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Emmanuel T. Kodzi

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International expansion through flexible replication: rethinking the propositions.

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Emmanuel T. Kodzi Jr, Rollins College, USA

Abstract

The international expansion of businesses today invites the analysis of organizational mechanisms that allow these businesses to thrive in spite of the known challenges of doing business in a foreign culture or market. Specifically, the extent to which firms replicate their existing business models relative to the perceived need for local adaptation is topical. This paper is a commentary on the brilliant work of Anna Jonsson and Nicolai Foss, who outline a model of flexible replication, drawing from a longitudinal study of IKEA, the famous Swedish home furnishing company. Their study concludes with four propositions for further investigation. For the purpose of developing robust managerial applications, they recommend comparative case studies based on the four propositions. We provide a basis for questioning one of the key propositions, and offer an alternative proposition in an attempt to build a stronger foundation for further inquiry into the mechanisms of flexible replication.

Keywords: international expansion, flexible replication

INTRODUCTION

International expansion is attractive for many businesses not only from the perspective of access to larger markets (Hennart, 2009; Goldstein, 2009; Zahra et al, 2000) and the associated organizational forms that might enhance success in these markets (Deng, 2009; Guillén & García-Canal, 2009), but also from the standpoint of organizational learning (Johanson & Vahlne, 2009; Hsu & Pereira, 2008). Businesses can achieve significant learning through internationalization experiences. These knowledge-based advantages may be leveraged beyond the markets in which the learning events occurred. For example, Holm and Sharma (2006) show how the performance of a multinational company is directly impacted by marketing knowledge of its subsidiaries. Such experiences are critical in informing an organization's overall outlook on the internationalization process.

Using a longitudinal study of IKEA, Jonsson and Foss (2011) highlight the interaction between organizational learning and organizational forms in successful internationalization. They provide insights on the extent to which a firm expanding internationally might replicate its existing business models relative to the perceived need for local adaptation. They directly tackle the tension between “exploration” and “exploitation” as operating modes in foreign markets, in light of Winter and Szulanski's (2001) model of internationalization. Jonsson and Foss (2011) reject the mutually exclusive rendering of the operating modes – first exploration, then exploitation – and take exception to the suggestion that once a format has been decided upon by an expanding company, it becomes inefficient to revise the format. They base this position on the premise that the heterogeneous environments that firms confront as they try to internationalize offer a great opportunity for learning; and that this learning will influence the form of subsequent operations. This premise is consistent with Johanson and Vahlne's (1990) discussion of the path-dependent learning process that is associated with internationalization. Thus, an organization can be expected to adjust its operating mode in a foreign market based on new learning gained from that market. This concept of learning-driven adjustment feeds into the theme of “flexible replication” which is central to the Jonsson and Foss (2011) study. They describe flexible replication in terms of the selective retention or adjustment of high- and low-level features of the organization's foreign market operations in spite of, or in response to, learning. Flexible replication is presented as a third alternative to Winter and Szulanski's (2001) two-stage model of internationalization. Applied to IKEA, flexible replication implied that to manage the diversity and complexity presented by new international environments, the furniture giant adopted a system of maintaining a workable blend of the core attributes (such as dedicated routines) that made it distinctively IKEA, plus a level of continuous local adaptation that supported competitiveness and innovation in each target environment. In this sense, flexible replication has allowed IKEA to be successful in its ongoing internationalization effort. Jonsson and Foss (2011) conclude that flexible replication is suitable as an international expansion strategy especially in a heterogeneous environment.

POINT OF DEPARTURE

Jonsson and Foss (2011) detail four propositions for guiding further research, based on the IKEA study. While we acknowledge the usefulness of the first three propositions, we question the development of the fourth proposition by considering the value of harnessing key business model principles (Magretta, 2002) to frame *a priori* an operational approach for a new market. The referenced proposition, Proposition 4 reads:

“International replicators adopt a flexible replication approach *only after* substantial experience with either one of the alternatives of highly explorative or highly exploitative internationalization or both.”

