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THE INTELLIGENCE AGENCY IN THE COMPETITIVE STRATEGY OF LOCAL BANK

The article presents the author's conception of an economic intelligence agency as a non-conventional means of creating the local bank competitiveness.

INTRODUCTION

According to the opinion of Polish banking experts, domestic banks have a chance to survive only if they extend their activities into financial services addressed to local communities. This means that banks with Polish capital should abandon universality as their concept of functioning and instead assume a specialization and support local or regional socio-economic development. This specialization is seen by theorists and some banking experts as a way of facing the growing competition of foreign banks operating in Poland and domestic banks with a majority foreign capital holding. First of all, it applies to smaller commercial banks, co-operative institutions and communal saving and loans banks (Jaworski 1999, p. 151).

The problem for these banks to survive has a much greater dimension – it applies to the whole national banking system. An opinion can be found that an important attribute of a healthy banking system is a sufficient differentiation of banking institutions in the range, forms of activity, scale of assets and internal funds (Flejterski 1999, p. 41; Pawłowicz 1995, p. 4). Increasingly, it has been admitted that the construction of a good banking system should be lead by a competitive strategy, i.e. assuming such reconstruction of the system that the domestic banks could compete and co-operate with European Union banks (Gwizdała 1999, p. 72; Solarz 1993, p. 62). Translated into the practice of a commercial bank, in the framework of general operating conditions imposed by the state, each bank should elaborate its own basis to be differentiated among competitors and to be able to ensure specialized services on a local and regional scale.

The ability of a domestic bank operating in such a scale to be distinguished from competitors, requires a thorough recognition of the local environment, the

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observation of trends and directions of occurring changes and the continuous integration of activities with the life of a given local community. Monitoring the neighbouring and even distant environment becomes necessary for the bank to survive and develop.

However, Polish banks face the barrier of access and the acquirement of sufficient and comprehensive information on directions, kinds and magnitude of changes occurring in the environment. The institutional underdevelopment of business intelligence is noticeable, and the existing entities have access to the databases and information much below the level that is needed for a bank. The purchase cost of the data and information is very high. Banks should not wait until an effective network of business intelligence develops in Poland.

Among the suggested ways of creating competitive ability of local banks is to take into account the operation of the bank's own intelligence agencies as an element of operational strategy. Of course, the creation of such services using only the individual resources of a local bank seems unrealistic. Rather it should be done as a joint effort of at least several banks. Thus banking intelligence could be the bank's tool in order to distinguish its existence in the competitive environment.

In this report the concept of the possible organization and operation of a banking intelligence centre is presented. This is the author's own proposal, based on experience as well as co-operation with a Polish bank, a proposal that in fact has been considered for application. According to this concept, this particular banking intelligence agency should cover, first of all, the area of Lower Silesia. It is possible that other banks will take advantage of this idea and adopt it to their needs.

1. AN EXEMPLARY PROJECT OF A “BANKING INTELLIGENCE AGENCY”

The aim of the project could be:

- Continuous delivery of processed information concerning economic, social and political environment of a region, e.g. Lower Silesia, to a bank or a group of banks.
- Regular consulting services to a bank or a group of banks concerning the practical use of such information.
- Promotion of financial co-operation between the involved banks and some business related institutions (also companies or self-government entities) operating in the area of Lower Silesia.

- Serve in initiating co-operation between some business-related institutions (also companies or self-government entities) and the involved banks.

This aim could be obtained by completing the following tasks:

1. Monitoring the economic environment of Lower Silesia and its development perspectives.
2. Assistance in organizing economic links between the involved banks and the economic environment of Lower Silesia.

The above defined tasks could be obtained if sufficient economic basis for banking intelligence services would be ensured. For example, to complete the first task, databases (called data banks) should be created. They need to be updated, upgraded and modified – according to the existing possibilities of data and information collection (access, acquisition cost, time necessary to obtain), data comparability and their usefulness in increasing the quality of operations of involved banks.

Two data banks (Bank I and Bank II) could be distinguished and formed:

- Data Bank I would serve as a basis to evaluate trends and the direction of economic, social and political development of Lower Silesia. This is necessary to know when creating the strategy of activity for participating banks; these banks should know where to concentrate their efforts to improve the market position.

- Data Bank II would serve as a basis to set appropriate values of economic and financial indices, corresponding to the present situation of the economic status of Lower Silesia. These indices would make reference points (average values for a given industry) during the credit rating of commercial customers.

