

A Process Study of the Development of Capabilities for Replication in an Evolving Chain

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Abstract

Replication is of paramount importance for creation and growth of retail chains, therefore this field study explains the evolution of capabilities for replication in the context of a nascent restaurant chain in India. Findings are interpreted in the light of a few dominant themes in replication and dynamic capabilities literatures. Achieving a cogent set of capabilities for replication is found to be a challenging endeavor. The study contributes a multifaceted perspective, in which executive choice plays a crucial role and thus, change in the executive team results in developing new capabilities. Implications of the study for research and practice are discussed.

Key words: *dynamic capabilities, replication process, multifaceted perspective*

Track: Retail and Omni-Channel Management

1. Introduction

The success of a retailer in building a chain is primarily due to replication since it allows firms to grow geographically and become a large chain (Bradach, 1998).

Replication in chains “entails the creation and operation of a large number of similar outlets that deliver a product or service (Winter and Szulanski, 2001: 730)”.

The importance of replication is so profound to chains that it is taken for granted in literature. Presumably, once an entrepreneur, finds an innovation that ‘clicks’ very well in its initial settings, it can be replicated successfully. It is assumed that the differentiation initially created (Michael, 1999) would propel a quick spurt of growth (Michael, 2003) once the entrepreneur is able to find the obviously needed resources of money, human, and material (Garg, 2013). So, attention frequently turns to the study of the adequacy of the resources, the problems that would have to be confronted in the acquisition and management of the resources, and the interaction of those resources.

Despite being a prominent mechanism for growth, the phenomenon of replication has not been studied adequately. Important questions regarding capabilities-- defined as “how resources are used in combination” (Eisenhardt and Jeffery, 2000: 1107) -- in building chains through replication have not been even identified, let alone answered.

The current paper addresses this important paucity in literature. It describes processes used, issues faced, and solutions implemented by an Indian firm as they began to develop a chain of high-end restaurants in India. A grounded-theory approach, appropriate when literature in a field is in infancy (Glaser and Strauss, 1967), was chosen. Researchers have used inductive approach to study related topics in the context of a single firm. For example, Szulanski and Jensen (2006) studied presumptive adaptation and transfer of knowledge.

When a firm runs a business in an ‘equilibrium’ stage using stationary processes, it exercises substantive capabilities (Zahra, Sapienza, and Davidson, 2006) without which the firm can “not collect the revenue from its customers that allows it to buy more inputs and do the whole thing over again (Winter, 2003: 992).” A dynamic capability is “a higher order capability that allows reconfiguration of substantive capabilities (Zahra et al., 2006: 917).” For F&B service business specifically, “the capabilities that support the

creation of new outlets by McDonald's or Starbucks are prototypical example of dynamic capabilities, focused on the domain of scale and geographic markets rather than product attributes (Winter, 2003: 992).” Whereas growing business in the same location requires substantive capabilities such as developing promotional campaigns, offering daily menu specials, etc., dynamic capabilities needed for replication include processes and routines “used by managers to copy, transfer, and recombine resources within the firm (Eisenhardt and Jeffery, 2000: 1107).”

But where does the insight about processes and routines needed for replication come from, and how? Understanding those mechanisms is the general purpose of this field study. The appropriateness of the restaurant industry in the context of chains has been noted severally (e.g., Bradach, 1998; Garg, V. K. 2005; 2019; Michael, 1999) and that context, thus, still remains modal. Emerging economies are at the forefront of growth of chains (Welsh, Alon, & Falbe, 2006), and in India, chains are gaining popularity (Franchising Focus, 2008). India offers similar large size advantage that has been shown to attract great interest of chains in Brazil (Gomes, Carneiro and Dib, 2018).

This introduction is followed by methods. Next, a *storyline* approach (Miles and Huberman, 1994) is used to present data obtained from interviews of executives of the host company and its archival data. Evolution of capabilities, both substantive and dynamic, is then captured in the findings section. Discussion section follows next, where first findings are interpreted in the light of a multifaceted perspective of dynamic capabilities for replication and then, implications for research and practice are discussed.

