THE CHALLENGES OF CREATING SUSTAINABLE COMPETITIVE ADVANTAGE IN LARGE B2B MULTIDIVISIONAL CORPORATIONS

OS DESAFIOS DE CRIAR VANTAGENS COMPETITIVAS SUSTENTÁVEIS EM GRANDES CORPORAÇÕES MULTIDIVISIONAIS B2B

ABSTRACT

It addresses the challenges that large multi-divisional B2B corporations face each day to take advantage of their corporate strategy and ensure sustainable competitive advantages. The synergies and interrelations that would give them such a position are not always simple to be achieved or even perceived by customers. The chosen approach was focused on B2B companies, because processes and communication tend to be more truncated, as they are usually more technical in the way of doing business. This can make the challenges of interrelation and synergy even greater.

Keywords: Strategy; Sustainable Competitive Advantage; B2B; Multi-divisional; Horizontal Strategy;
RESUMO

São abordados os desafios que as grandes corporações multidivisionais B2B enfrentam diariamente para tirar proveito de sua estratégia corporativa e garantir vantagens competitivas sustentáveis. As sinergias e inter-relações que lhes confeririam tal posição nem sempre são simples de serem alcançadas ou mesmo percebidas pelos clientes. A ótica escolhida foi a de negócios B2B, pois como os processos e a comunicação tendem a ser mais truncadas, pela característica mais técnica dos negócios, isso talvez torne os desafios de inter-relação e sinergia ainda maiores.

Palavras-chave: Estratégia; Vantagem Competitiva Sustentável; B2B; Multidivisional; Estratégia Horizontal;

1. INTRODUCTION

For the company to become competitive in the globalized market, it must constantly improve its products, processes and sales techniques, trying to adapt to new situations. The definition of a strategy tends to reduce the uncertainty in the decision-making process, as they prepare for situations in which uncertainties about the future may arise, such as changes in the economy, technologies, environment, among others (ANSOFF & MCDONNEL, 1993).

In this perspective it is necessary to define and operationalize actions that maximize long-term results. Alternatives are sought to gain competitiveness against competitors, attract new consumers and build customer loyalty, in addition to setting the direction for business growth and development. In this sense, the relationship between suppliers and customers is of great relevance, especially when it comes to business-to-business (B2B) companies, whose complexity involved in business processes is greater.

Multidivisional B2B vendor interfaces with their customers can often leave the savvy buyer with the feeling that they are dealing with completely different companies. In a regular work week, this buyer may have meetings with several salespeople from the same company, on topics that permeate common issues (such as productivity, security, processes, etc.), but with different supply chain and market positioning. In times of cost reduction, which also leads to a reduction in staff, what is perceived by both customers and suppliers is a pressure to force their chain to be simpler and more coordinated, especially when it comes to the same supplier.

Porter (1989) cites companies such as Johnson & Johnson and American Hospital Supply as examples of the integration demanded by hospitals (clients), aiming at this simplicity and coordination. The issue is this fact that occurred in the 1980s and today there are still companies that have not reached this point of maturity and cannot build a sustainable competitive advantage through the interrelation of their various businesses, not to mention partnerships with other players, as the case involving Johnson & Johnson.

2. RESEARCH OBJECTIVE AND PROBLEM

The objective of this article is to identify, through the strategic process analysis of large B2B corporations that operate with numerous business units, what are the challenges and to point out some practices that allow transforming the multiplicity of B2B industries into sustainable competitive advantage, considering increasingly complex business scenarios.
3. THEORETICAL FOUNDATION

To better understand the relationship between strategy and sustainable competitive advantages in multi-division B2B industries, these two constructs will be worked on in the theoretical framework.

3.1 Strategy

Corporate strategy comprises basic decisions about the company’s distinguishing capabilities and the its comparative advantages in adding value to its individual businesses and the definition of which businesses to operate (FAVERO, 2015), that is, defining a strategy means choosing alternatives to compete; it means defining what to do and especially what not to do (HITT et al., 2008).