A second task could be the creation of business foundations of undertaken activities and sustained relations of the intelligence agencies with business-related institutions of Lower Silesia. To support the methodical and efficient operation, another bank containing up-to-date information and data could be created (Data Bank III).

2. DESCRIPTION OF AN INTELLIGENCE AGENCY OF A BANK BASED ON “DATA BANK I”

The **product** of these services should be written reports prepared:

- 1) periodically, e.g. quarterly, and containing a diagnosis of the current economic situation of Lower Silesia, presented in the form of so-called diagnostic maps (more important data should be presented in tables as their

supplement), a descriptive summary stating the level of attractiveness of particular Lower Silesia areas, underlying reasons, and some suggestions for banks concerning the practical utilization of the presented conclusions. Such reports could be transmitted to the authorized person in a given bank and discussed at the bank's Marketing Committee meeting;

2) non-periodically – as a requested need by the intelligence services – to inform about the opportunities for a bank requiring quick reaction and activity.

Product technology could be divided into stages and should include:

1. Gaining, distribution, gathering and verification of data and information necessary for the diagnosis of the Lower Silesia economic situation. The data and information can be grouped into three subsystems:

- data bank concerning business entities acting under different organizational and legal forms,

- data bank containing business-related institutions located in the area of Lower Silesia – e.g. trade associations, economic or social development foundations, local development agencies, Chambers of Commerce and Industry, etc.

- three-grade data bank of territorial self-government entities (voivodeship, district and commune).

2. General level diagnosis, in three cross-sections: common, legal and organizational structure of business entities, and according to the size of an enterprise (with special emphasis to mark-off small and medium enterprises). The descriptive diagnosis makes a starting point to define the directions of an in-depth analysis.

3. More detailed diagnosis concerning sub-regions, such as districts or groups of districts (for adjacent districts or those being weaker either economically or in respect of a considered phenomenon). The result will be a diagnostic map in its preliminary form, utilized to define the direction of further diagnosis and to choose which communes deserve more detailed investigation.

4. Most detailed diagnosis concerning selected communes aiming at the evaluation of the development level of a region, according to European Community methodology. The effect of such a diagnosis will be a diagnostic map in its subsequent stage, permitting a definition of the level of attractiveness of particular Lower Silesia areas and their underlying reasons.

5. Construction of a diagnostic map which will show the areas economically and socially most attractive for a bank (in the case of Wrocław – the city districts), from the static and dynamic viewpoint.

6. Identification of a state or European Community economic policy influence on the economic condition of particular areas of Lower Silesia. The investigations should be carried out in three areas:

- legal changes, having a direct influence upon the situation of the analysed industry, branch or separated area (e.g. Special Economic Areas, border crossings, technology parks),
- legal changes, having an indirect impact on the situation of the analysed industry, branch or separated area, self-government entity, business unit, or given territorial area,
- changes of a socio-political character; in political forces inside the territorial units governing local development, influencing the pace and directions of real local development and determining the possibilities of creating business relations of particular banks with business units (self-government, business-related, companies).

7. Verification of business attractiveness of particular areas due to the influence of the state or a European Community economic policy. The effect will be a verified diagnostic map taking into account the political factor in the evaluation of attractiveness.

8. Preparation of a periodical report in the scheme including:

A. Economic attractiveness of the administrative areas or area groups based on diagnostic maps and classified into the areas:

- scarcely becoming attractive,
- being still attractive, but probably not in the future,
- being attractive now and in the future.

The evaluation of attractiveness of particular areas could be performed by taking into account the interests of:

- retail business, i.e. private persons not running an economic activity, with the assumption that the most valuable group of prospects are young people with higher education, an attractive but narrow group are VIPs, unattractive are people not professionally active, with a low income and education;

- corporate affairs, i.e. different legal and organizational forms of economic activity.

For each area there should be different forms of bank activity, including activities on a larger than local scale.

B. Industry and branch attractiveness in the area of Lower Silesia, classified as:

1. "Leading", showing their chance of best development in the future and increased employment; for a bank meaning increased security of long-term commitment.

2. “Modern”, developing according to up-to-date technology and/or modern management; for a bank meaning increased security of long-term commitment, this should be of primary interest, even more important than “leading”.

3. “Traditional”, that in the best case would not change their present level of development. These are the so-called “milking cows”, business units with consumption orientation in their politics. For a bank it means that their inclination towards consumption can be exploited and stimulated, some of them however could have troubles to survive in the future.

