Moderating Effect Of Organizational Factors Between Competitive Intelligence Practices And Performance Of Firms Listed On The Nairobi Securities Exchange, Kenya

Paul Waithaka
Department of Business Administration
Kenyatta University

doi: 10.19044/esj.2016.v12n22p213 URL:http://dx.doi.org/10.19044/esj.2016.v12n22p213

Abstract

Performance is critical for every listed firm, as it enhances shareholder's value and capability to generate earnings from invested capital. Some of the firms listed on the Nairobi Securities Exchange (NSE) have been performing poorly as indicated by the rising number of firms issuing profit warnings. The competitive business environment is continuously working to drive down the rate of return on invested capital. To counter these competitive forces, firms have resorted to gathering information at their disposal and converting it into competitive intelligence through analysis and human judgment. Competitive intelligence can be viewed both as a process and a product. As a process, it is the set of legal and ethical methods for collecting, developing, analyzing and disseminating actionable information pertaining to competitors, suppliers, customers, the organization itself and business environment that can affect a company's plans, decisions and operations. Competitive intelligence as a product is information about the present and future behavior of competitors, suppliers, customers, technologies, government, market and the general business environment. This study sought to determine the moderating effect of organizational factors between competitive intelligence practices and performance of firms listed on the NSE. Firm performance was evaluated using both financial and non-financial measures. The findings indicate that organizational factors specifically organizational culture, organizational structure and managerial attitudes toward competitive intelligence were found to moderate in the relationship between the competitive intelligence practices and performance of firms listed on the NSE, Kenya.

Keyterms: Competitive Intelligence Practices, Organizational Factors, Firm Performance

Introduction

The challenge for the management of many organizations today is how to improve performance and deal with the changing competitive landscape. An organization's management's desire is to see tangible results and positive return on their investment in given activities and may complain if they perceive lack of understanding of how a given activity actually contributes to performance (Kaplan & Norton, 1992). There is a need to evaluate performance with the primary objective of providing valid and reliable data on it. Measuring performance is essential to enabling researchers and managers to evaluate the specific actions of firms, and how firms perform over time (Sabina, 2009).

The competitive environment in which the firms operate makes it difficult for them to raise their level of performance and maintain a sustained competitive advantage (Shih, Liu & Hsu, 2010). For firms to compete effectively in today's environment that is in a state of flux, there is need for advanced competencies that support strategic decision-making by providing accurate and timely information on opportunities and threats, competitor assessment that supports strategic planning and implementation, which is, after all, the main objective of competitive intelligence.

Competitive intelligence has a strong underpinning in military science and has a rich history dating back more than 5,000 years (Tao & Prescott, 2000). The analogy between the business world and the battlefield is not something beyond comprehension; indeed today it is common to speak of competition in trade as war. Since the end of the Cold War, competitive intelligence once used in the military environment rapidly infiltrated into the business environment (Deng & Luo, 2010). When the Cold War came to an end in 1990, downsizing occurred in the United States of America armed forces and related intelligence activities, which resulted in many qualified intelligence officers seeking to apply their skills in other arenas. One arena where they found a home was in business organizations (CIR, 1999). Hence the widespread use of competitive intelligence in business organizations today.

Competitive intelligence practices can be a source of sustained competitive advantage by enabling a firm to develop, implement and monitor strategies that create as well as protect shareholders' value in the long term (Protiviti, 2011). It is a valuable and performance-enhancing contributor to the process of strategy development, focused on identifying, developing and sustaining resources and capabilities that create competitive advantage. Competitive intelligence practices can make a measurable impact on both the on-going activities and long-term performance of the firm. The practices enable a firm to manage emerging opportunities and risks in a proactive manner to gain competitive advantage and enhance business performance.