While executives understand the importance of corporate strategy in theory, many struggle to develop it in practice and to link to business unit priorities. Organizations often struggle with corporate strategy because executives are unclear about how parts of the corporation fit together to create and capture economic value (SULL et al 2017).

Therefore, it is important to differentiate the strategy within the business units, as it is responsible for defining the customers that make up the company’s target market, formulating the value propositions that differentiate the products and services offered, and identifying the capabilities that make the business better than others, by delivering the value proposition (FAVERO, 2015).

Sull et al (2017) presents a matrix called “Defining the Four Logics of Corporate Strategy,” which measures the dependence of business units on corporate resources to increase profitability by integrating the concepts of corporate and unit strategy. Briefly, combining these dimensions into a matrix results in four distinct ways of thinking about corporate strategy:

**Customer portfolio**: It guides traditional conglomerates; companies such as GE and Tata Group have a portfolio independently of each other, as well as private equity firms such as KKR & Co. and The Blackstone Group, which typically operate as standalone entities.

**Leverage**: Leverage companies whose business units use corporate branding, technology and other knowledge intensively; companies like Trader Joe’s and Burberry follow leverage logic, and their stores are completely dependent on corporate assets to succeed.

**Federal**: It includes loose confederations of companies that come together to transfer business to each other, aggregate regulators, or share best practices, all without a powerful corporate pillar. Examples of these companies are Star Alliance on airlines and The Leading Hotels of the World in hosting.

**Integrative**: companies where business units depend on both corporate assets and brand success. Examples include Walt Disney theme parks, movie studios, consumer products, and children’s television divisions that use the company’s flagship characters and brands to increase customers’ willingness to purchase and generate revenue by promoting and selling each other’s products. There are also companies such as IBM, where different business units need to work together to deliver integrated solutions to customers, such as consulting, software, hardware and financing.

Thus, when evaluating the company in terms of the link between corporate and business units, it is necessary to focus on resources that are critical to creating and capturing economic value, such as the ability to develop new products or brands and thereby generate value. It would be better if shared corporate services such as human, legal or financial resources could be
easily outsourced as they are not strategic, they are just needed. The key question is not whether business units operate independently of companies, but the extent to which they could function and what added value they could bring (SULL et al., 2017).

3.2 Sustainable Competitive Advantage (VCS – Vantagem Competitiva Sustentável)

Operating in different segments, with different teams, having numerous business units spread globally, could give a particular business group the so-called sustainable competitive advantage (VCS – Vantagem Competitiva Sustentável). According to Aaker (2007, p.144) VCS is “an element (or combination of elements) of corporate strategy that provides an important advantage over existing and future competitors”. Some examples cited by the author are: name or brand recognition, quality reputation, customer support, product mix, customer orientation, etc.

In general, it is very rare for a company to have only one VCS. If a company sells a technical product and is focused on quality, as well as, for example, a high standard production process and quality control, it usually has to rely on specialized technical service, which will be responsible for providing good customer support from specification to after sales. This will reinforce the quality issue of the organization’s products at all times of customer contact. After all, customers do not have access to the supplier’s production process. Therefore, interlocutors are needed, corroborating this competitive advantage in their journey (AAKER, 2007)

Thus, the synergy that comes from the various business units would give the business group a unique strength against its competitors, as they would likely have to build multiple organizational fronts, assets and even develop unique skill sets to address organizations with multiple businesses (AAKER, 2007). What the author brings in this analysis is very interesting, because in his understanding, the diversification of synergies resulting from this process through the creation of business units would make the corporation stronger from the standpoint of competitive advantage.

However, as Porter (1987) has rightly put it, it is necessary to separate corporate strategy from that which occurs at the business unit level in order to gain a real competitive advantage. Thus, some points of reflection that would be critical for considering a business diversification strategy as a competitive advantage are: when competition actually occurs in the trenches of business units; when the process generates additional costs and limits the performance of business units; when investors can diversify their portfolios regardless of companies’ performance (PORTER, 1987).