4. “Stagnation”, having practically no chance to develop or even to keep their position on an already achieved level. Long-term involvement, sometimes even operational, may appear very risky for a bank.

C. Attractiveness of self-government entities, classified into:

1. those towards which activity can and should be concentrated, aimed at offering them a full financial service,

2. those where efforts can be concentrated, aimed at the financing of particular undertaking of the self-government unit,

3. those which need not to be a subject of a bank’s interest, but the effects of activity on this territorial unit might be useful for a bank,

4. those where the bank could replace the territorial unit in the formation of local economic activity due to the lack of sensible engagement of this unit into local development.

D. Attractiveness of the business-related environment members, classified into:

1. those in which the activity can and should be concentrated, aimed at taking over full financial service,

2. those where the efforts can be concentrated, aimed at the joint financing of particular undertaking,

3. those which need not to be a subject of a bank’s interest, but the effects of their activity might be useful for a bank.

It is probable that in the case of business-related units the quick opportunities for a bank could appear more frequently.

E. Competition patterns of para-banks, i.e. non-banking institutions being intermediaries or giving loans and credits for the purchase of goods or economic activity in the area of Lower Silesia. As the project develops, the investigations could cover other financial institutions – para-banks rendering services similar to those offered by banks.

To plan the activity of intelligence agencies in a proper manner it is necessary to point out their sources of information, the way of data and information acquisition, as well as the sources of finance and financial procedures involved. In Table 1 (below) some of the information sources and ways of acquisition designed for the needs of a bank are proposed.

Table 1
Information sources and ways of acquisition

Source of information	Ways of acquisition
1. Monthly WUS bulletins for Lower Silesia.	WUS
2. Quarterly WUS bulletins for Lower Silesia (extension and verification of data from monthly bulletins).	WUS
3. Statistical yearbooks WUS (containing data either non-published or not verified in monthly and quarterly bulletins).	WUS
4. Current WUS information upon individual request (periodically) made available by the bank or obtained in the framework of scientific investigations in monitoring the economy of Lower Silesia, continuously sponsored by the bank.	WUS
5. Information from public media, after verification.	media, direct contact to verify the information
6. Primary information gathered at source.	interview, survey
7. Information on economic phenomena and processes gathered directly inside the economic environment (district employment agencies, economic departments of territorial self-governments, tax offices).	interview, survey, private contacts
8. Information on economic phenomena, business units connected with business-related institutions, gathered directly in business-related institutions.	interview, survey
9. Various scientific studies containing information on global tendencies in national, regional and international economical development influencing the development of national or regional economy.	scientific conferences, private and official contacts with the scientific community, Internet
10. Public legal acts on a national level: laws, resolutions, department and self-government level decrees, resolutions of: Communal Councils, District, Voivodeship Regional Council, decisions of particular self-government administrations, information obtained in non-formal way.	Internet appropriate self-government units in the case of legal decisions distributed by the self-government units exclusively by non-media channels. like posters, and announcements in public places, information can be gathered directly by regional branches of the bank, and the most important issues transmitted via Internet to the intelligence agencies
11. Current information from meetings of Communal Councils, District and Voivodeship Councils, as the agenda of these meetings is open to the public, set in advance, available from the self-government secretary and the importance of planned meeting can be judged; the meeting itself need not be public, but its results are, so can be obtained from the secretary.	Information gathered independently by intelligence agencies Also possible is the acquisition by bank's regional branches and transmission for processing to intelligence agencies

Source: Author's own concept.

3. DESCRIPTION OF AN INTELLIGENCE AGENCY OF A BANK BASED ON „DATA BANK II”

The **product** of activities in the area „Data Bank II” could be periodical (quarterly) reports containing the results of sector analysis of a given industry or number of industries of Lower Silesia, also if necessary the modified results of analyses presented for earlier periods and concerning other industries, if substantial changes of functioning conditions for these industries occurred.

The **product technology** and **development stages** can be assumed as follows:

1. Formation of Data Bank II can start only after Data Bank I is fully organized, at least in its basic scope. During the organization of Data Bank I only some actions can be undertaken, aimed at defining an appropriate set of indices and its necessary modification to the needs of a given bank resulting from credit procedures applied there.

