EXTERNAL INTELLIGENCE CAPABILITY AS A DYNAMIC CAPABILITY FOR

ACHIEVING SUPERIOR ORGANIZATIONAL PERFORMANCE

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ABSTRACT

This paper proposes a conceptual model for the examination of the role of external intelligence capability in a company’s endeavour to achieve superior performance. Companies nowadays find it difficult to perform and to pursue performance in a prudent manner because the external environmental conditions have become increasingly volatile and uncertain. They are being ever more overwhelmed with loads of business information and finding it increasingly difficulty to interpret and act on them. A detailed literature review points to the employment of external intelligence capability as a keystone advantage. A conceptual framework of external intelligence capability for superior performance is developed. Research propositions are put forward with emphasis on the stages in the external intelligence capability process, and also its effect on the outcomes of strategy formulation and strategy implementation.

Keywords:
External intelligence capability; dynamic capabilities; performance; strategy formulation; strategy implementation
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INTRODUCTION

The world is becoming more complex, more global, more technological, and more competitive. Companies today are being ever more bombarded with tons of operational information and increasingly overwhelmed with loads of accumulated business knowledge. Many companies recognized that they can no longer deal simply with their escalating volatile environmental conditions (Eisenhardt & Sull 2001; Christensen, Raynor & Anthony 2003; Ireland & Hitt 2005; Helfat, Finkelstein, Mitchell, Peteraf, Singh, Teece & Winter 2007). Companies that are able to effectively make sense of their volatile environmental conditions and make strategic responses will likely derive superior performance (Kohli & Jaworski 1990; Slater & Narver 1994; Boyd & Fulk 1996; Hubbard, Samuel, Heap & Cocks 2002; Homburg, Krohmer & Workman Jr 2004). Superior performance companies are those that have gained an above-average performance in terms of their financial, market and internal efficiency performance (Hubbard et al. 2002). Some companies are able to achieve superior performance while others fail to cope with their external environments. Furthermore, some researchers found that companies are unable to perform when they are overwhelmed with loads of information concerning their external environment (Peters & Waterman 1982; Ancona & Caldwell 1992; Kumar, Subramanian & Strandholm 2001).

Given today’s volatile environmental conditions, traditional methods of gathering, analysing and communicating business information are becoming less and less effective (Kumar et al. 2001). Kumar et al (2001) argue that merely being able to gather, analyse and communicate information about external environmental conditions will not provide companies with a competitive advantage. Put differently, merely having possession of relevant operational business information and useful business knowledge may no longer help companies to perform better. It has become necessary for companies to have and use them in order to survive (Hambrick 1981; Jennings & Lumpkin 1992). Some scholars assert that it is
much more important to be able to effectively make sense and act on it than to be able to gather quality information (Peters & Waterman 1982; Kahaner 1997; Kumar et al. 2001).

Much attention has been given to study traditional methods of employing external environmental information (Hambrick 1981; Jennings & Lumpkin 1992; Boyd & Fulk 1996; Ahituv, Zif & Machlin 1998; Kumar et al. 2001). However, relatively little attention has been given to develop a more dynamic approach to employing external environmental information and examine its impact on organizational performance. Existing studies have been highly fragmented and anecdotal. Therefore, this paper attempts to address this important gap through a detailed literature review resulting in a proposed research agenda focusing on external intelligence capability, with particular emphasis on the importance of its process and its effect on the outcomes of strategy formulation and strategy implementation. A conceptual framework of external intelligence capability for achieving above-average performance is developed. Research propositions from the framework are put forward.

**LITERATURE REVIEW**

Researchers claim that, in order to perform in today’s environmental context, companies need to rely more on a means for collecting, analyzing and disseminating key information about business activities and environmental conditions, that can create foresight and render an insightful picture of intentions, capabilities, or activities, as well as their possible implications and consequences, and responding accordingly to further own company’s goals (Kohli & Jaworski 1990; Kahaner 1997; Homburg et al. 2004; Menguc & Auh 2006). To stay ahead of competition, companies will require the means to derive insights for business operations and foresights about prospective possibilities, which are produced in a timely fashion and can be acted upon.