And Porter stepped forward on something that has intensified over the past decade. With recent technological changes, competition at the business unit level requires the management level to unfold in order to maintain its performance through slow and static strategic planning (COLLIS; MONTGOMERY, 2008).

Returning to Aaker’s (2007) theory and making a connection with the concept of corporate strategy in Porter’s (1987) article, the buyer situation, cited in the introduction to this article, seems to be more likely to occur in B2B companies whose strategy is based on what is termed “strategic opportunism” (AAKER, 2007).

Looking at this premise, it can be said that in B2B companies the most technical concept tends to dominate the analysis, relationship, organizational structuring and various other aspects of the company. Often in this environment, businesses are created or grouped based on technologies that would be synergistic rather than analyzing the market, the customer chain and their needs to make more strategic decisions. There is an intrinsic and collective blindness that strives for technical rigor in the art of doing business, and this may be one of the factors that make the
strategy of B2B multi-division companies more likely to fail to tap into their interrelationships and thus not to achieve the potential of their business diversity as a VCS.

On the other hand, if the supplier other than B2B still acts opportunistically, it means that their tendency is to look systematically for the short term. This means that companies with this profile take advantage of changes in the environment to maximize their niche gains or big opportunities. With this, they easily add new divisions in their structures (AAKER, 2007). Most of the time, no deepening is done to understand with granularity the potential gains of this opportunity, nor if the company has all the skills to compete in this market. And again, if it is a B2B company, the analysis will be much more technology-based rather than business strategy-worsening.

Two fundamental consequences can be enumerated by acting in this way. Firstly, there is a good chance that this organization will lose money because after some time struggling to achieve the expected results, it will find that it lacks something more, such as infrastructure and even specific skills to play with competitors in the new market. The second point returns the figure of the buyer (but it could be any point of contact within the customer) who becomes more confused by the various interfaces the company tries to create by placing another division on the market: seller of X, Y and Z; X, Y and Z marketing; X, Y, Z distributor... The only exception in this scenario is the technical area. Because there is already a market understanding that in some cases only one expert can solve the situation, so they will automatically have to deal with various supplier figures. Moreover, this type of service even appears in Aaker’s (2007) research as an admittedly sustainable competitive advantage.

All in all, these elements substantially deteriorate customer engagement with the supplier, as everything tends to be more complex and time consuming. This is the most contradictory point of this situation, because in theory, strategic business units with autonomous decision-making power would make business more agile (KOTLER, 2008).

Therefore, it is important to remember that this analysis focuses on B2B suppliers, because, with rare exceptions, this dynamic has been more aligned with Business-to-Consumer (B2C) customers. As the B2C market’s end-consumer response is fast and far reaching, especially in a digital age, the chain as a whole has evolved faster. Thus, the many mishaps that B2B buyers still face with their suppliers have long been overcome in the B2C universe, whether for cost reasons or even to deliver a service level that differentiates the vendor in more dynamic markets.

Finally, in the context of companies that are driven by strategic opportunism, the biggest risk would be for a company to drift. That is, the organization is left without a clear vision of what it wants, aimlessly and without direction, be it for betting on transient events; diverting resources to potential opportunities over real opportunities; or because of problems in implementing the famous synergies expected from the opportunistic diversification process (AAKER, 2007).

Considering that the daily life of companies has never been at a time when VUCA (volatile, uncertain, complex and ambiguous) is so intense, the care with these opportunistic movements must be redoubled. Everything changes from week to week and opportunities come around every corner for those who are prepared to profit with them. However, decision makers without good analytical and strategic backing can turn their business into yet another dead Frankenstein and not enjoy all the benefits that Aaker (2007) cites when talking about synergy.