2. Methods

Methods followed suggestions by Yin (1989) and used by Szulanski and Jensen (2006), involving Mailbox, etc. Key documents made available by the host company (THC) provided a brand history of the umbrella brand (UB henceforth) and the focal brand *Mélange*. Then, seventeen corporate executives/outlet managers were interviewed, using a semi-structured approach. Locations, menus, layouts, atmospherics, kitchen operations, etc., were observed at the locations and notes were taken. Of course, food was sampled too! The interviews were open ended to capture the ground-up spirit of this research.

All of the information gathered from the above sources was used to construct a “storyline” (available on request) of the replication experience at *Mélange*. The storyline approach permits readers access to the qualitative data itself and evaluate conclusions of the authors (Miles and Huberman, 1994) and has been used in studies of replication in retail settings as well (e.g., Szulanski and Jensen, 2006).

Further, Table 1 shows a compilation of the differences on a wide range of attributes, relative to the referent unit #5, as perceived by the respondents regarding each of the seven units.

3. Findings: Evolution of Capabilities for Replication

A key finding based on the *storyline* data presented above is that in the process of growing business, THC developed capabilities in two phases. These phases were separated by the advent of a new top management team, which brought in a different set of perspectives than the previous team. These differences led to reconfiguration of resources that THC had and hiring/creating new resources as well. Since THC had previously been operating *Mélange* concept in an ‘equilibrium’ stage using stationary processes for many years, it was in effect, exercising substantive capabilities. When THC embarked on a replication strategy, it was exercising dynamic capabilities. Thus, in each phase, a transition from substantive capability to a dynamic capability can be discerned.

The brand image creation capability—in this case, approximate uniformity of attributes of products and locations from which to deliver those product attributes -- occurred very slowly at THC and only after a change in the top management team. Only then did THC moved away from ad-hoc adaptation and toward delivering consistent experience. But the discipline in enforcing the template rigorously was still not evident, as was seen from some clear deviations that were permitted in Unit #s 7 and 8.

4. Discussion

This paper has shown that the starting point for the evolution of dynamic capabilities is executive choice.

Table 1: Perceived differences from Unit #5, 1 (least) to 7 (most)

Attributes	Unit #2	Unit #3	Unit #4	Unit #5	Unit #6	Unit #7	Unit #8
A. Menu	-6	-7	-6	0	-1	-2	-3
B. Location Attractiveness	-6	-7	-7	0	-2	-5	-3
C. Interior Design	-7	-7	-7	0	-2	-3	-2
D. Quality of Staff	-5	-4	-6	0	+1	-2	-4
E. Operations	-6	-7	-6	0	-2	-2	-2
F. Infrastructure Costs	-3	-3	-4	0	-2	-3	-3
G. Marketing promotions	-2	-6	-2	0	-1	-1	-5
H. Supply chain and R&D costs	-3	-3	-4	0	-1	-1	-2
I. Operations & QA Audit	-2	-2	-1	0	-2	-2	-6, too new, franchised
J. Information Technology	-3	-1	-2	0	-1	-2	-1
K. Financial Performance (No numbers were provided)	Tight cost controls	Lacks cost controls	Adequate cost controls	0	Better sales than budgeted helped EBITDA	Below projected, but too new	Below projected, but too new

In particular, path dependency of dynamic capabilities (Dierickx and Cool, 1989) emerges as the naturally occurring by-product of founders' vision and growth strategies for their enterprise, followed by vision and strategies of executives that succeed the

founders. Succession turns out to be critical, since new executives are not overly burdened by the past legacy and can more freely reconfigure resources and routines.

4.1 Performance of replication

Information gathered from the website of THC and physical verification in 2015 showed that unit #7 and #8 no more existed, and unit #2, 3, and 4 continued in their original format, but were struggling. Only Unit #5 and #6 were apparently doing good business. How do we explain this pattern of performance in relation to replication capabilities?

