



How Net Assessment Can Boost Competitive Intelligence Performance?

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ABSTRACT In the business sector, Competitive Intelligence (CI) units are often responsible for overseeing the assessment delivered to the top executives regarding competitors' threats and opportunities and comprehending the meaning of external changes in the related markets. Unfortunately, there is insufficient attention to how these units can be more valuable and help corporations avoid strategic surprises. This paper offers a new concept that will create better value using the Net Assessment approach in corporations.

The approach, as detailed in my recent book, "We Never Expected That: A Comparative Study of Failures in National and Business Intelligence" (Barnea, 2021), illustrates the practicality of transplanting strategies from the national intelligence sphere to bolster business intelligence. It underscores the potential for cross-pollination of ideas and improvement between these two domains.

Net Assessment, a robust framework for analyzing national security threats, has been a cornerstone of the United States defense establishment's strategy for years, yielding significant results. This paper advocates for its integration into the toolkit of CI units and executives, underscoring its potential to deliver substantial performance enhancements for corporations.

KEYWORDS: Net assessment, strategic surprises, competitive intelligence, business strategy

INTRODUCTION

The Nobel Prize winner Daniel Kahneman claims that "the ability to be surprised is an essential aspect of our mental life and surprise itself is the most sensitive indicator of how we understand our world and the expectations we have of it." Kahneman (Kahneman, 2013, pp. 85-86) divides surprises into two types: active surprises and conscious surprises - one knows that he expects a particular event to happen and will be surprised if the event actively expected does not happen. However, there is a much broader category of passively expected events: those that do not expect but are not surprised when they occur. These are regular events, but they must be more specific to make one actively expect them.

In intelligence, surprises can be associated with Kahneman's second type, tolerable surprises, since information is monitored regularly and events are expected since they are part of the intelligence routine. There is no certainty that they will occur. If the intelligence officer does not turn his activity into active anticipation to promote a surprise of the first kind, he will have difficulty preventing the surprise. Under certain conditions, tolerable expectations become active expectations, thus increasing the chance of avoiding a surprise. These surprises occur not only in national security but also in business. Corporations devote significant efforts to preventing strategic surprises in business activity (McGonegle & Misner-Elias, 2016).

Companies operate in an increasingly complex world. Business environments have become more diverse, dynamic, interconnected, and less predictable than ever. However, many firms still pursue classic approaches to avoid surprises and build sustainable strategies designed for more stable times, emphasizing analysis and planning focused on maximizing short-term performance rather than long-term robustness (Fuld & Chodnowsky, 2010). How are they faring (Reeves et al., 2016)? More companies are using strategy disciplines emphasizing analysis to understand how they can perform better. CI units inside organizations often support strategic units striving to better understand external changes and their implications, mainly for competitive advantages (Grant, 2005, p. 12).

There is also a growing need for strategic foresight to enable senior executives to make better decisions about the future and competitors' moves (Webb, 2024). CI units often play an essential role in supporting decision-makers in better understanding competitors' moves and market changes. However, it looks as if CI practices do not have enough strategic inputs and are inclined toward supplying tactical needs, and thus, their added value to senior executives is limited (Cavallo et al., 2021, pp.250-175).

Both national intelligence and the business sector are making ongoing efforts to improve decision-making regarding threats that can affect the strength of organizations (and states), especially if they have strategic implications. The intelligence discipline is essential to widening the scope of strategic opportunities and threats (Barnea, 2021).

Improve the performance of CI.

CI discipline needs to be established better, as in national security, where it usually gets high priority and significant resources (Ibid.). However, many corporations, especially large ones, have in-house CI units. These units are responsible for delivering intelligence assessments to the executives, who find it challenging to be recognized as valuable through intelligence already existing in the corporation (Stauffer, 2003). Many efforts have been devoted to making assessments more professional to deliver better value-added value. These units are usually small, so they must be well-

focused on identifying timely external developments that can directly affect businesses. Sometimes, their value is also in noticing business opportunities due to their close monitoring of competitors and market trends (McKinsey, 2008).

