Achieving the next level of Growth through Competitive Intelligence Practices: An Exploratory Study of Romanian Offshore Technology Service Providers

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A R T I C L E I N F O	A B S T R A C T
	The paper explores the tool of Competitive Intelligence (CI) as an effective method of building one's capability and focus and illustrates the benefits of gathering competitive intelligence by applying it on the top technology services firms in India. These results are then analysed in the light of the responses to the questionnaire administered to the selected three Romanian Offshore technology services providers. The study revolves around the key assumption that there is a set of factors common to all industry players whether in India or Romania, so it would be vital to collect information about how do these global competitors perceive their external environment and what strategies are they planning to adopt in order to grow in these competitive scenario. Given the growth targets set by these Romanian firms over the next five years and given the fact that there is no formal practice of gathering CI, the study recommends strategies for these Romanian players and builds a case for developing a Competitive Intelligence Plan by these firms in order to make the most of their capabilities and stay competitive.

1. Introduction

Software and Service sector is the most dynamic entrepreneurial initiative of Romania and predictions at the beginning of 2008 indicated a minimum annual growth rate of 15% over the next 5 – 10 years; as per the estimates by ANIS (the software industry association of Romania). The annual growth rate for the sector from 2002-2007 was 20%. The industry employs approximately 60000 people, 3 times more than in 2000 and there are 11000 active companies, triple the figure from 2000. The IT industry counts for approximately 1.1% of GDP.

Today, Romania is considered a secure offshore outsourcing destination with vast potential. The cultural and language barriers are the lowest in Eastern European countries as there is a large pool of skilled human resources, which have a common background among European nations. Business understanding, trust and reliability are traits belonging to Romanian programmers, which have also been recognized by the Ministry of Labour, Family and Equal Opportunities as well as representatives from management consulting firm A.T. Kearney.

Moreover, the software sector in Romania has received an infusion of 30 billion euro as non-refundable funds from EU for the period of 2007-2013, thus transforming the software outsourcing business into a national priority, in the circumstances provided by the world financial crisis. This translates into stability for the outsourcing company that offshores its internal IT affairs in Romania.

However, there is still a lot of ground to cover and initiatives taken to help the industry reach its potential. As per the white paper by IDC on Romania, the major challenges for the country in its quest to become the preferred offshore location is that the country needs to raise its profile and market its capabilities better. The other challenges being the sector are also experiencing high wage inflation.

The study was undertaken to analyse the case of three Romanian companies in this sector in order to design strategies for their growth so that they are able to overcome the present challenges and reach the goals that they have set for themselves for the next five years. All the three companies chosen for the study are targeting a growth rate of more than 80% in their revenues and planning to increase their workforce by 20-70% in a five year time frame. It is concluded that Competitive Intelligence can be an excellent tool to help them achieve these targets.

As the offshore outsourcing industry is global in nature, there is a set of factors common to all industry players. By examining the ways in which Indian players are planning to mitigate the environmental risks and

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preparing themselves for the changes ahead, the Romanian players would get to know about the relevant data points to support their growth strategies.

2. Literature Review

The Software services sector is one of the most significant growth catalysts of the Indian economy and its success has surpassed the success of most of the other industry segments. The Indian IT-BPO sector expanded from a USD 8 billion in 2000 to about USD 88 billion in 2012 and employs about 11 million people directly and indirectly. As a proportion of national GDP, the sector revenues have grown from 1.2 per cent in FY1998 to an estimated 7.5 per cent in FY2012. Its share of total Indian exports (merchandise plus services) increased from less than 4 per cent in FY1998 to about 25 per cent in FY2012 (NASSCOM Strategic Review 2012).

The success of the industry has been analysed in great detail by different scholars (Athreye 2005, Arora 2008, Arunachalam, Asundi). Indian companies made the best of two important market booms - the Y2K problem and the Internet boom. The post dotcom recession in global markets affected the performance of the Indian industry but not to a large extent as it brought with itself new focus of major global companies on reducing costs. The Indian companies with their high quality software and services offered a great way of achieving cost reduction. The focus of Indian vendors on quality was so high that as per the NASSCOM report in 2002, almost 60% of the SEI CMM Level 5 certified companies in the world were in India (Krishnan and Vallabhneni, 2010).

2.1 Competitive Intelligence

The study builds a case for deploying Competitive Intelligence (CI) by the selected Romanian firms. CI is an excellent tool to accelerate business growth and discovering new markets and new customers. CI is commonly understood to comprise the action of defining, gathering, analysing and distributing intelligence about innovation, customers, competitors and any other aspects of the market environment necessary for effective decision making. We can sum CI as the analytical process that transforms scattered information about competitors and customers into relevant, accurate and usable strategic knowledge on market evolution, business opportunities and threats. CI is focused on environment and uses public sources to locate and develop information on competition and competitors (Albescu et al., 2008). CI is also known as the process of environmental scanning (Aguilar 1967 and Fahey and King 1977). Over time, CI has also been used interchangeably as business intelligence, competitor analysis and market intelligence. But CI converts this information about one's environment and competitors into knowledge which is used by the organisation to make strategic decisions.