Synergy, by the way, is a very controversial word. Porter (1989, p.291) shows some discomfort with the term, because according to him “It was a good idea, but rarely occurred in practice”. The poor implementation of a vague concept is one of the premises raised by the author to explain this situation.
Therefore, unlike Aaker (2007), Porter (1989) argues that “horizontal strategy“ would be the best way for a diversified company to deal with its organization in order to gain a sustainable competitive advantage. Porter (1989, p. 292) defines horizontal strategy as “a coordinated set of goals and policies between distinct but interrelated business units”. The author further adds that this strategy in no way would mean the termination or replacement of business units. (PORTER, 1989). Basically, the horizontal strategy appears to be a way of explaining what must be done internally within companies so that synergies between divisions can actually materialize.

Nevertheless, in some corporations this is a movement that still makes sense. 3M, for example, mentioned in several books by the authors in question, despite making annual global specific acquisitions, has sought to find ways to maximize its relationship with the market in the business in which it operates. The alignment of goals and structure of direct sales and channels has been the main initiative. That seems to have been the way the company found to narrow the gap that was created when its forty divisions were extremely autonomous. Today, that number has been reduced to around 20 divisions, and there is clearly a change in the organization to take more advantage of what it already has, rather than adding completely new businesses.

Finally, competency-based competition is a way that seems a bit more sophisticated to make multidivisional performance a competitive advantage. According to Stalk, Evans and Schulman (1992), a competency would be strategic only if it is customer-based, from beginning to end. Such an approach holds that it would be possible to gain competitive advantage in focus and differentiation by acting in this way.

Walmart is considered an example of this in the original article by Stalk, Evans, and Schulman (1992), but Amazon could be considered to be the contemporary company for this example. Analyzing the performance of Amazon Business shows that it is proof of this strategy. Using its main strengths of the B2C market, Amazon has created a B2B market place, taking into account the needs of its new target audience, without losing excellence in what it already does best in the end-user e-commerce universe, that is, they deliver the B2C experience that is their great competence, considering B2B needs, such as differentiated payment conditions, pallet delivery, etc.

This makes it easy to replicate the business model and expand across a wide range of geographic markets and segments, making the strategy-holding company a skill predator, giving it a very strong sustainable competitive advantage (STALK; EVANS; SCHULMAN, 1992).

4. METHODOLOGY

Regarding the research typology, this article will be of an applied nature, with a qualitative approach, and its objectives are exploratory and the interview method will be used as a procedure.

For a better understanding in terms of how B2B multi-division industries work in relation to the corporate and divisional strategic planning process, aimed to capture elements that can lead them to have sustainable competitive advantages stemming from their structural characteristics, three interviews were conducted with senior executives from large B2B multinationals. Two interviews were done in person and another via Skype.

A semi-structured interview script was elaborated with six questions with direct action in the business, marketing and sales areas. The script mainly contemplates points related to sustainable competitive advantages and relationship in a B2B marketing channel in a multidivisional company.

The interviewee number 1 is an employee of an American multinational chemical company with over 20 divisions, and the vast majority of these are B2B. She is responsible for the business
development of her division in Latin America and has been with this company for 20 years. The interviewee number 2 is a business manager for a German multinational B2B company that operates in the pneumatic, electrical and automation segments, currently having four major divisions. He has been in this organization for 18 years. The third respondent is responsible for strategic planning at an American health multinational. He has been with the company for over 10 years and has nearly 30 years of experience in this market. The company operates with four large business groups, subdivided into several other groups. The three companies are headquartered in the state of Sao Paulo.

5. RESULTS ANALYSIS

The first question sought to understand the perception of respondents about the corporate and divisional strategies of the companies in which they work. Respondents consider that, in practice, there are three levels of strategy deployment: the global corporate, corporate subsidiary level and the divisional, i.e. business groups.