Eisenhardt & Sull (2001) assert that, in order to achieve superior performance, companies must be able to capitalize on the best opportunities available at different moments in time. They also assert that competitive advantage for these companies comes from effectively seizing fleeting opportunities which are not easily anticipated by competitors (Eisenhardt & Sull 2001). It is likely for fleeting opportunities
to include sporadic opportunities, which come about unexpectedly but can create a significant impact on performance if the opportunities are successfully capitalized by companies. Moreover, Eisenhardt & Sull (2001) emphasize that it is important for companies to be able to grapple with the uncertainty that accompanies fleeting opportunities. In an increasingly competitive business setting, it is more crucial that companies are able to anticipate marketplace possibilities as they seek opportunities to create organizational changes that can improve their performance (Helfat et al. 2007). One challenge for these companies is to have an effective means in identifying, sizing up and prioritizing opportunities. However, the difficulties lie in how to be informed and not to be inundated with information, how to generate innovative options of response and not to merely react to circumstances, and how to take timely action and not to be out maneuvered by competition. Also it is seemingly difficult for companies to know when to pull out of non-performing projects.

Therefore, in order to achieve superior performance in today’s volatile external environment, it is important for companies to employ external intelligence capability in order to generate business insights which they can act on in a timely manner. However, some companies tend to generate insights in an ad-hoc and unsystematic manner. Some tend to wrongly assume that, relative to competitors, possessing more business information or getting obscure business information, would already equip them with a competitive edge (Peters & Waterman 1982; Ancona & Caldwell 1992; Kumar et al. 2001). Some tend to respond impulsively to business information which they gathered. Therefore, in the following sections, this article will discuss about external intelligence capability, its process and the importance of its role.

**External Intelligence Capability**

So what is external intelligence capability about? External intelligence capability is a process, a product as well as a capability (Bernhardt 1994). It is based on the notion that increased understanding of customers’ changing behavior and competitors’ movements will lead to more effective strategy (Bernhardt 1994). It has been defined as a systematic approach to gathering, filtering, interpreting and acting on key business information (Sammon, Kurland & Spitalnic 1984; Winkler 1997; Shaker & Gembicki 1999). An important point to note is that the information can come from any and every source,
gathered via ethical manner. When collectively and appropriately interpreted, the information can render an insightful picture of intentions, activities or capabilities, and their possible implications and consequences. Another important point is that the product of external intelligence capability ought to be written as ‘actionable’ information, whereby action can be taken in respond to it, and specifically adapted to the business world (Kahaner 1997). It is then disseminated to decision-makers at various levels in a visually effective, timely and secure manner.

Employment of external intelligence capability may involve reengineering work of organization infrastructure so that senior management based their decision-making and actions primarily on intelligence (Kahaner 1997). Herring (1996) argues that having an organizational process that supports external intelligence capability is more important than organization structure that facilities the work, particularly when the company must adapt to a volatile external environment. The basic intelligence process is used by many countries national intelligence service, and it has since been adapted by the private sector (Kahaner 1997). Companies such as Motorola, Nokia, Kellogg, Kodak, and others have used the process quite successfully – though changes in senior management and business reorganizations have taken their toll over the long term (Kahaner 1997).

*External Intelligence Capability as a Dynamic Capability*

The notion of dynamic capabilities has its roots from the resource-based view theory (Teece, Pisano & Shuen 1997). The term ‘resources’ include all assets, firm attributes, information, technologies and human capital controlled by an organization that enable it to conceive of and implement strategies that improve its efficiency and effectiveness (Barney 1991). Organizational abilities which can exploit resources are described as ‘capabilities’ (Barney 1991). Successful organizations have capabilities that can effectively organize and reorganize available resources in order to cope with the changing environment in a timely manner (Teece et al. 1997). Dynamic capabilities have yet to be firmly defined. But there are a few notable definitions as tabulated in Table 1 overleaf.
As shown in Table 1, it can be said that external intelligence capability is a dynamic capability that can bring about internal strategic and tangible changes in order to respond to or to capitalize on external dynamic environmental conditions. External intelligence capability can enable companies to better exploit their resources and to strategically manoeuvre organizational processes, in a well-timed and ongoing basis.

**Emergence Needs for External Intelligence Capability**

External intelligence capability contributes to companies’ planning processes by the development and evaluation of strategic issues and alternatives; the selection and implementation of key strategies; the recognition of the need for and the design of mid-course implementation adjustments; and the nurturing of a supportive organizational culture (Sammon et al. 1984; Noble 1999; Varadarajan 1999; Hubbard et al. 2002; Homburg et al. 2004). It is a common understanding that a first step in evaluating a company’s positioning is to examine that company against its competitive environmental conditions, which include its competitors, it faces (Bernhardt 1994). In today’s volatile environmental conditions, the consequences for formulating or implementing business strategy without the benefit of external intelligence capability would be suicidal (Bernhardt 1994; Eisenhardt & Sull 2001; Christensen et al. 2003; Helfat et al. 2007).