We propose a rethink of this proposition for three reasons. First of all, Jonsson and Foss (2011) explain that IKEA arrived at a flexible approach to replication after decades of experimentation. They indicate that as IKEA experienced several failures through employing an exploitative mode in heterogeneous environments, it gradually learned to practice flexible replication. However, the fact that IKEA operated internationally at the “extremes” of high degrees of exploration or exploitation for a long time begs the question of how an international context is analyzed prior to selecting an operational mode, given the absence of full information. More substantially, the issue here is that insights generated from an in-depth study of a high-profile subject do not necessarily imply that the observed practices may be directly prescribed for other businesses. A case in point involves the Spanish fashion brand ZARA. Its early stages of internationalizing involved a highly exploitative mode much like IKEA - replicating the operating modes that had served it well, and selecting culturally similar countries to leverage its capabilities without the need for major changes (Lopez & Yan, 2009). However, after encountering several country-specific challenges ZARA decided to allow for some localization in the markets that were psychically distant from Spain. The current success of IKEA (or ZARA for that matter) does not suggest that other organizations need to follow the same path of trial and error. Other businesses can contextually apply what lessons can be learnt from these companies rather than engage in decades of experimentation. It does appear wasteful to for a business to go through exactly the same process and learn only by experience. In this regard, Dyer and Wilkins (1991) point to the inclusion of both *unique* and *typical* experiences and events as a basis of the theory generated by Dalton’s (1959) study of the Milo Plant. We argue that the application of unique versus typical learning experiences would take different forms depending on the organization that chooses to apply the lessons; and on the organization’s capabilities, resources and operating environment. Thus, when a case study presents a good story of best practices or otherwise, it allows readers to connect key principles with their own contexts for the purpose of learning or application, rather than imitate practices as prescriptive *per se*. These principles, then, guide the formulation of assumptions from which to frame an operating strategy in a target market, thereby becoming inputs for developing a business model (Magretta, 2002). For example, a key principle for successful internationalization is accessing relevant knowledge. However, in recognition of the

increasing importance of users and collective users as a critical source of knowledge and opportunity identification in certain industries (Chandra & Coviello, 2010) businesses may focus on building effective user-networks to gain access to context-specific intelligence prior to the onset of international operations.

Secondly, Jonsson and Foss (2011) point to costly investments associated with flexible replication, arguing that an understanding of what investments are needed in a foreign market will result from actual practice. They buttress this point with reference to the experiential knowledge discussion of Erikson, Johanson, Majkgård and Sharma (1997). Indeed Erikson *et al* (1997) acknowledge that internationalization entails risk. However, Johanson and Vahlne (1990) suggest that if market conditions are unstable, experience within that market cannot in itself lead to decreased uncertainty. This elusive decrease in uncertainty will be especially true if the expansion is into emerging markets. Furthermore, Shenkar (2012) indicates that because culture is dynamic, the delineated cultural context at the time of market entry may be different at the time performance is measured. It appears, then, that an organization will be well-advised to diversify its operational risk (among others) by framing its entry in such a way as to accommodate operational flexibility while making the needed irreversible investments. Minimizing risk in this way will involve a detailed assessment of the organization's capabilities relative to what is known of the target environment, for the purpose of guiding the operational forms that facilitate experiential learning within a foreign market. Thus, to maintain branding advantages and craft a workable value proposition in a foreign country, we expect the organization to firstly determine what attributes of its business would be non-negotiable; but then through an awareness of cultural differences also signal certain aspects of the organization's offer to be presented as adjustable options in each new environment. Such a framework can be adjusted incrementally in response to new local information since it is impossible to know beforehand the range of decisions that will be taken in the target market to maintain competitiveness. This challenge of working with imperfect information is a return loop to Winter and Szulanski's (2001) "arrow core" discussion; basically that it is critical for an organization to understand how the winning attributes of its market offer are created, and then to make the necessary adjustments within new contexts in order to replicate the winning attributes. Consequently, while the quality of decisions can be expected to improve through information and learning, we disagree with Jonsson and Foss' (2011) assertion that a firm may not consider adopting flexible replication at the onset of its internationalization effort. There is also evidence in the literature of an entrepreneurial intention to create an international business (Chandra, Styles & Wilkinson, 2012; *ibid* 2009; Dib, Rocha & Silva, 2010) suggesting that the organizational form may also be considered prior to the onset of the business.