Although, companies have always been collecting information on their environment and competitors but CI has formalised and systemises the process. A Competitive Intelligence Plan (CIP) has been defined as: " a formalised, yet continuously evolving process by which the management team assesses the evolution of its industry and the capabilities and behaviour of its current and potential competitors to assist in maintaining or developing a competitive advantage," (Prescott and Gibbons, 1993). A CIP is created to ensure that an organisation does not miss upto date, relevant and accurate information about its competitors.

3. Methodology

It was a study conducted in two parts. In the first part, we sought answers to the various aspects related to the business of the offshore technology service players in Romania. A questionnaire was administered to three selected small sized firms to gauge their perceptions on their external operating environment, the strategies that they are following to remain competitive in such an environment, their risk management practices, their strengths and weaknesses etc. Following this, a content analysis method was deployed to illustrate how the results from the questionnaire could be compared with the results from examining the strategies of the top Indian IT players. The Indian technology service providers have been chosen on the basis of convenience, the study could be done on any other set of well established players from any country. The eleven companies selected for content analysis are the top companies in India as per the NASSCOM report and operate in the business segments which our selected Romanian companies operate in. As the sample size of eleven was very small so we resorted to aggregating the perceptions and views of the management on their external operating environment and the strategies that they are adopting. The latest published material and annual reports of the top Indian firms were treated as Competitive Intelligence resources.

For gathering competitive intelligence, the focus was on collecting the information that was useful from the point of view of decision makers of the selected firms. Hence, the categories defined for content analysis were:
1. Opportunities perceived in the external environment;
2. Risks/Threat perceived in the external environment;
3. Strategies adopted for business growth.

To conclude the first part, a set of recommendations on the growth strategies of these Romanian firms was arrived at. In the second part, feedback on the recommended strategies was solicited from the selected Romanian firms and the status of Competitive Intelligence as deployed by them was examined.

4. Findings and Discussions

We conducted a questionnaire based survey on three Romanian software companies, let us call them Company A, Company B and Company C, that focused on covering the strengths and weaknesses of these companies as well as how they were building their competitive edge. Following table summarises the responses of the companies' managers.

Table 1. Internal and External Environment Analysis

Issue	Company A	Company B	Company C
Competitive capabilities	Improvement of software developers' technical skills and project managers' coordination skills in a cross-cultural context	Efficient use of the knowledge base provided by the clients	Increase of competitive capabilities due to the very demanding clients' exigencies
Value Added Proposition	Cost saving, flexibility	High volume of quality work offshore to ensure total cost savings	Developing customer relationships
Contract/ Objective setting	Structured guidelines for evaluating the partnership with clients	Alignment of goals between supplier and client in view to effectively monitor contracts in all their stages	Contracts' clauses assess both the satisfaction and success level of the specific projects
Risk Management	Risk Mitigation Policy	Yes	Yes
Knowledge Exchange	Improved skills, knowledge exchange capacity through global virtual team operations	Trust and knowledge exchange based on long term relationships	Communication is mainly focused on project and cultural knowledge transfer
Communication quality	Good, working on it	Constant and careful communication with clients	Communication with clients keeps them up to date regarding all the relevant issues related to the projects
Feedback	Constant feedback which leads to favourable project outcomes	Focused on the improvement of working methods and the saving time spent on tasks	Clients have the opportunity to give feedback on every project step.
Cross cultural skills	Constant training	Constant training, risk mitigation policy dedicated to diminish the effects of cultural gaps	No formal training
High attrition/rising salaries	No The employees feel valued for their work by means of an effective motivation strategy	Yes HR strategy focused on development of motivation policies based on non financial rewards	No Motivation strategy based on proper indexation method for the employees' salaries
Biggest risk to business	Legislation, Regulation	Client-vendor communication	Risk mitigation policy implemented in what concerns IP rights
Enhancing Competitive Edge	R&D alliances, talent management	Niche player, talent management	Talent Management

Following this, the published reports of the top Indian players were analysed to arrive at how they perceive the environmental threats and opportunities.

Table 2. Opportunities and Threats as perceived by most companies

Sr No.	**Opportunities**
1	IT Industry growing at a fast rate, global IT spends at appx US$ 1.7 trillion
2	Strong Government Support
3	Corporations looking for greater efficiency and variability in their costs
4	Clients looking for transformation partners who can increase return on investment
5	Shift from traditional horizontal offerings to industry specific high value offerings
6	"Geography becomes History" with reduced telecommunications costs

Sr No.	Threats
1	Uncertain Global Economic Environment
2	Commoditisation and Scalability
3	Regulatory Changes
4	Resource Availability
5	Wage Inflation
6	Currency Volatility

Almost all the companies are very optimistic about the prospects for software services industry in the future and they all seem to focus on innovation and creating differentiated experience for the clients. Increasing the clients' efficiency and reducing the costs of doing business was one of the top most priorities. Most of the Indian companies mentioned the uncertainty in the environment affecting the business growth but they also appeared hopeful that such challenging times will bring new and better ways of doing business as companies across the board would look for improving their efficiencies and reducing their costs.