The interviewee number 1 described that over the years there have been several waves of strategic planning with different dealings. The most recent has taken away the autonomy of subsidiaries and, consequently, of divisions, and has enforced global corporate strategic planning more sharply. In this process, leadership involvement does not always occur in strategic discussion, but there is a stronger demand for execution. Overall, there is an effort to bring an increasingly unique and consistent message to customers, with changes in internal structures: the creation of a single channel management for B2B industrial services and the creation of a strategic planning department in the subsidiary about 3 years ago.

Interviewee number 2 stated that their company’s overall strategy is clear and simple, but when they arrive at the subsidiary level, they realize that each location interprets the plan as it suits them best. He also mentioned that there are about 16 or 17 strategic actions.

The interviewee number 3 believes that corporate strategy should be shared among the various business groups, considering not only the company’s financial data, but primarily looking at the customer issue, because ultimately their main business is to provide health, and that is done through therapies that may be present in different business groups that need to be more aligned.

Regarding question 2, the respondents were asked to list about three positive points and three improvements in the corporate strategic planning process. Respondent number 1 mentioned, as a positive point, that the strategy itself has proven to be very good, with consistent financial results for the company stemming from its strategic choices over the past 5 years. The improvement points cited were: 1 - There is still a myopia in relation to the potential of the regions and much is still defined based on the reality of the headquarters, or considering Asia and eventually Europe, but Latin America has no voice in this process; 2 - The process is 100% top down and there is no involvement of subsidiaries or regional structures; 3 - Frequent switching from higher international positions has caused constant changes in strategy and is based more on executives’ willingness to leave their legacy than on market need.

Respondent number 2 listed as positive points: 1 - Simplicity of the corporate planning message so that it is very easy for local leadership to make decisions based on it; 2 - Very good intention to carry out the strategy well by the leadership; 3 - Clarity of the process: the talent group is formed and themes are listed for discussion and proposals for the strategic planning. There is a big commitment to make the strategy happen.

Respondent number 3 listed as positive points: 1 - The global strategy thinks of the company as one that encompasses all existing product lines in the company; 2 - Provides greater
engagement of people, because the direction the company wants to follow is very clear; 3 - Product compensation: All this diversity allows the company to balance its results through its portfolio mix. The following points of improvement were mentioned: 1 - Communication: it is very complex with so much subdivision; 2 - Align directions arising from headquarters’ structure, as they do not always coincide; 3 - Find a way to make all employees understand everything that is happening throughout the strategy.

Similarly, question number 3 requested the three positive and divisional improvement points to be listed. Regarding the improvement points, interviewee 1 listed: 1 - Communication between divisions during the strategic planning process. The interviewee mentioned that this is also valid at the regional level, as the divisions speak little, as well as the regions that operate in the same divisions, acting independently and little synergistically; 2 - Greater autonomy for divisions to be able to deploy the plan considering the regional reality; 3 - Very constant change of executives in divisions. With the crisis, there is a high internal turnover of professionals (around 1.5 years), and this generates low engagement. On the plus side, she mentioned once again that divisional strategies have brought good results to the company.

The interviewee number 2 stated that there is no difference in the corporate and divisional process, and may consider the same points listed in question 2 for question number 3. The interviewee number 3 brought as strengths at the divisional level: 1 - Strategy communication is faster; 2 - The objectives are clearer; 3 - Execution is easier. And the points of improvement listed were: 1 - Make the strategy defined at divisional level permeate the organization as a whole; 2 - Get support for division strategy by the corporation; 3 - get financial investment from the company, beyond what the division has, because otherwise the projects are very small.

In question number 4, attempts were made to capture the most critical and complex points of work to achieve a sustainable competitive advantage in B2B organizations. Interviewee 1 mentioned that the way the organization is structured globally today, with so many levels and with so little autonomy in divisions, is the most critical point, because new business models are not thought out, human resources are misallocated, and portfolios are very dependent on the headquarter. This means that there should be a structural change that would allow the company to act in a complementary manner, capturing the advantages of its multiplicity.