Although some early executives recognized that the initial attempts at replication had some glaring shortcomings, they did not have much voice in front of the founders, to whom they owed an entire career. New executives made marked improvement in crafting a template and thus exhibited a crucial substantive capability for replication, but still fell short on the dynamic capability of selecting appropriate markets and specific locations within those markets that would fit well with the espoused personality of the brand. I suspect the eventual closure of unit #7 and unit #8, was the result of inadequacy of that higher order capability. Somewhat inadequate, but not completely absent capability, as the sustained success of unit #5 and #6 would indicate. The premium, highly differentiated *Mélange* brand was very suitably grafted in upscale locations of unit #s 5 and 6 as they offered a large potential market. The served market was a very healthy combination of all the three bases of segmentation: geographic, demographic, and psychographic (Kotler, 1973). Geographic, in relation to the proximity of international airport, the busiest part of a national highway, and the destination mall (Calvo-Porrall and Lévy-Mangín, 2018). Demographic, in terms of the standing of new Gurgaon as the city of the affluent, educated, and white-collar professionals. Lastly, psychographic because that elite class likes to be seen modern, adventurous, and health conscious. They feel happy entertaining in an exclusive social setting and are ready to pay higher prices for that amalgam of non-monetary values overall (Garg, 2013).

4.2 Theoretical contribution

Table 2: A multifaceted perspective of replication capabilities

Facet	Phase 1 (1978-2006)	Phase 2 (2006-2008)
Top Management Team	Founders and home-grown managers	New generation and professional executives
Perceived Environmental Dynamism	Moderate	High
Dominant Entrepreneurial Functions	Discover and grab opportunities	Define and develop opportunities
Nature of Process	Intuitive; trial and error	Rational, learning
Status of Template	Preliminary stage of evolution	Approaching standardization
Key capabilities achieved	Substantive: Creating a differentiated brand Dynamic: Creating operational infrastructure for replication	Substantive: Developing template Dynamic: Brand positioning
Constraints to perfecting capabilities	Substantive: Obsession with economies Dynamic: Presumptive Adaptation	Substantive: Inertial legacy Dynamic: Discipline in rejecting imprecise fits between locations and the brand

A cogent set of important conclusions can be drawn from this study. Successful replication in a retail setting requires both: (a) the initial, substantive capabilities in creating a differentiated brand, and (b) the subsequent dynamic capabilities in forging a standardized template. However, these two are not sufficient. More challenging are other,

higher order capabilities: (c) Positioning the differentiated brand in a fitting location in a sufficiently munificent market and (d) Exercising discipline to say NO GO to a location, no matter how economical or readily it is available, when the market offered lacks that fit or is munificence. K-mart's failure is perhaps due to inability of its executives to develop some of these capabilities four capabilities (Brea-Solís and Grifell-Tatjé, 2019).

But why is that cogent set of capabilities difficult to acquire?

Winter and Szulanski (2001: 730) have noted:

“Replicators create value by discovering and refining a business model, by choosing the necessary components to replicate that model in suitable geographical locations, by developing capabilities to routinize knowledge transfer, and by maintaining the model in operation once it has been replicated.”

This passage provides a starting point for constructing a multifaceted perspective (summarized in Table 2 above) of replication capabilities based on the findings of this study.

4.3 Implications and limitations

The study addresses the first two elements of the “theory of replication strategy” (Winter and Szulanski, 2001: 730-31): challenges in discovering and refining a business model, and difficulties in choosing the necessary components to replicate that model in *suitable* (emphasis mine) geographical locations. Future research can focus on the study of the remaining two elements, namely, challenges in developing capabilities to routinize knowledge transfer, and in maintaining the model in operation once it has been replicated, especially in hyper-growth environment. China and India recorded GDP growth higher than 7% continuously, resulting in high executive turnover that poses difficulties in knowledge transfer of tacit knowledge to new units, because ‘tacit knowledge will walk away’ with the departed executives. Further, hyper growth brings in new entrants, who may imitate or disrupt a successful business model. Future research can also explore the role of executive succession to acquire different types of capabilities, such as operational, coordinative, and strategic capabilities (Srekovic, 2018); attracting strategic investments and family welfare (Patel, Kim, Devaraj and Li, 2017).

This study informs new practitioners such as prospective franchisors that adaptation may involve a high degree of hazard. If they adapt the template to local conditions that they think are very different from the referent unit, then the original template will not work. If they made presumptuous changes to some core elements of the template, the adapted model may miss out not only on some key elements of differentiation, but their interconnections too (Aspara, Hietanen, and Tikkanen, 2010).

This study has the usual limitations of mostly empirical, yet qualitative field studies. Although useful numerical data and simple quantitative patterns have been shown, there are no statistical inferences. Also, the subjectivity of the respondents as well as the researcher can be much more pronounced in a qualitative study. The context of a single organization suggests generalizability may be limited.

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