Scholars have long argued that competitive intelligence activities are highly associated with results. Some of the arguments supporting this point suggest that competitive intelligence is a condition for survival (Vezmar, 1996); it is vital for strategy (Gieskes, 2000); it is fundamental for proactive behavior and competitive advantage (Miller, 2000); it is an absolute imperative for business (Kahaner,1997); an administrative priority (Marceau &Sakwa, 1999); it is important for profitable and sustainable growth (Prescott & Miller, 2001); and it is fundamental for the success of firms (Shaker & Gembicki, 1999; Lackman, Seban & Lanasa, 2000). Cappel and Boone (1995) established that businesses that emphasized competitive intelligence generally outperformed those that did not. The study found that there was a positive relationship between emphasis on competitive intelligence and successful financial performance. This study sought to establish whether organization factors moderate this relationship between competitive intelligence practices and performance of firms listed on the Nairobi securities exchange.

Organizational Factors

Organizational factors could be viewed as the company's capabilities and processes at coordinating its resources and putting them into productive use. These capabilities reside in the organizations' rules, routines and procedures. More generally, a company's capabilities are a product of its structure, processes, control and hiring system. They specify how and where within the company decisions are made, the kind of behaviours that the company rewards, and its cultural norms and values (Hill & Jones, 2010). Organizational culture is a critical element in the successful implementation of any corporate strategy. It is about values, beliefs and ideas about what kinds of goals the members of the organization should pursue and about appropriate kind or standard of behavior organizational members should use to achieve these goals (Murphy, 2005). From organizational values develop organizational norms, guidelines or expectations that prescribe the appropriate behaviour of employees in particular situations and control the behavior of organizational members towards one another. Culture shapes and influences the way members behave, and this is crucial for competitive intelligence processes.

Implementing a company's strategies successfully depends on the organizational design, the processes of selecting the right combination of structure, control system and culture. Firms need to monitor and oversee the organizational design process to achieve competitive advantage. Murphy (2005) noted that effective organizational structure enables a firm to economize on costs of collecting, analyzing and disseminating information as well as enhancing the ability of the company's value creation function to achieve superior efficiency, quality, innovativeness and responsiveness to customer needs.

Managers are the linchpins in the strategy-making process. Individual managers must take responsibility for formulating strategies to attain a competitive advantage and for putting those strategies into effect. They must lead the strategy-making process. Strategic leadership is about how managers can effectively lead the strategy-making process. In most firms, there are three main levels of management: corporate, business, and functional. General managers are found at the first two of these levels, but their strategic roles differ, depending on their spheres of responsibility. At each of these levels, managers as decision makers have the responsibility of integrating competitive intelligence in the decisions taken as they seek competitive advantage for their firms. Managers at each level in organizations conduct and receive intelligence relating to variables in the environment that are continuously shifting (Fielding, 2006). Competitive intelligence activities allow managers to respond quickly to changes in customer preferences, competitor's strategies and technological advancement.

Nairobi Securities Exchange

There are 60 companies listed on the Nairobi securities exchange (NSE, 2015). These are grouped into eleven sectors: agricultural; automobiles and accessories; banking, commercial and services; construction and allied; energy and petroleum; insurance, investment; manufacturing and allied; telecommunication and technology; and growth and enterprise market segment. The core function of an exchange is to ensure fair and orderly trading, as well as efficient dissemination of price information for any securities trading on that exchange (Capasso, 2006). Singh (1997) stated that stock markets are established to be a means of accelerating economic growth through increased domestic savings and improvement of the quantity and quality of investment. The securities' exchange also lists treasury bonds issued by the Government of Kenya (GoK) and occasionally, there are privately issued corporate bonds as well. The level of performance is influenced by various factors such as corporate governance, weak regulatory framework and the slow level of economic growth. Performance keeps alternating between bull runs when the prices for most stocks keep rising and bearish season when prices either stagnate or generally decline.