The scope of CI units is usually narrow and needs to touch sufficiently strategic issues (Barnea, 2022). These units are expected to produce much more valuable intelligence (Ezigbo& Uduji, 2013). There is a continuous effort to find ways to make them more efficient and to deliver better outputs that meet the expectations of senior executives (Ibid.)

In addition to central CI units located in the headquarters of corporations, mostly under Marketing, to increase the competitiveness of corporations, sometimes we can find "islands" of CI activity inside strategic business units (SBU), which are profit centers that focus on product offerings and market segments. In these cases, the intelligence is done independently, usually without the required expertise and functional guidance, and that is why they have limited value, mainly contributing to the specific needs of the SBUs (Cavallo et al., 2021). In other cases, usually in large corporations, in addition to CI units at the headquarters of the corporation, there are CI units located officially in SBUs that serve only the needs of these divisions but are not integrated into the overall intelligence effort of the corporation (Jaworski et al., 2002, pp. 279-307).

Thus, practically different SBUs have different intelligence requirements. At the same time, their concerns are different, i.e., emphasize different industries, new technologies, new entrants, unexpected moves by competitors, etc. It is witnessed that CI in organizations is usually divided between corporations with only centralized CI activity and those with decentralized intelligence, usually located inside the SBUs. Practically, the processes by which the activities of CI in organizations are distributed or delegated away from being only in a central location, and responsibilities are delegated to several SBUs without giving enough consideration to building an integral effort with a better value to the overhole needs of the corporation (Stauffer, 2003).

One of the main areas for improvement of the decentralized models is that, too often, each unit operates independently, and there need to be unified efforts to build a comprehensive picture of external threats in the primary CI entity.

Most CI units do not use a formal feedback measurement process to determine their effectiveness or use of the CI (Davidson, 2001, pp. 25-38). These are the reasons:

1. When asked to prove their value, formal feedback is necessary for the units.
2. It also makes evaluating the unit's performance hard and identifying areas where it can improve (Barnea, 2022).

Some scholars focus on effective means and capabilities for gathering intelligence, and others focus on different analytical models. However, there is a need to learn more about how to improve analysis practically inside the organization. The need to enhance the level of analysis is mainly because CI units are usually small and need more professionals with the right expertise in the fields that require the decision-making process. Another reason is the need for more knowledge of relevant methodologies supporting the assessment process (Tanir, 2023).

About Net Assessment

There is a need not only to define net assessment but also to present its key features and focus on its value to understand better the external environment, which, according to Grant, is: "the outside influences and factors that affect a firm's decisions and its performance." (Grant, 2005, pp. 12-14). Scholars of organizational behavior are aware that "Organizations that are most successful in uncertain environments are those in which close attention is paid to the environment so they can spot threats and opportunities, and where intelligence is shared in a digestible and meaningful manner, thereby enabling relevant organizational members to respond swiftly and effectively" (Daft, 2012, p.157).

So, the challenge is reacting appropriately based on information regarding changes in the external environment. As a result, there is a great need to understand the meaning of changes

outside the corporation to highlight their meaning to the decision-makers. Business strategy helps to determine how the firm will deploy its resources within the environment to help achieve its long-term goals. As Grant emphasizes: "Strategy analysis is the idea that we can systematically analyze the reasons for business success and failure and apply this to learning formulations" (Grant, 2005, p. 26).

Paul Bracken defines net assessment as "a way of tackling problems from a certain distinctive perspective that involves skills that can be improved" (Bracken, 2006, pp. 91-93). It examines a country, its competitors, and its relative strengths and weaknesses to identify strategic risks and opportunities in advance (Ibid.).

Net assessment emphasizes strategic interactions by breaking significant problems into smaller, more manageable pieces. This is why big organizations are divided into departments.