Thirdly, Jonsson and Foss (2011) reflect on the adoption of flexible replication as though it were a state of being for the organization rather than an approach to foreign market operations. An "approach" in itself can be determined *apriori* and then fine-tuned with more information.

Barker (1993) discusses the theory of concertive control, which when applied to a service organization, for example, will provide members of a team with a framework for determining the acceptable approach to resolving a problem in an unknown situation for which the precise resolution has not been previously specified (Sucher & McManus, 2005). Ghoshal and Nohria (1993) also show how under conditions of high environment complexity the relationship between a foreign subsidiary and its headquarters needs to take the form of “normative integration” – the socializing of managers into shared goals, values, and beliefs that shape perspectives and behavior within the international context. Consider organizations choosing to operate in a customization mode; they need to adopt flexible operations ahead of time to allow them to meet the heterogeneous needs of customers as and when those needs are specified. Using the example of the US furniture industry seeking competitiveness in their proximate but changing markets, Kodzi and Gazo (2010) show how operational flexibility can be enhanced by modularizing the product features that are then customized based on expressed needs. The modularization of adjustable attributes is fundamental to effective coordination of resources under dynamic market conditions (Simpson, 2004; Duray, Ward, Milligan & Berry, 2000; Åhlström & Westbrook, 1999). Similarly, if an organization designs a range of adjustable operational modes that can interface seamlessly with a defined and replicable organizational core, that organization can reap the benefits of customizing its operational approach in heterogeneous environments. We argue that companies that have built flexible capabilities can apply this learning to different contexts – in this case through the positioning and resource coordination that are relevant for competing in heterogeneous international markets.

Erikson et al (1997) further indicate from their study on experiential knowledge that organizations can guide their search for experiential knowledge in foreign markets by first developing structures and routines that are aligned with their core strengths. This perspective is consistent with Nelson and Winter (1982) that firms possess resources for applying routines in a different environment by virtue of the fact that they do have established routines. Bhardwaja, Eickmanb and Runyanc (2011) show, for example, that ZARA recognized its communication capabilities and made effective communication a key component of its international expansion. Basically, an organization in the process of internationalization needs to clarify which of its resource configurations will increase its chances of success in a foreign market; and then determine the approach for contextualizing these competencies in that market. This contextualization will be ongoing in a heterogeneous environment as shifts occur in the market. Consequently, substantial experience in a highly explorative or highly exploitative mode diminishes as a pre-condition for determining whether an organization in the process of internationalization will adopt flexible replication. From the foregoing discussion we consider that Proposition 4 in the work of Jonsson and Foss (2011) requires some adjustments to remain as a robust basis from which to design further study.