2. After Data Bank I is organized, the efforts can concentrate on the systematic construction of Data Bank II. In the first stage, all industries should be ranked according to their importance for the Lower Silesia development, this in turn requires setting the sequence of industries being the subject of sector analysis. The basic criterion of hierarchy can be the incorporation of a given industry to a certain attractiveness group. This attractiveness might be defined in advance due to the activities undertaken in Data Bank I and classified in four groups: leading, modern traditional and stagnant. At first, the modern industries should be analysed, then – individually – the leading ones, thereafter traditional ones, and finally single stagnant industries.

The subsequent stage is connected with the acquisition, verification, gathering and processing of data during the analysis of a given industry. Sector analysis will be conducted in two issues: dynamics of an economic sector and its financial condition.

The investigation of dynamics should be done according to the rule that the financial risk of a bank, engaged in financing the business entity should take into consideration the operational risk connected with the business cycle and competition in the industry. The following elements can be included when investigating sector dynamics:

1. **Barriers of entry** for competitors in this industry. Here, the assumption is valid that the easier the barriers are to overcome, the more competitive the sector is and the lower the tolerance for the company’s inefficiency or obtained results being below the sector average. So it should be recognized what the nature is of these barriers and if can they lead to a situation where the sector starts to contract instead of growing. The evaluation of the risk of a contracting sector would rely on investigation if there appears a surplus of production capacity over market demand.

If so, the producers would lower their prices to sustain the firm's activity and to keep their market share, thus their rate of profit (profit margin) will be lower.

2. The influence of general development trends in the industry upon the chances of firms functioning there. Here, an assumption is made that the greater the market share of a firm, the stronger its functioning is connected with macro-scale issues. In this analysis the results from Data Bank I can be applied (p. 7B).

3. Cyclical character of a sector. Here, we assume that the stronger the business fluctuations in the given industry, the higher the risk for a bank in financing the companies belonging to this industry. Attention should be paid to the maximum limits of financial involvement of a bank (it is then obligatory to follow strictly the financial leverage of a firm). Therefore investigations by a bank should continue to find a safe and acceptable level of financial leverage, which might be average for a given sector of a highly cyclic character.

4. Driving forces in the sector. Here, we assume that most sectors are characterized by key success determinants necessary for a company to survive. Such determinants should be defined and their importance monitored, as they can change in time.

The investigation of a **financial situation** of the sector consists in defining the threshold values. These values should not necessarily correspond to the typical or preferred state, but are useful as reference points when comparing real observations in banks. As far as possible, the intelligence agencies should do such comparisons. Their objects would be the firms, known to the agency for a longer time.

To evaluate the financial situation of the sector one can take a set of financial indices and their threshold values. Transparency and simplicity can be obtained by taking their arrangement according to the following groups:

1. **Profitability:** the profit picture should inform if continuous reinvestment, or even its increasing level, are justified by the market acceptance of the firm or its performance.

- When the gross profit margin (gross profit/income) is lower than the threshold value, the firm's product gives no specific benefits resulting from its unique characteristics and existing competition. The bank rating the firm should in such a case check the reasons for the low value of this ratio, which might be a deliberate reduction of margin in the hope of increased sales or forced price concessions due to competitors, or shortcomings of the product itself.

- When the return on capital (profit/own capital) is lower than the average in the sector, the basic reason of the firm's existence can be questioned (and should be, if this value would approach the average return on banking term deposits). It becomes then doubtful how a bank can realize its own profit objectives when the firm's shareholders could not obtain the return on capital commonly met on the market.

2. Capitalization. The debt ratio (total liabilities/total assets) for a given firm should be similar to the average in the sector.

3. Liquidity. The current liquidity ratio (current assets/current liabilities) should also be similar to the average in the sector. The value below the average is a sign of difficulties to repay short-term liabilities.

4. Operational effectiveness. The efficiency of the firm's resources utilization should be comparable to the average in the sector:

- total asset turnover ratio (income from sales/total assets) lower than the average means that the firm has superfluous investments, works below production capacity and the working capital is badly managed;

- working capital turnover ratio (income from sale/working capital) lower than the average suggests the working capital not sufficient to support given sales volume;

- liabilities turnover ratio (income from sale/average liabilities) and inventory turnover index (cost of goods sold/inventory) permits to evaluate the activity of a firm in keeping operational cash flows against competitors in the sector.

5. Prepare the report and render it accessible in the course agreed with the bank.

6. After studying all industries it becomes possible to continuously monitor the trends in each sector and to modify the already obtained results presented in periodic reports. Only in such cases when the intelligence services study subsequent industries for the first time, and the functioning conditions for the already analysed industry have been dramatically changed, should the actions to modify results for this branch be undertaken.