In this paper, I propose to expand the scope of the Net Assessment approach and apply it to intelligence assessment in corporations to understand their competitors better and thus be more valuable to the decision-making process. Analyzing threats rising from the external environment affecting the performance of entities is quite similar to that of states and business corporations. While the US defense and government frequently use net assessment, there is no reason not to consider using it in business (Hoffman, 2021). For example, a business executive needs to know how to control costs, satisfy customers, and plan where his company will be. To do so, he uses accounting, marketing, and forecasting capabilities. Each field offers a particular perspective on the business and involves specific skills.

By knowing how to use the net assessment approach, this business executive can make better decisions because he will consider external factors such as competitors, market trends, and macroeconomic considerations in the decision-making process. It looks as if the current tools are not performing well enough. These tools include scenario planning, which focuses on decision drivers and dynamics; forecasting, to help budget planning and estimate future growth; trend analysis, to

explore possible developments and define potential turning points; and competitor insights, to anticipate probable competitor moves (Saffo, 2007). These tools help answer essential questions but are not focused on threats. Here, net assessment seems to give better answers.

Net Assessment demands that different units assess the external factors that influence the corporation. Sometimes vital information is known to certain people in the corporation, but they do not share it because they are unaware of the need to know. Net assessment emphasizes that many will be involved as they may have critical information about the external environment as part of their responsibilities. Andy Grove, the Chairman of Intel, describes an excellent example. Grove stated that with the contribution of his employees, he was aware of a significant threat from the Japanese memory producers in the mid-eighties that could be very harmful to Intel (Grove, 1997, pp. 2-3. 18-23).

By receiving an alert, Intel could manufacture a quick technological response to protect its competitive advantage. The belief that critical information would be aggregated in one unit (for example, strategic planning or competitive intelligence) fails to understand how organizations work. The essential capability of the net assessment approach is the need to integrate knowledge about the external environment, for example, moves by competitors, together with the internal understanding of executives. It is advised that the intelligence will be kept in a single place. It can be in strategic planning units, competitive intelligence, or other functions like business development if a corporation makes special efforts in M&A activity.

There is a possibility to look into organizations also as combating individuals, teams, and whole organizations, which often work in silos of thought, process and product. The Silo Effect is that people are trapped inside their little specialist units, social groups, teams, or pockets of knowledge, which makes it impossible for them to see the integral picture (Tett, 2015, pp.11-12). By its definition, net assessment is striving to make sure that local business entities inside the organization will take an active place in the process of decision-making and will

enrich the organization with their unique perspectives.

We have witnessed that dedicated units are focused on specific areas in decentralized organizations. Still, there is a risk that they will be excluded from the decision-making process, and their added value will not be considered. The net assessment approach will encourage units to take an active role in the decision-making and building the comprehensive picture. Usually, it will be done by using internal information technology (IT) platforms for sharing information and, in addition, an awareness of executives to the potential of mobilizing various points of view. The outcome produces an overall "net" assessment of the competitive challenges.

Methodological approach

The one often applied to conduct the net assessment is summarized in five sequential steps (Spevacek, 2017):

- **Measurements:** collecting empirical data in a comparable format.
- **Estimates:** discovering, describing, and distinguishing those elements that are unmeasurable but important.
- **Analysis:** evaluating competitive strengths, weaknesses, vulnerabilities, and opportunities.
- **Balancing:** anticipating opportunities to apply strength to vulnerability in compared postures.
- **Triumph:** Identifying and projecting into the future opportunities for converting favorable balances into business outcomes.

The analyst should base his assessment on four pillars: trends, emphasizing the long term; strategy, the competitor strategy; and asymetrics. He should identify areas of competitive advantage for the other side and use scenario analysis to test hypotheses (Ibid.)

What will be changed?

While CI has become recognized as a vital, legal, and ethical support for many corporate functions (McGonagle & Vella, 1999), CI practitioners, especially CI directors, deal with internal criticism regarding their limited added value. They seem to face unfulfilled expectations from top

executives and other management ranks who believe CI units can be more helpful (Barena, 2016).