Companies that achieve above-average performance maintain an externally focused posture in making sense of their customers, customers’ changing needs and happenings in the marketplace (Hubbard et al. 2002; Christensen et al. 2003). A positive relationship has been found to exist between a company’s externally focused posture and its return on assets (ROA) (Kohli & Jaworski 1990); sales growth and new product success (Slater & Narver 1994); and successful implementation of strategy (Homburg et al. 2004). To maintain an externally focused posture, it is highly likely that these companies employ external
intelligence capability to continuously monitor changes in their external environments and making sense
therein of prospective change-patterns. They place emphasis on understanding customers’ current and
future needs, and exogenous factors that influence those needs (Kohli & Jaworski 1990; Slater & Narver
1994; Homburg et al. 2004). Given today’s fast-increasing competitive business conditions, they also
place emphasis on understanding movements by competitors, and responding to the insights gained

From the above discussion, the first proposition is generated as follows:

Proposition 1  Companies that employ external intelligence capability perform better.

The External Intelligence Capability Process

There are four stages that make out the fundamental external intelligence process. The stages are
Plan and Direct; Collect and Collate; Analyze and Translate; and Communicate and Take Action (Tyson
1990; Bernhardt 1994; Kahaner 1997; Menguc & Auh 2006). See Figure 1. However, many companies
are inclined to skip stages such as Plan and Direct, and Communicate and Take Action. One possible
reason is that companies do not understand the importance of each stage. The outcomes of the
Communicate and Take Action stage will depend on the insights gained from the Analyze and Translate
stage, which in turn depends on the effectiveness of the Collect and Collate stage that is guided by work
done in the Plan & Direct stage. When companies deal with external intelligence capability in an ad-hoc
manner, they will likely miss out many strategic and fleeting opportunities which are usually difficult to
spot. These companies are inclined to trade off shorter term benefits for longer term and more sustainable
gains. For some companies, it is will not be surprising that some critical information still resides in the
mind of their managers, who prefer to discuss their thoughts in planning sessions rather than collectively
interpret all the information to generate insights.

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Insert Figure 1 about here
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Plan and Direct stage involves efforts to derive a clear understanding of the users’ needs and time constraints, have in place a communication means to inform and engage with users on progress, and develop plans for the next 3 stages (Kahaner 1997). Its requirements should be developed in consideration of the full competitive spectrum, which means taking account of near term, intermediate and potential viewpoints (Sammon et al. 1984). It is not uncommon for companies to overlook the Plan and Direct stage. So, Bernhardt (1994) recommended that companies appoint an intelligence champion or coordinating manager, who can anticipate as well as respond to intelligence needs, and the manager should be clear about what external intelligence capability is not. External intelligence capability is not a surrogate tasks that come within the domains of a corporate library or market research department; it is not market intelligence per se; and it is not to be confused with as a sub-component of a company’s environmental scanning system (Bernhardt 1994). External intelligence capability is a distinct process that produces unique products tailored to the particular requirements of the intelligence users, which include generating insights to such business issues as listed in Table 2 below.

Insert Table 2 about here

Collect and Collate stage involves gathering and bringing together of raw information, and the source of information can be categorized into primary and secondary sources (Winkler 1997). This stage is commonly referred to as the research phase of external intelligence capability process (Bernhardt 1994). Attention is placed on evaluating the reliability and validity of information, identifying anomalies in information, and adhering to ethics associated with data gathering. Primary sources provide information that have not been changed, altered or otherwise tainted by opinion or selection, while secondary sources provide information that have been altered by opinion (Winkler 1997). Common sources of information include computer-based information, formal document, draft document, scrap paper, internal correspondence, legal filing, press and other open-source information, informal meetings, interviews, and casual conversations (Winkler 1997). Primary sources dominate for high level strategic information.
while secondary sources dominate for information used in making tactical decisions. If the right mix of information sources is not done appropriately, companies would likely faced with loads of varied business information, which most times make it almost impossible to make sense of, and often slow down the process. Companies are often inclined to merely depend on information from secondary sources. Although they can still benefit from secondary sources information for tactical decisions such as for sales, marketing and operating issues, but they will likely not be effective in dealing with strategic decisions.

Analyze and Translate stage involves, based on intelligence users’ needs, analyzing the information and translating them into intelligence that can be acted upon. It is in this stage that all relevant information pieces are critically analyzed and the fitted into a larger and more meaningful whole for the information to be translated into “actionable information” (Bernhardt 1994; Kahaner 1997). The work often deals with conflicting strands of information to find the meaningful pattern within the stream of available data. Companies need to recognize the inevitable existence of gaps and blind spots and know when to stop analyzing. Also, the effectiveness of the work depends on ability to employ inductive and deductive reasoning, analyze creatively, use alternative thinking, and decide on appropriate analytical techniques.