7. Only after Data Bank II is fully completed, will the continuous monitoring of sectors take place. The rules and updating procedures of sector analysis results should then be elaborated.

4. DESCRIPTION OF AN INTELLIGENCE AGENCY OF A BANK BASED ON „DATA BANK III”

The activity of an intelligence agency in this area should consist of:

- creation of an information base concerning the Lower Silesia institutions which condition the development of defined groups of business entities; this base would include information on the type of activity of the institution, the most important people (from the intelligence point of view) who might serve as intermediaries in contacts with the co-operating institutions and the institution itself;

- finding access to appropriate persons and gently persuading them to co-operate with an indicated bank.

An acceptable method would be “non-aggressive persuading”, suggesting co-operation with an indicated bank and presenting the resulting benefits, preceded by the recognition of the needs of a person or a company (institution) influenced by this person. In the case of shown interest, an appointment with a dedicated bank employee could be arranged, maybe stating the exact day and hour.

With this idea of intelligence agency functioning, it becomes important **how to prompt the customer to co-operate with a bank**. Examples might be:

- at the source, during the acquisition of data and information to Data Bank I,
- including into the questionnaires and interviews some questions concerning the problems which occurred during the contacts with the parent bank (this is a way to identify the market opportunities for a bank),
 - promotion of co-operation with the bank among business circles,
 - making use of own relationships (private, official) in the business environment and among people from self-government,
 - persuasion after having closer contacts with the firm; such closer contacts could be made possible by giving the firm free access to some selected data of general character, which would help to adapt to the changing environment.

Data Bank III should be complementary to Data Bank II, and no matter how effective it will be in persuading to co-operate with a given bank, it has to exist. It should be remembered that the activity in the area of Data Bank I should have priority before the activity in the area of Data Bank III, it should therefore be secured first of all.

5. ADVANTAGES OF ORGANIZED INTELLIGENCE AGENCIES FOR PARTICIPATING BANKS

Besides receiving the product itself, several advantages for a bank appear: it has not to worry about the organization and management of this undertaking, including the unaided creation of human resources of high quality, i.e. with well mastered working skills, creative and versatile thinking and ability to solve untypical problems, with easy access to different scientific studies going beyond the area of Lower Silesia, able to concentrate systematic efforts in collecting the proper and properly processed information as fast as possible. The persons who lead the intelligence agency are responsible for the evaluation of the usefulness of gathered (and in part self-acquired) data and information, the evaluation of their importance, the choice of analysis criteria, improvements of analytical methods – all this to ensure the effectiveness of the

undertaking, thus creating a base for preventive behaviour or quick response in the bank environment.

Co-operation with a bank should fill specific gaps in the bank functioning, such as:

1. Gaps in information management system. The information on external environment (in principle except those concerning the competition of other banks, which is gathered by the bank itself) are canalized and processed in one place by qualified persons. Information and data are collected consciously, systematically and in an ordered manner, they should not be too dispersed, as this could hinder their timely management.

2. Bank employees could better concentrate on other important issues, especially those working in the sales department, network management and economic department, who use or prepare for their own departments dispersed, incomplete and non-systematically constructed data bases (these databases are used during the planning of workload for organizational units inside the bank).

3. The comparatively weak in the bank function – analysing the influence of occurred or expected changes in the legal, finance, political and economic environment in the functioning of the Lower Silesia region economic neighbourhood – can be substituted by external services. The proper execution of this function requires its separation and employment of highly qualified specialists who would concentrate solely on these issues. Constant and qualified supervision is necessary, as well as the permanent self-education of these persons. Present economies treat this function as so-called scarce goods.

CONCLUSION

The basic concept of banking intelligence services should be the foundation of efficient monitoring and problem management. Skilful realization of these functions enables the bank to take better decisions. If the bank could be able to control its future, it would be more willing to create long-term relationships with its customers.

Banks should keep in mind that the environment monitoring function will sooner or later be a common necessity for every respectable bank (at least when Poland becomes a member of the European Community and there will be no restrictions on the affluence of foreign banks, who are well equipped in environment monitoring). This function should be:

- formed using own efforts (in the framework of the internal or external structure of a bank) according to the needs of a given bank; the database

structure should correspond to internally applied solutions, e.g. in the methodology of credit application rating; or:

- obtained from external services; the data would then not be necessarily collected and processed according to the bank's requirements, and the cost of services would reflect market rates.

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