In this theme, respondent 2 mentioned that being able to narrow down the issue of interpretation that best suits each one is the most complex point, and the ideal is to have a system behind that can take the strategy more evenly and charge it in the company as a whole. Finally, respondent number 3 points out that the most critical point in his vision is to work as a single company vis-à-vis the customer, i.e. corporately with all accounts, finding synergies between business units and headquarters, as a single voice in the client.

Question 5 sought to evaluate the execution of corporate and divisional strategy in the company. Interviewee 1 commented that middle management is often unaware of corporate strategy in the depth it should, and therefore the execution of what is considered important to the global headquarter represents one to two thirds of the target.

The issue of leadership turnover has greatly impacted execution in recent years, as there is always someone who comes in and puts everything in check and wants to do things in a way that has been done in the past but it didn’t work out. This impacts the organizational learning curve, causing unnecessary slowness. Regarding this issue, respondent 2 contributed a very similar opinion, because he said that, depending on the leadership that takes charge, the transitions are more or less impacting. That is, the leadership style impacts the execution of this strategy at various levels of the organizational. Interviewee 3 collaborated on this issue by ad-
dressing communication as the key to successful execution, allowing the strategy not to be just at the managerial level.

Finally, in question 6, respondents were asked to indicate what could be done to improve the execution of the strategy between divisions. Interviewee 1 pointed out that a better allocation of resources, targeting the reality of each subsidiary, would be of great value to increase integration and execution at the divisional level. Greater regional autonomy was also cited as an extremely relevant point for improving implementation in this area. Respondent 2 commented that making the company’s billing goal common was done and helped in executing the strategy. In addition, he suggested that the company should be mature enough to evaluate businesses that should no longer be under the wings of the parent company as a business unit, to turn the more autonomous party into a new business. Another suggestion was to reduce the distance from the subsidiary to the global level by wiping down regional structures to make execution faster and more efficient. Interviewee 3 cited the creation of programs to engage people financially, similar to the experience of interviewee 2. In his view, by making compensation more strategic, balancing divisional and corporate results increase.

6. CONCLUSION

Regardless of the authors, what can be seen in common is that they argue that sustainable competitive advantage in multidivisional companies will only exist if they base their actions on the market and their customers. Therefore, basing business strategies on customer and market needs would be a way of mitigating divergent directions. This was reinforced by interviewee 1 at various times when she suggested that the critical point was the understanding of the local market, and by interviewee 3 when speaking of a unique company in the eyes of the customer. The question raised by respondent 2 regarding the various interpretations of the strategy by subsidiaries may be the side effect of not having this view, depending on the organization, but it is also clear in their statement that a very restricted process is not the way to capture these VCS. A more grounded allocation of resources, including the time taken by leadership for decision making versus the medium-term outcome, also seems to be a critical factor that should be addressed in B2B multi-division organizations. That is, the way companies are structured can prevent them from being able to integrate their businesses in a way that is more conducive to generating sustainable competitive advantages. This point permeated the entire interview 3, whose interviewee approached the matrix question at various times as difficult. Finally, a more robust process of strategic planning involving key people in the company should be conducted, as respondent 2 says to occur in his company. Effective communication of what is agreed at all levels of the organization, as mentioned by respondent 3, seems to mitigate the issue of engagement and, as a result, is a halfway point to achieving more effective execution.

Therefore, as the literature demonstrates, it is critical to conduct analyzes that allow you to conclude which best strategy to follow before creating or starting any new business process or divisions. This will allow the company to enjoy a privileged position by using its multidivisional force to stand up to its competitors. Particular attention should be paid to companies with diverse B2B business areas, as they are most likely to have an overly internal and sometimes technical look rather than strategic business vision. This was consensus in the interviews conducted and in the researched literature.

As can be seen, the actions proposed by both respondents and the literature are long term as they involve communication, goals, and market analysis; therefore, further studies on the subject may be conducted in the future with companies that have already gone through this process.
REFERENCES


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