The strategies for business growth that most of them have adopted are summarised as follows:

Table 3. Strategic options for business growth in software industry

No.	Strategies for business growth
1	Building Strategic Partnerships and deepening existing client relationships
2	Differentiation at front end, standardisation at back end
3	Expanding geographic reach, industry coverage and service capabilities
4	To partner with customers and co create solutions to drive optimisation and agility across the enterprise
5	Strengthening Niche expertise where advantages of high quality and cost efficiency are enjoyed
6	Acquiring clients only from a targeted market
7	Building Next Generation Enterprise with Cloud, Social Media and Mobility
8	Adopting/Creating new business models and business solutions through continuous innovation
9	Talent Management – hiring, developing and retaining the best
10	Investing in sales and marketing

Most of the companies have adopted aggressive strategies to make the best use of opportunities being presented by the changing environment. For the big players, moving up the value chain was important whereas the others preferred to focus on their niche area of expertise.

5. Recommendations

The results from both the questionnaire and the content analysis can be summarised as follows. The companies need to add more details in their design of strategy and make it more granular. For example, company B has stated that it wants to enhance its competitive edge by being a niche player, at the same time it has mentioned that its value added proposition is achieving cost savings through high volume of quality work. This is definitely not a clear strategy to go forward with, it needs to define whether this can be achieved by targeting clients from a specific markets or by offering specific technology services only. Similarly, Company A needs to be more specific about how it wants to build alliances with various partners in order to provide the required breadth of services and flexibility to its clients. Moreover, talent management alone cannot result in enhanced competitive edge for these companies, how are they planning to develop robust processes and build a culture of quality and efficiency is equally important in order to make the most of their pool of talent.

The above results and insights were utilised and the following strategies were recommended keeping in mind the business priorities of the managers of the companies selected for the study:

1. As the companies are small in size and cannot compete with the big ones in terms of size, resources and providing full spectrum of services, they must focus on niche areas which would help them make the most of their resources, develop highly technical and focused talent pool, which will also help them in marketing themselves better.
2. They need to develop partnerships with other niche players in order to add value therefore a key skill to pick up is to execute alliances effectively.
3. They need to retain their talent by introducing some form of non-financial rewards. If possible, the employees should be given freedom and flexibility to work on the projects of their choice. Steps must be taken to increase their ownership in the projects undertaken.
4. Special metrics should be designed to track the improvement in the overall quality of communication in the organization. As relationships with the clients as well as success of the project are clearly linked to the level of quality of communication, it would benefit the vendors to measure and manage the communication metrics in their organizations.

6. Towards a formal Competitive Intelligence Plan

In the second part, feedback on the recommendations was solicited and the status of Competitive Intelligence as practised by these firms was examined. It was found that the managers in these firms are working along similar line. They also consider it extremely important that they know the moves of their competitors and are in sync with their external environment. They appreciate the importance of CI practice, however, none of them has a formal system of capturing CI. The companies do collect and analyse information on their competitors through publicly available resources like websites, published reports etc. One of the companies selected for the study even hired the services of a consultancy firm to receive a professional market research report. Despite the growing importance of social networks as a source of understanding competition, they are not being used frequently.

The managers do agree that information provided by the Competitive Intelligence tool contributes to the design of strategic options such as entering new markets or launching new software products. The main focus of the growth strategies adopted by these firms remains building on their assets like knowledge and creativity, adding on to the relevance and portability of their employees' skills, achieving cost effective innovation and identifying the areas where they can beat their competitors.

However, just being focused on beating the competitors cannot be a sustainable strategy. The firms have to weigh all the opportunities in their environment and select the ones which can best be taken advantage of through the capabilities that they have. Developing a CI function will help the companies achieve this objective. Liam Fahey states in his paper that "the intelligence function needs to emphasize strategy inputs and alert management as early as possible to the presence and relevance of each input, and, perhaps most importantly of all, engage with members of the management team around the data and reasoning associated with each strategy input. A commitment to following these prescriptions will cause a significant shift in the intelligence modus operandi in most companies that will pay off in generating real strategy value."

Sheila Wright and Jonathan L. Calof have presented evidence in their research paper that CI input and output does impact on marketing activity and the two fields enjoy a mutually beneficially complementary role in the enlightened firm. There have been studies that explore the relationship between Competitive Intelligence (CI) practices and the firm's performance in the emerging market context in India (P.Adidam, M. Banerjee, P. Shukla, 2011). The studies show a positive relationship between higher levels of CI activities leading to better financial performance.

7. Conclusion

This exploratory study shows that in the case of Romanian software firms, CI is not yet developed as a well defined practice which can lead to actionable insights. In the case where it is exercised in some form, it is focused on Romanian players only. It is suggested that the focus of Romanian firms should be global and on the mid sized to large sized players. In conclusion, these firms should focus more on the CI practices in order to develop their focus and capabilities and develop a concrete CI Plan that would help them in gaining more clarity on their strategy.

8. Further Research

The study was done on three Romanian companies only, in future more companies in Romania could be covered to examine their CI practices. A formal CI Plan could be developed and tested in few companies to study the benefits of following such an approach and how does it effect the business performance.

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