Statement of the Problem

The Nairobi Securities Exchange (NSE) has been performing poorly in recent years and has not managed to make significance contribution towards accelerating the economic growth of the country (Ngugi, Amanja & Amaana, 2009). In the recent past, there has been an increase in the number of listed firms that have been issuing profit warning. In 2011, only two out of sixty firms operating at the NSE issued a profit warning. In the financial year 2012, the number rose to ten**.** In the financial year 2013, thirteen companies issued profit warnings (Juma, 2014).The rising number of listed firms issuing profit warnings is an indicator of the fact that the firms are unable to sustain competitive advantage.

In Kenya, studies on competitive intelligence are generally limited. These studies are, however, descriptive and case-based in nature, were done on specific firms or industries and used profitability as the measure of performance, leaving out non-financial measures. Little research has been done to empirical establish the moderating effect of organizational factors between competitive intelligence practices and firm performance. This study posits a moderating effect between competitive intelligence practices and performance of firms listed on the Nairobi securities exchange.

Objective of the study

To determine the moderation effect of organizational factors on the relationship between competitive intelligence practices and performance of firms listed on the Nairobi Securities Exchange.

Hypothesis of the Study

H_{01}: Organizational factors have no moderating effect on the relationship between competitive intelligence practices and performance of firms listed on the Nairobi Securities Exchange.

Literature Review

Research indicates that performance can be improved when the variables are correctly aligned (Norman & Slevin, 1993). This is the basic premise of Contingency Theory which suggests that congruence is necessary among variables just as industrial conditions and organizational processes are critical in obtaining optimal performance (Lawrence & Lucsch, 1967). Contingency Theory holds that the relationship between two variables depends on the level of a third variable. Introducing moderators into vicariate relationships helps reduce the potential for misleading influences and permits a more precise and specific understanding of the contingency relationship (Rosenberg, 1968).

A company’s competitive performance and capability depends on a number of internal factors (Murphy, 2005). In this study, organizational internal factors were considered to be the variable that moderates the relationship between competitive intelligence practices and performance of firms listed on the Nairobi Securities Exchange. The internal factors considered in this study are organizational culture, structure and senior management's attitude towards competitive intelligence. For competitive intelligence to flourish, be implemented and be used optimally there needs to be an appropriate culture of competitiveness (Viviers, Saayman & Muller, 2005). It is important to create the right environment for competitive intelligence. This requires continuous staff training, and emphasizing the importance of competitive intelligence. Although decision makers are the drivers and primary users of competitive intelligence, Kahaner (1997) intimates that information gathering should be on everyone's mind. Without proper awareness and attitudes that favour both intelligence and information sharing, it is difficult to develop intelligence within an organization.

Competitive intelligence requires appropriate policies, procedures and an infrastructure so that employees can contribute effectively to the competitive intelligence system as well as gain the benefits from the process. There is much support for a formal structure and a systematic approach to competitive intelligence (Ghoshal & Kim, 1986). Such a formal structure would involve dedicating a particular manager or champion to competitive intelligence and assign them to co-ordinating the collection, storage, analysis and dissemination of intelligence. The intelligence process depends on the people gathering the information, availing resources from a range of internal units and encouraging employees to contribute to, use and participate in the competitive intelligence activities.

The senior management as the users of competitive intelligence are responsible for communicating the type of intelligence needed to the competitive intelligence team (Fuld, 2001). Lack of clear direction and focus from the senior management leads to fragmentation of the team's effort since different senior managers has different requirements. Senior management are also responsible for performing the critical role of incorporating the intelligence into the decision-making process so as to make better and more informed decisions (Gilad, 2004). This may not be performed successfully if senior managers appear uncertain of what to do with the intelligence delivered to them. While they may understand the value of competitive intelligence, they might not treat it as a vital component of their decision making (Kuprowicz, 1999). Callow *et al.*,(2002) state that in some organizations, the adoption of competitive intelligence is dependent on the senior management's commitment and alignment to strategy, as they are the ones to provide direction and guidance to the organization's employees. The influence of the moderating factors was measured using a 5-point Likert-like scale.