Communicate and Take Action is the final stage of the external intelligence capability process. It involves communicating the intelligence product to intelligence users, whose role is to make decisions and take actions in response to the intelligence received. Bernhardt (1994) highlighted that an intelligence product can take on five forms, namely, competitor profile, strategic impact worksheet, situation analysis, periodic intelligence briefing, and special intelligence briefing. One important point to note is that the intelligence or insights needs to be communicated in an effective way whereby intelligence users can make appropriate responses in a timely manner, and done at the most optimum cost-benefit point. For this stage, quite a number of companies will likely tend to overlook the need to communicate the insights to users company-wide, but prefer to focus on taking immediate actions, usually done hastily, on those insights which they view as critical. One potential negative outcome for these companies is that they will likely not be effective at optimally exploiting external opportunities.
To sum up, companies that give appropriate attention to the different stages of external intelligence capability will likely stand to gain more in performance than those who do not. As such, the second proposition is:

*Proposition 2* Placing emphasis on all four stages of external intelligence capability process is positively associated with organizational performance.

**Role of External Intelligence Capability in Strategy**

To prosper in today’s complex and volatile environment, companies need to make adjustments or changes to their strategy and the way they implement their plans (Okumus 2003). As their external volatile environments escalate, companies cannot expect to optimally exploit opportunities by executing their plans in a rigid manner. It is vital for them to continuously adjust their strategy and implementation plan to fit the changing environmental conditions. Companies that achieve superior performance employ business insights generated from external intelligence capability and are adept at optimally exploiting opportunities while minimizing the impact of threats (Chan, Shaffer & Snape 2004). For companies to make informed judgements for their strategy, it is vital for them to employ external intelligence capability to continuously monitor changes in the external environmental and make sense therein of prospective change-patterns (Christensen et al. 2003). It is also vital for companies to employ external intelligence capability to forecast future states of the competitive environment, envision the types of organizational configurations for these states, and reconfigure the company (Nicholls-Nixon 2005).

In order to capitalize on environmental changes effectively, companies need to constantly experiment with appropriate responses (Bartlett & Ghoshal 1998). The writers emphasized that it is essential for companies to do so by quickly disseminating their deciphered information about the changing environment so that the information can be leveraged by entire company (Bartlett & Ghoshal 1998). It is also essential for companies to use external intelligence capability in validating their interpretations made about environmental changes and trends; spotting new opportunities; learning about other possible ways to optimally exploit opportunities in the changing environment; forecasting future states of the competitive environment; and envisioning the types of organizational configurations for
Companies that employ external intelligence capability will regularly review their underlying beliefs and mental models, engage in predicting the future trends and development, and look out for fresh and interesting initiatives implemented by others (Neo & Chen 2007).

Barney & Zajac (1994) claimed that the outcome quality of organizational strategy hinges on the broader competitive environmental context within which a company is operating. This suggests that, to implement strategies successfully for performance, it is important that companies place effort to make relevant adjustments or changes, in an ongoing and timely manner, to their strategies during implementation phase. The adjustments or changes are made so that business proposition offered by companies can better meet the changing needs of customers, and is not easily followed by competition. To do this, it is likely companies employ external intelligence capability to generate insights about changing external opportunities, effectively prioritize the opportunities, and decide when to pull out of waning ones. Therefore, in order to achieve above-average performance, it is important for companies to employ external intelligence capability to manage their performance. To sum up, external intelligence capability is likely a critical component in strategy formulation as well as strategy implementation.

As such, the third and fourth propositions follow from this:

*Proposition 3a* External intelligence capability will positively moderate the outcomes of strategy formulation.

*Proposition 3b* External intelligence capability will positively moderate the outcomes of strategy implementation.

**Framework Model**

Based on the above discussion and hypotheses, a research model of external intelligence for achieving above-average performance is developed. See Figure 2. This model deals with the role of external intelligence capability in companies’ effort to achieve superior performance, and its moderating effect on strategy formulation and strategy implementation. External intelligence capability can benefit a company by enabling it to anticipate changes in the marketplace, pre-empt actions of competitors,
identify sporadic opportunities, learn from the successes and failures of others, increase the range and quality of new business opportunities, enhance strategic implementation capability, and learn about new technologies and processes that can affect the business (Kahane 1997). Through the model, the following research objectives can be explored: (i) to gain an understanding of external intelligence capability employment in the pursuit of superior performance, (ii) to establish the fundamental stages in the external intelligence capability process, and (iii) to evaluate the effect of external intelligence capability on strategy formulation and strategy implementation.