ALTERNATIVE PROPOSITION

The fact that international expansion represents growth - and growth itself typically gives rise to new business problems requiring potentially unconventional solutions - suggests the need for flexibility in the organizational forms and operations of replicators. Bhardwaja, Eickmanb and Runyanc (2011) propose a 'dynamic strategic planning process' for expansion in international markets based on a case study of ZARA. It seems logical to consider the nature of flexible replication to be iterative in terms of adopting a phased ramp-up of foreign business operations using incremental learning experiences to guide the realization of expanded business activity. However, the flexible replication approach can be *conceptualized* in advance of entry into a foreign market, based on objective knowledge. For example, Gibbons (1999) describes the international replication of Grameen Banking for a specific application in India; he then translates knowledge of the essential interaction of activities and procedures to the context of poultry networks. Johanson and Vahlne (1977) distinguish between objective knowledge (which can be taught) and experiential knowledge, and suggest that the former provides a basis for formulating theoretical, rather than "concrete" opportunities. We argue that objective knowledge plays a key role in building the necessary connections between "concrete" opportunity and relevant action – without theory, organizations will be left with a weak framework for productively processing experiential knowledge gained in a given environment. Furthermore, the link between knowledge and the identification of an international opportunity (Johansson & Vahlne, 2006) has implications for an organization's approach to international expansion and to how the entrepreneurial opportunity is exploited (Chandra et al, 2009; Ellis, 2011). Thus, theoretical frameworks can clarify value-creation drivers at the interface of commercial exchange (Sainio et al, 2011). In this regard, Hill (2000) provides a framework for managing changes in order-winning criteria, even though an organization may previously have clarity on the underlying determinants of its winning attributes. Bartlett and Goshal (1989) also indicate that in changing environments, it is important not only to achieve organizational fit but also flexibility. Such theoretical foundation is critical for planning and operational purposes, and is a basis for evaluating contextual factors affecting competitiveness as more learning occurs, whether in a domestic or a foreign environment. In examining the conceptual dimensions of cultural distance, Shenkar (2012) builds on Black, Mendenhall and Oddou's (1991) point about individuals making "anticipatory adjustments" before encountering a new situation. He suggests that corporations may do the same, essentially closing the "cultural distance" to a host country even prior to establishing operations there. Given that international opportunity identification is an intentional process (Peiris et al, 2012) it is not unreasonable to expect that the organizational vision and intention will affect the configuration of an internationalization strategy. It appears, then, that even when a phased operational strategy is desirable, such as to allow the gradual development of experiential learning (Johanson & Vahlne, 2009), this option does not preclude a prior determination of the favorability or otherwise of a flexible replication approach. We submit an alternative proposition as follows:

“International replicators having clarity on their winning attributes design *apriori* a flexible replication approach to operating in heterogeneous environments.”

The *apriori* determination of international expansion mode may be a function of the pre-founding stage of the firm, which more recent researchers (e.g. Evald et al, 2011; Prashantham & Dhanaraj, 2010) consider being critical to understanding the internationalization process. Our alternative proposition is reasonable considering that replicators with clarity on their winning attributes understand better where to focus investments to reinforce their strengths and mitigate risks. The clarity also signals that they have taken advantage of objective knowledge for a pre-launch appraisal of their competencies and resource advantages, such that the subsequent experiential knowledge gained can be utilized effectively. These replicators also understand the need for operational flexibility in response to heterogeneity in foreign markets. Their demonstrated learning capabilities can be expected to positively impact the internationalization process (Schweizer et al, 2010; Evers, 2011). Such learning capabilities can create customer value through facilitating innovation (Dib et al, 2010) and creating opportunities for subsequent exploitation (Mort et al, 2012). We also expect the configuration of operational modes through which organizations survive in dynamic domestic markets (Singh, Tucker & House, 1986; Freeman, Carroll & Hannan, 1983) to translate into framing and positioning advantages in international expansion.

CONCLUSION

Internationalization process models are relevant to the current academic discourse in the light of several emerging complex issues in managing the process (Malhotra & Hinings, 2010). The experience-seeking behavior of organizations aiming to reduce uncertainty may be elusive by itself, if market conditions are dynamic. Our arguments contribute to the internationalization discussion by accentuating the plausibility of an *apriori* conceptualization of a flexible replication approach to international expansion, quite distinct from adopting a flexible replication approach only after substantial experience with either (or both) a highly explorative or highly exploitative strategy. In this way, we help construct a stronger basis for further inquiry into the antecedents and mechanisms of flexible replication; and increase the options for developing robust managerial applications. Further research will involve comparative studies of organizations that have expanded internationally to investigate their pre-expansion strategic choices and the processes by which these choices were arrived at and implemented. Of particular interest will be studies in the context of emerging markets.

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