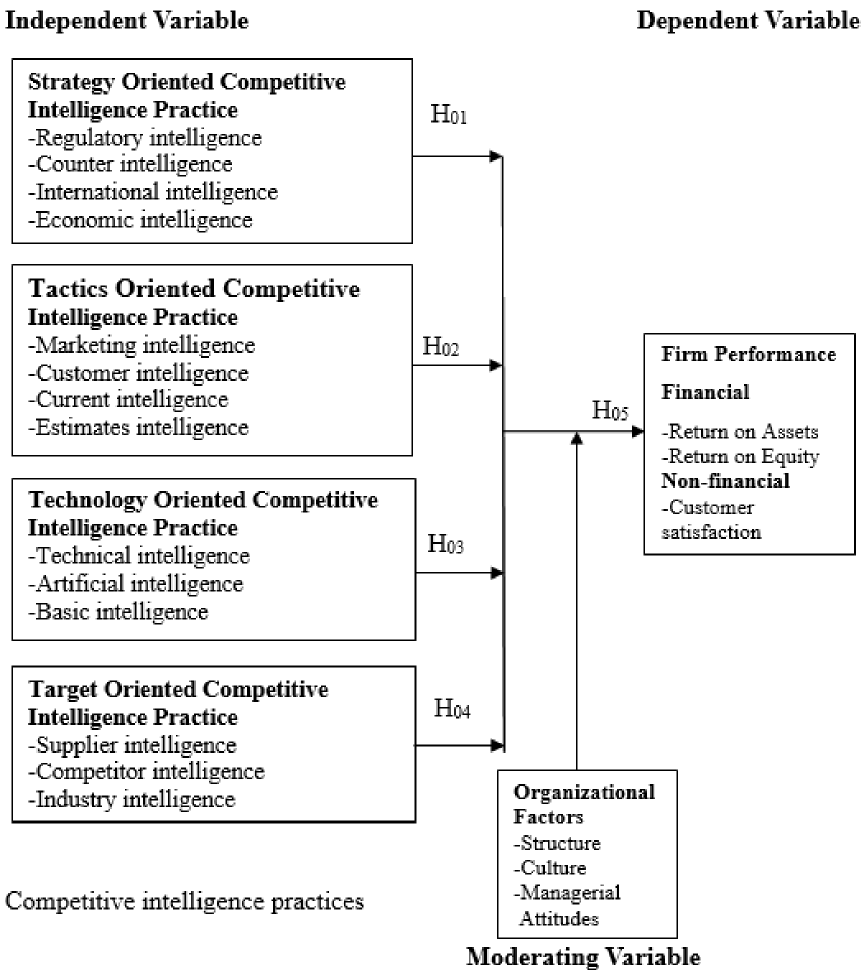

Figure 1.1: Conceptual Framework
Source: Researcher (2016).

Research Methodology

The study adopted a mixed design of descriptive and explanatory survey research. According to Sekaran and Bougie (2009) a researcher should use more than one design to enhance the study; hence these two designs were used to achieve the optimal results as recommended by (Saunders, Lewis & Thornhill, 2009). Mixed methods can elicit insights that may be overlooked by a mono-method and can produce more complete knowledge contributions to theory and practice (Niglas, 2008).

Target Population

The target population for this study were all the companies listed on the Nairobi securities exchange. There are 60 companies listed on the Nairobi securities exchange (NSE, 2015). A census study of all 60 firms listed at the Nairobi securities exchange was done. The study targeted the manager or director in-charge of planning /strategy in each firm as the unit for observation.

Empirical Model

Model 1.1 below was estimated to give the direction and effect of the moderating variable on the independent variable and the total effect on the dependent variable.