CONCLUSION

A fast growing number of companies today find it increasingly challenging to achieve above-average performance. Some others struggle to sustain their superior performance. One major reason is the external environmental conditions that are not only changing to become more volatile and uncertain, but are also changing at a quicker rate. From the literature review, one likely critical organizational factor for companies to survive and to prosper in these turbulent external conditions is the employment of external intelligence capability. However, existing studies on external intelligence capability, particularly on the stages in its process, and its effect on strategy have proven to be highly fragmented and subjective.

As such, the paper has produced a set of research propositions and a research framework to these phenomena was developed for future empirical testing. The expected managerial contributions of the empirical study include both filing the theoretical gap and providing practical guidance to senior managers on employment of external intelligence capability in order to achieve above-average performance, particularly in external conditions that are increasingly turbulent. The intended research is expected to yield and establish significant insights about the role of external intelligence capability and its application.
### TABLE 1  SOME NOTABLE DEFINITIONS OF DYNAMIC CAPABILITIES

<table>
<thead>
<tr>
<th>Source</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Teece et al. (1997:515)</td>
<td>Define dynamic capabilities as the “firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments”.</td>
</tr>
</tbody>
</table>
| Eisenhardt & Martin (2000:1106) | • Define dynamic capabilities as “a set of strategic and organizational processes like product development, alliancing, and strategic decision making that create value for firms.”  
  • In order to be a source of competitive advantage, dynamic capabilities are needed to create resource configurations “sooner, more astutely, and more fortuitously’ than competition. |
| Barney et al. (2001:630)       | • Define dynamic capabilities as organizational capabilities that enable organizations to apply their competitive advantages to create resource configurations - “dynamic capabilities are capabilities that are dynamic.” |
| Wang & Ahmed (2007:43)         | • Define dynamic capabilities as the third-order foundation of capabilities and are involved in “adaptation, renewal, reconfiguration and recreation of resources, capabilities and core capabilities”.  
  • There is a difference between capabilities, core capabilities and dynamic capabilities.  
  • Resources and capabilities are zero- and first-order foundation and core capabilities are second-order foundation that are involved in integrating resources and capabilities to fit strategy content. |

**External Intelligence Capability**

- **A process, a product and a capability** - firmly based on the notion that increased understanding of customers’ changing behavior and competitors’ movements will lead to more effective strategy (Bernhardt 1994)
  - **A systematic approach** to gathering, filtering, interpreting and acting on business information (Sammon et al. 1984; Winkler 1997; Shaker & Gembicki 1999).
  - When collectively and appropriately interpreted, the information can render an insightful picture of intentions, activities or capabilities, and their possible implications and consequences.
  - **Produce an ‘actionable’ information**, whereby action can be taken in respond to it (Kahaner 1997).
  - **May involve reengineering work of organization infrastructure so that senior management based their decision-making and actions based primarily on intelligence** (Kahaner 1997).
### TABLE 2  SOME UNIQUE REQUIREMENTS OF EXTERNAL INTELLIGENCE CAPABILITY

- Why competitor seems to be gaining market share?
- Why competitor seems to always be ahead of seizing opportunities brought about by environmental changing conditions?
- How to pull ahead of competition and further establish its positioning?
- How to tell when strategy is no longer sustainable?
- How to validate analysis and planning, especially when based on weak information and many assumptions, before investing the money?
- How to identify and capitalize on sporadic external opportunities especially when competitors undergo changes or make a blunder?
- What emerging business models can potentially threaten own positioning?
- What new scientific developments can fundamentally affect the economics of the industry?
- What new substitutes can threaten own brand equity?
FIGURE 1 THE EXTERNAL INTELLIGENCE CAPABILITY PROCESS

Plan & Direct

Collect & Collate

Communicate &

Take Action

Analyze & Translate
FIGURE 2  A PROVISIONAL FRAMEWORK OF EXTERNAL INTELLIGENCE CAPABILITY FOR ACHIEVING SUPERIOR ORGANIZATIONAL PERFORMANCE

Strategy
Formulation

Plan & Direct
Collect & Collate
Analyze & Translate

Proposition 1
Proposition 2

Proposition 3a

Proposition 3b

Direct Strategy-Performance Effect

Strategy
Implementation

Superior
Performance
REFERENCES


