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Economic Intelligence: An Operational Concept for a Globalised World (ARI)

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Theme: Economic security policies consist in the prevention and avoidance of all situations that can disrupt the life of either companies or States. In France, economic security is seen through the prism of 'economic intelligence', which aims to encompass all aspects of globalised risks and opportunities.

Summary: State security policies are widening their scope far beyond the military aspect, while more and more companies include security concerns in their strategies and management. In broad terms, economic security policies consist in the prevention and avoidance of all situations that can disrupt the life of companies or States and their success depends on their ability to anticipate, imagine new schemes, adapt norms and structures to the changes and to build networks of competences and co-operation, particularly between the public and private sectors but also between States sharing the same general interests. Economic security and economic intelligence must not be understood as purely defensive, as a withdrawal into one's shell, but as the first step for building active policies and alliances, the latter being a pre-requisite to act and seize opportunities in our globalised world.

This ARI is based on the author's contribution to the Panel on Economic Security at the seminar organised by the Elcano Royal Institute on 28 June 2010 to support the preparation of Spain's Spanish Security Strategy. At the seminar she gave an account of France's approach to economic security and economic intelligence.

Analysis: In parallel with the globalisation process, State security policies are widening their scope far beyond the military aspect, while more and more private companies include security concerns in their strategies and management. Economic Security is gaining private and public attention despite the difficulties in defining it. A broad and intelligent definition was provided at the Seminar held by the Elcano Royal Institute on 28 June: economic security policies consist in the prevention and avoidance of all situations that can disrupt the life of either companies or States. Nevertheless, it is not easy to define economic security since it addresses innumerable issues that are more or less crucial, depending on the situation, the environment and the culture of the body concerned. We can find common threats and risks in countries that are similar, such as the nations of Europe, and we can learn from each other's experiences, although it must be borne in mind that economic security policies and processes can never be off-the-peg but must be made to measure.

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In France economic security is seen through the prism of 'economic intelligence', a concept devised in the early 90s. It remained in obscurity for 10 years, but was nevertheless known and applied by a few companies operating abroad, until it came into more public light at the end of 2003 when the National Assembly and the Economic and Social Council devoted significant reports to the subject. Until then, numerous articles and publications had underlined the French weaknesses and lack of awareness of the emerging economic risks and opportunities generated by the new international environment. Little by little, the concept and its concrete applications were clarified and sharpened. At the end of 2003, the nomination of a high civil servant in charge of economic intelligence near the Prime Minister (now under the authority of the *Présidence de la République*) strongly helped both private companies and State administrations to become aware of the challenges to economic security. At the same time, vocabulary evolved also, shifting from 'economic war', 'competitive intelligence' and 'economic watch' only, to 'economic intelligence', which aims to encompass all aspects of the globalised risks and opportunities and that is based on an upstream understanding and a multidisciplinary approach of the threats that need to be addressed. Also, since the French are French, there were a lot of semantic debates on the word 'intelligence', which is now accepted in its two meanings: the basic French one, intelligence as the ability to think and analyse, and the British one, which relates to the collection and treatment of information. These debates are more important than they might appear at first glance, since at the beginning the second meaning led to confusion with espionage, thus giving rise to strong criticism and mistrust towards these new approaches.

Today, economic intelligence is recognised as a professional tool for strategy and management for States and companies in the globalised world. Its implementation is based on three main pillars: (1) the mastering of strategic information, which means its early collection, analysis and treatment, in order to understand and anticipate one's external environment; this first step is often called 'watch' and is indispensable to the two other pillars; (2) economic security, which is defensive and directed at protecting economic assets, especially immaterial ones; and (3) influence –active or offensive–, which means to be at the cutting edge for seeking opportunities and innovation and to be able to act on one's environment (regulations, norms, image…) and not only be passively dependent on it. The three pillars have been defined in order to make it easier to understand and implement the concept, although they are actually interdependent. An example: for a company, failing to anticipate a new crucial European norm in its sector is the result of a poor watch that might put it at risk, revealing a lack of influence and network as well. It is the same for States at the international and multilateral levels.

Economic intelligence policies try to respond to risks and threats which originate in the major changes that have affected the world these past 40 years: globalised competition and the increasing role of information in economic affairs. The globalisation of competition means that there are now many more and different players than before, in both the domestic and international markets; an increasingly mixed role played by both private and public bodies (with the privatisation of formerly national strategic fields such as infrastructure or energy and the growing role of private regulations and soft law); and, finally, an interdependence between economic, political, social, scientific and cultural forces and causes in nearly all issues. Broadly speaking, there are four main categories of bodies that are competing at the same level: (1) private ones, ie, companies, funds and banks, and professional associations; (2) multilateral global or regional organisations; (3) the heterogeneous world of non-state organisations, among which are NGOs, Institutes, think tanks, ranking agencies and norm producers; and (4) States, which have territorially limited powers and less and less autonomy as regards international regulations and powers. Moreover, the international balance of power is changing every day between 'developed', 'developing' and 'emerging' countries, the latter being in most cases strongly helped by sovereign funds. This refers only to legal powers, since, in addition, illegal and criminal groups, associations, networks and sometimes States, among others, also play tough at the international level.