$P=\beta_0+\beta_1CIP+\beta_1ORGF+\beta_3CIP*ORGF+\varepsilon$……………………………..............1.1

Where,

P= Performance of firms listed on the Nairobi Securities Exchange

CIP=Competitive Intelligence Practices

ORGF=Organizational factors

CIP*ORGF= Competitive Intelligence Practice x Organizational factors

Findings

Results shown on Table 1.1 are the results obtained after carrying out a regression on Model 1.1 and reveal that at 95% level of confidence interval, the coefficients of two variables are statistically significant, with competitive intelligence practice coefficient at $\beta=0.710$, $t=7.765$ and $p=0.000$. Organizational factors $\beta=0.29$, $t=2.781$ and $p=0.000$. The interaction effect was found to be statistically significant at $\beta=-0.016$, $t=-0.251$and $p=0.038$. The findings are in line with the decision-making criterion for moderation. This implies that changes in the organizational factors, specifically organizational culture, structure and top management perception towards competitive intelligence practices, could positively affect competitive intelligence practices and firm performance, as the direction of the relationship is negative. The null hypothesis is not supported and is therefore rejected.

Table 1: 1 Coefficients of Competitive Intelligence Practices (CIP) and Organizational Factors and Interaction Effect

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	39.755	.144		277.020	.000
	CIP centered	.150	.019	.710	7.765	.000
	Org. factors centered	.209	.075	.249	2.781	.008

	CIP Org. factor centered	-.001	.005	-.016	-.251	.038
a. Dependent Variable: Overall Performance						

Source: Survey data (2015)

The study therefore concludes that organizational factors have a moderating effect in the relationship between competitive intelligence practices and the performance of firms listed on the Nairobi Securities Exchange. The introduction of the moderating variable has enabled the study to have a greater explanatory power. Tosi, Werner, Katz and Gemez-Mejia (2000) suggested that in order for research design to have greater explanatory power of strategic management field, it is imperative to include relevant moderating and mediating variables. As the study introduced and confirmed the new moderator of the existing relationship, a moderate level of theory building is presented to supplement existing theory.

Conclusions

The study findings indicated that organizational factors moderate the relationship between the practice of competitive intelligence and performance of firms listed on the Nairobi Securities Exchange. Prior Kenyan studies did not include a moderating factor.

Organizational factors—organizational culture, organizational structure and managerial attitudes toward competitive intelligence were found to have a positive and statistically significant moderating effect between the competitive intelligence practices and performance of firms listed on the Nairobi Securities Exchange. As a result, the study concluded that organizational factors moderate the relationship between competitive intelligence practices and performance of firms listed on the Nairobi securities exchange.

Recommendations

Managers of listed firms should ensure that they have sufficient and aligned organizational factors so as to reap more benefits from the firm's competitive intelligence activities.

Suggestions for further studies

Future research should build on the findings of this study to enrich existing knowledge on the practice of competitive intelligence. Further research should be done to establish to contributions of each of the three organizational factors to the performance of firms listed on the Nairobi securities exchange.

References:

Cappel, J. J. & Boone J. P. (1995). A look at the link between Competitive Intelligence and Performance, *Competitive Intelligence Review, 6*, (2), 15-23.

Capasso, S. (2006). *Stock market development and economic growth*. Helsinki: World Institute for Development Economic Research.

CIR (1999). *Competitive Intelligence Review,* 10 (4), 1-84.

Deng, Z. & Luo, L. (2010). An exploratory discussion of new ways for competitive intelligence on the Web 2.0.International Federation for Information Processing, *252*(1), 597-604.

Fuld L. M. (2001). Can American companies still practice safe searches? *Competitive Intelligence Review, 8*, (3), 29-31.

Gieskes, H. (2000). Competitive Intelligence at Lexis-Nexis.*Competitive Intelligence Review, 11* (2): 4-11.

Gilad, B. (2004).*Early Warning: Using Competitive Intelligence to Anticipate*
Market Shifts, Control Risks and Create Powerful Strategies, AMOCOM, New York, NY.

Ghoshal, S. & Kim, S. K. (1986). Building Effective Intelligence Systems for Competitive Advantage, *Sloan Management Review*, 28(1), 49-58.

