriptors

| | |
|---|---|
| Easy Gathering | Firms which use general publications and/or specific industry periodicals and think these constitute exhaustive information. Unlikely to commit resources to obtain difficult or costly information |
| Hunter Gathering | Firms which realise that CI needs extra, sustained effort than Easy Gathering. Resources are available to allow staff to act within reasonable cost parameters. Intellectual effort is supported. |

### Wright-Pickton Typology - Use Descriptors

| | |
|---|---|
| Joneses User | Firms trying to obtain answers to disparate questions with no organisational learning taking place. Has commissioned a CI report from a consultant because that is what everybody else has done. |
| Knee Jerk User | Firms which obtain some CI data, fail to assess its quality or impact, yet act immediately. Can often lead to wasted and inappropriate effort, sometimes with damaging results. |
| Tactical User | CI mostly used to inform tactical measures such as price changes, promotional effort, competitor activities in the market or segment, yet is acutely aware of its potential value to the business. |
| Strategic User | CI is used to identify opportunities/threats in the industry and address "what if" questions. All levels of staff know the firm's CSFs, open management culture which displays trust and encourages involvement. |

### Wright-Pickton Typology - Location Descriptors

| | |
|---|---|
| Ad-Hoc Location | No dedicated CI unit. Intelligence activities, where undertaken are on an ad-hoc basis, subsumed into other departments, with intermittent or non-existent sharing policies. |
| Designated Location | Firms with a specific intelligence unit, full time staff, dedicated roles, addressing agreed strategic issues. Staff have easy access to decision makers, status is not a barrier to effective communication. |