Another leading characteristic of our globalised world is that information has become a driving force as vital as any physical source of energy. The sharing of information and the easy access to it for everybody creates great new opportunities but also generates new threats in the scientific, biological, technological and financial fields as well as in questions of image and reputation, and allows informal and fast operations to be carried out. The interaction between economic information and public opinion has steadily risen since December 1999, when the Seattle Round of negotiations of the World Trade Organisation failed, and an international public opinion has emerged that is relatively easy to influence by the web and the so-called social networks.

In summary, economic security is very often, if not always, a matter of the prompt and correct treatment of information. Economic intelligence sees information as both a threat and a tool, in any case a matter to be seriously considered and worked on. Threats and opportunities can come from anywhere and can no longer be defined as purely public or purely private, having to be tackled by each player, public, private or associative at their own micro or macroeconomic level, but acting in networks. States, which are the traditional guarantors of security on their territory, have lost part of their power of regulation and policing both on their own ground and at the international level, even if, due to the global financial crisis, they now seem to be willing to regain some of the ground lost by joining forces (although still to a limited extent). This new environment simply imposes alliances between public and private forces sharing the same approach to the new global environment, under –in our personal view– balanced public supervision, since the markets on their own seem unable to ensure economic security. Tackling these new risks and threats and seizing the huge opportunities opened up by this new scenario implies, first of all, having a better knowledge of the cultures, ways of thinking and behaviour of the 'new' players, which are often so different from the West's 'rational' thinking and of its ideas of the Law. This is probably the hardest task and is as important –perhaps more– as finding new technical tools to protect companies and States. Also, it cannot be ignored that, ultimately, in European continental countries, economic intelligence raises the political issue of the general interest versus the role of markets –although this is not the place to discuss such a wide-ranging issue, even if the answer to this question is the cornerstone of a consistent economic intelligence policy–.

From the Concept to its Implementation

At first sight, the term 'economic security' seems to be a contradiction in a liberal economy. Capitalism is based on a certain degree of insecurity: the life and death of economic players is in the nature of the system and the market itself is the guarantor economic wealth and stability. In this conception, State involvement is unnecessary because economic security is reduced to a matter of competition between companies. Hence, in principle, the role of the Anglo-Saxon liberal State in economic security should naturally be weak. However, reality is very different, because economic security and economic intelligence have emerged from the globalisation of the economy and because the US in particular managed to correctly anticipate (and influence) the globalisation process before most of its Western competitors did so.

Even if everything is interconnected with everything else in our complex and globalised world, it is necessary to make distinctions when implementing economic intelligence policies between: (1) threats which concern companies only; (2) threats which concern companies which for any reason have sensitive know-how or work on future sensitive matters (sensitive in this case meaning links to the national interest); and (3) threats at the macro-economic level, which concern the economy as a whole and the State itself. At a world level, one could add macroeconomic global security, an issue beyond this paper's scope.

In our view, the State is concerned with each of these levels to different degrees. The idea which legitimates State action is that private risks, if not addressed, can become national risks, for instance by missing out on national technological innovations or know-how and so losing jobs and wealth in the medium term. But in some cases the State will act by promoting networking or providing basic information, while in other cases it will act directly. All risks and opportunities can be approached at the micro or macroeconomic levels, often together. The examples listed below are obviously far from exhaustive but they help explain the role of the State.

Companies can become the targets of financial threats from investors –private or sovereign investment funds– interested in taking shares in their capital for their technology, R&D, know-how or simply profitability. In the first cases, this can also be a problem for the State. In France, a decree was issued in December 2005 according to which non-EU foreign investments are subject to State authorisation if they concern a sensitive activity. Nevertheless, it is always difficult for State authorities to make a choice between an opportunity (like a foreign investor announcing the creation or preservation of jobs) and a potential long-term threat. It is the same for investors requesting changes in national rules (for instance, Sharia-compliant rules or fundamental and long-term shifts in the law).

The new standard accounting rules (International Financial Reporting Standards, IFRS) are another interesting example: they were drafted by a private body, the London-based International Accounting Standards Board (IASB), at the European Commission's request, and then became European rules. They led to sudden large-scale changes in the accounts of many companies and banks, clearly weakening many of them. There have been numerous complaints about the rules, so why did States or professional associations not play a greater role in their drafting, which deals with a core question of the economy? When it comes to the role of the international financial markets in supporting or weakening States, it is macroeconomic security that is involved, but it is usual to hear that States are powerless. In fact, they cannot anticipate in time and play a role in world governance, which obviously needs regulations and not only self-regulations (as in the banking sector) or quasi-private regulations (the role of the rating agencies).