Hill, C.W.L. & Jones, G.R.(2012). *Essentials of Strategic Management* 3rd edition South-Western, Cengage Learning.

Juma, V. (2014 April, 25). Home Africa sends investors profit warning. *The Business Daily*, Retrieved from http://www.businessdailyafrica.com

Kahaner, L., (1997), *Competitive Intelligence: How to Gather Analyze and Use Information to Move Your Business to the Top*. New York. Touchstone.

Kaplan, R.S. & Norton, P. (1996).*The Balanced Score Card: Translating Strategy into Action* . Harvard Business School Press. Boston MA.

Kuprowicz, R. J. (1999). Competitive intelligence: a Powerful Tool for Botech Business Planning, *Bio Tactics in Action, 1* (9). Retrieved 22 May, 2012, from http://www.biotactics.com/Newsletter/1/9.

Lackman, C. L., Saban, K. &Lanasa, J. M. (2000). The contribution of market intelligence to tactical and strategic business decisions, *Market Research and Planning, 18*(1), 6-8.

Marceau, S. & Sawka, K. (1999). Developing a World-Class CI Program in Telecoms, *Competitive Intelligence Review, 10*, (4), 30-40.

Miller, J.P. (2000). Small business intelligence: People make it happen', in Miller, JP (Ed.) *Millennium intelligence: Understanding and conducting competitive intelligence in the digital age*. Medford, NJ, Information Today.

Murphy, C. (2005). *Competitive Intelligence- Gathering, Analyzing and Putting it to Work* . England. Grower Publishing Ltd.

Nairobi Securities Exchange (NSE), (2015 November 27). Retrieved November 27, 2015, fromwww.nse.org.

Ngugi, J. Amanja, D. & Amaana I. (2009). Capital market, financial deepening and economic Growth.

Niglas, K. (2008). How to make sense of mixed methods design? FIGSEL, Helsinki, 9-10 September.

Prescott, J.E., Miller, S.H. [eds.] (2001). *Proven Strategies in Competitive Intelligence: Lesson from the Trenches* New York, NY: John Wiley & Sons and Society of Competitive Intelligence Professionals.

Protiviti (2011), Maximizing the value of competitive intelligence, available at www.protiviti.com

Rosenberg, M. J. (1968). *The Logic of Survey Analysis*. New York: Basic Books.

Sabina, N. (2009). Top management team diversity: A review of Theories and Methodologies, *International Journal of Management Review*, 1468-2370.

Saunders, M., Lewis, P. & Thornhill, A. (2007).*Research Methods for Business Students. 4thed*. Harlow: Prentice Hall, Pearson Educational Limited.

Singh, S. (1997). Financial Liberalization stock markets and Economic Development, *The Economic Journal*, *107*, 771-782.

Shaker, S.M. and Gembicki, M.P. (1999).*The War Room guide to Competitive Intelligence*, McGraw-Hill, New York.

Sekaran, U. & Bougie, R. (2009). *Research Methods for Business*: A skills building approach, 6th edition, John Wiley and sons.

Shih, M. J., Liu, D. R. & Hsu, M. L. (2008). Mining changes in patent trends for competitive intelligence. *Advances in Knowledge Discovery and Data Mining, 5012* (1) 999-1005.

Tao, Q. & Prescott, J. (2000). China: Competitive intelligence practices in an emerging market environment, *Compétitive Intelligence Review*, *11*(4), 65.

Tosi, H. L., Werner, S. Katz, J.P. & Gemez-Mejia L.R. (2000).How much does performance matter/ A mata-analysis of CEO pay studies, *Journal of Management*, 26 (2), 301-309.

Vezmar, J.M. (1996). Competitive Intelligence at Xerox, *Competitive Intelligence Review, 7*(3): 15-19.

Viviers, W. Saayman, A. & Muller M.L. (2005). Enhancing competitive intelligence culture in South Africa. *International Journal of Social Economics*, *7*, 576-86.