Criticism of CI units can be divided into two: the first is that they are not helpful for the ordinary needs of executives and units, and the second occurs in much more serious events, in cases that can be identified as intelligence failures, which have a significant impact on the performance of a corporation or one of its units.

The following example may describe the value of net assessments. In the 1970s, General Motors focused on the moves of its competitors, Ford and Chrysler. They have made efforts to know what the competition is planning and to understand how to operate more effectively and reduce costs and other means to preserve their competitive advantage. While this was the focus of these three on each other, they missed the uprising of the Japanese car manufacturers, mainly Nissan and Toyota, and their entering the US car market. Even after the Big Three understood that they were losing market share, they also needed to catch up on how the Japanese have competed. Only later did the three leading US car manufacturers comprehend how the Japanese managed their production, giving them an advantage over competitors (Bracken, 2006, p. 97). Net assessment has long emphasized getting to know these differences, such as different uses of technology, strategic culture, and others, to help build a strategy to compete successfully with Japanese cars. Getting these differences out on the table as net assessment requires intends to help develop an answer to this situation. Recognizing these strategic differences is often the first step to improving strategic inferiority.

Another good example is the competition between Kodak and Fuji (Fuld, 2010, pp. 19-27). Each knew that the other was approaching digital photography. While Fuji acted on imperfect knowledge, Kodak, the market leader, backed up its digital innovations and denied that they were a threat. With its innovative digital technology, Kodak failed to act, while Fuji achieved significant market share in the photo processing machines in the retail shops, which Kodak dominated. It became apparent that Kodak needed to have understood the threat by Fuji by not using a

solid assessment tool like nest assessment, which would warn about the emerging threat in advance.

Through net assessment, it will be possible to focus on what is needed to know rather than analyzing what is already known. It will be done by analyzing each competitor independently and considering what is not known and only in a further stage to compare the findings in different areas like technology, products, research and development, and other factors that may help to develop a strategy that will give a competitive advantage. Net assessment calls for consciously thinking about the period of the analyzed competition. It highlights the importance of recognizing gradual changes that may have significant long-term effects. Another aspect valued by net assessment is the need to understand and account for the behavior of organizations and individuals within them, especially those holding influential positions. This is different from focusing on immediate challenges like short-term decisions. An example is the exploded change in the US motorcycle market in the late '60s. Through competitive proposals, Japanese motorcycles rose to the top of US-known brands like Triumph, BSA, Norton, and Harley. The US motorcycle manufacturers did not understand the Japanese strategy and woke up too late (Cameron, 2020).

CONCLUSIONS

The net assessment approach provides a framework for analyzing competition. It offers a strategic framework that allows businesses to explore their competition from multiple perspectives. By understanding the strategic interactions and asymmetries between competitors, companies can gain insights into their competitors' strategies and identify their opportunities and vulnerabilities.

Net assessment consists of the following perspectives and associated skills that guide analyzing changes in the external environment and business strategy and businesses in several ways:

- Strategic interactions: Net assessment emphasizes breaking complex problems into smaller, more manageable pieces. Understanding

these corporations' actions is crucial in analyzing strategic interactions.

- Longer time spans: Net assessment requires understanding the long-term trends and changes in a competitive environment.
- Getting things right with some thought: Net assessment emphasizes identifying and addressing essential but overlooked problems rather than focusing on immediate challenges.
- The importance of socio-bureaucratic behavior: Net assessment emphasizes the need to understand dynamics in strategic analysis.
- Strategic asymmetries: Net assessment acknowledges that competitors recognizing and understanding these strategic asymmetries is crucial.
- The Multifaceted nature of strategy: Net assessment emphasizes the need for strategies to incorporate these elements and work cohesively.

Overall, the net assessment is expected to provide businesses with a better-structured approach to analyzing competition, understanding long-term trends, considering organizational dynamics, recognizing strategic asymmetries, and developing multifaceted strategies. By applying these principles, businesses can gain a competitive advantage and make more informed strategic decisions.

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