Threats can also come from a country's own law, which is no longer adapted to the tough competitive globalised environment. For instance, France provides free detailed financial information on companies to the country's competitors, as it is simple to consult the Register of Commerce, to which all French companies have the legal obligation to send their full accounts annually, and which are open to anyone. This is not the case in many other industrialised countries and the matter is currently being re-considered. In the same way, although the risk of information, financial or otherwise, being stolen is covered by safety and security processes –like those recommended by two ISO norms and the EBIOS norm on risk management (*Expression des Besoins et Identification des Objectifs* *de Sécurité*)–, a law was additionally proposed in France in 2009 to define and qualify a new legal offence, information theft. The problem is that until now only material and not immaterial things can be subject to theft.

Another significant source of risk is the vulnerability of electronic data information and all information and communication technologies, in which the threat is human in nature. Economic intelligence is also a matter of adequate human management: it is recognised that the primary risks are internal, deriving from careless or unsatisfied employees. Numerous guides and booklets have been drafted by French professional organisations giving basic principles which should be complied with, but some principles of human management should be added to the programmes of Business Schools. On the broad topic of illegal groups, criminal threats, money laundering or suchlike, companies can obtain basic information by themselves, or from private business intelligence companies, which incidentally must be used with caution, because there are legal limits to such private action and then they must contact State services. This is one of the reasons why in France, experts from the Police and Gendarmerie have been seconded to regional and departmental Préfets. Their role is essentially to make companies aware of the threats although they are in charge if the threats actually materialise.

One real and growing risk concerns image, reputation and e-reputation. All economic players are concerned: companies of course, but also countries. Everybody knows the consequences of a destabilisation campaign, which cannot be generally legally prosecuted, since the attacks are made from countries subject to no regulations. Nevertheless, they can be anticipated and prevented in most cases by systematically monitoring the web and other sources of information, and by professionally preparing a response in the event of a crisis. It is the same for States. Also, authors in France are working on a new theory, economic self-defence, in reference to physical self-defence in criminal law. It is as yet only a theory, and its implementation can only be carried out at an international level.

The issue of international regulations, norms and ratings should be carefully addressed by all economic players, from the point of view of both security and influence. Ratings have consequences on the image and reputation of individual companies, but also on countries, in both the short (financial ratings) and long terms (ratings on competiveness, education levels, governance and business law). These soft-power tools can gradually shape and influence State policies, which aim to improve ratings and adopt proposals suggested by those responsible for the ratings (a process which could be considered anti-democratic). Of course, it is not a question of refusing an assessment, but of being able to clearly know how, why and by whom rankings or ratings are determined. The same process by which influence is exerted can be seen in the preparation of international regulations and norms, not only in the technical but also in the ethical and environmental fields. Furthermore, it is important to be aware of the 'norms business', as especially in sustainable development and corporate responsibility matters regulations are made by a small number of bodies for which it is a very profitable business since they control the whole market: the production of norms, the training of those affected, the auditing of their correct application and –after five to six years– the drafting of new norms in order to adapt to new situations, with the whole cycle then starting again. In these matters, economic security is closely linked to influence.

In a broader approach, economic intelligence is linked to industrial policies, as it addresses the capacity of seeing opportunities, encouraging innovation and defining long-term economic priorities (always based on the correct anticipation of strengths and weaknesses in the future, in relation with the evolution of competitors and world resources). As regards companies, the main problem –and the main task for States and professional organisations– to be tackled is to bring the issue to the attention of decision makers, especially in small and medium-sized enterprises (SMEs) that are the most exposed to these problems and convince them of the need to invest in economic intelligence policies, for which the return on investment is obviously difficult to establish. One of the main difficulties of economic intelligence is that it is based on qualitative analyses and evidence, while key decision makers are often 'quantitative-minded' only. Studies are under way to try to define indicators.

Conclusions: The key factors of success in economic intelligence policies and processes, for both States and companies, are: (1) the ability to anticipate, which means not only to project or extrapolate the past, but to imagine new schemes, by cross-thinking and linking expertise and approaches; (2) the ability to adapt structures and laws to faster new processes; and (3) setting up networks of competence and cooperation, particularly between the public and private sectors but also between States sharing the same general interests, as in the case of the EU.

Economic security and economic intelligence must not be understood as purely defensive strategies, as a withdrawal into one's shell, but as the first step in building active policies and alliances, the latter being a prerequisite to act and seize opportunities in a globalised world. This is known as 'co-opetition', a key concept for companies and States alike and akin to smart power, that combines cooperation and competition, since on the one hand we are faced with hard adversaries and vital challenges while on the other pure economic war is ineffective in the long run.

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