"Powered by… whom?" A network perspective on replication as strategy☆

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ABSTRACT

This study examines the configuration of resources and activities among firms as a strategy to improve their position in a network through the replication of a template. The conceptual background combines the network approach to strategizing with the capability approach to replication. Using a longitudinal study of a large wholesaler, this study demonstrates that change in a network position can result from two interwoven processes: the development and replication of a template in some sections of the network, and a rearrangement of the web of relationships among counterparts.

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1. Introduction

The idea that companies are not isolated islands (Håkansson & Snehota, 2006; Wilkinson & Young, 2002) is the basis for the exploration of new perspectives on the development of network strategies. From a relational view of industrial systems, recent studies find that a firm's strategy is a continuing process of relating with specific counterparts (Anderson, Håkansson, & Johanson, 1994). Therefore, strategizing in that context impinges on the efficiency and effectiveness of the firm (Gadde, Huemer, & Håkansson, 2003). From this perspective, business relationships are a means for the firm to change its network position (Johanson & Mattsson, 1992), which is likely to influence the network structure.

However, these studies do not explore how a change in a firm's strategy might influence the business network and the possibility that those actions might take the form of a replication strategy (Baden-Fuller & Morgan, 2010; Winter & Szulanski, 2001). The characteristics of replication are the design, dissemination, and sharing of a particular configuration of resources and activities by several firms. In order to fill this gap, this study aims at assessing to what extent and how replication strategies that assume a collective nature change the structure of the focal network.

The structure of this study is as follows. The next section frames the concept of strategizing within the network in combination with a conceptual framework for replication strategies. Section 3 addresses the methodological approach that the research has adopted. Sections 4 and 5, respectively, present and discuss the case study. The study concludes with a synthesis of its major theoretical and managerial contributions and some suggestions for future research.

2. Literature review

From the IMP (industrial marketing purchasing) perspective, firms rely on networks of interconnected relationships (Håkansson & Snehota, 2006) because they cannot develop and implement their strategies on the basis of only their own resources and capabilities. They also depend on the resources and capabilities of the other firms in their focal network (Johanson & Vahlne, 2011).

Other streams of research on networks emphasize a similar perspective in which the creation and diffusion of knowledge is a relevant process for the creation of competitive advantages. For example, Kogut, Shan, and Walker (1993, p. 77) state that "the competitive strengths of a company lie partly in the nature of its relations with other firms and institutions." Dyer and Hatch (2004, p. 63) add that "competitive advantages can be created and sustained through superior knowledge-sharing processes within a network of suppliers." These knowledge-sharing processes involve a certain degree of stability that comes from the creation of interorganizational routines. In fact, firms evolve within existing networks that provide stability in some dimensions so that change can occur in other dimensions (Wilkinson & Young, 2002).

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2.1. Strategizing in industrial network

A firm's embeddedness in a network influences its scope of action. Strategizing in a business network is a continuous process of relating to its network of counterparts, namely customers, suppliers, competitors, and other actors (Gadde et al., 2003). Strategizing "is about identifying the scope for action, within existing and potential relationships and about operating effectively with others within the internal and external constraints that limit that scope" (Håkansson & Ford, 2002, p. 137). Firms can deliberately strategize by influencing their network position, that is, their exchange relationships and roles vis-à-vis their counterparts in terms of both function and relative importance (Harrison, Holmen, & Pedersen, 2010; Harrison & Prenkert, 2009). The cumulative and path-dependent nature of the processes of positioning also means that the "strategic action by a focal actor aims not only at increasing the post-action network effectiveness. It is also a matter of developing the base from which future action can proceed" (Johanson & Mattsson, 1992, p. 214).

Three issues are particularly relevant in this framework. First, strategizing can constitute a challenge for both the focal firm and its counterparts, especially when the strategizing requires substantial adaptations in terms of resources and activities. Thus, a change in network position often involves dealing with the positive or negative effects that result from the other actors' reactions (Gadde et al., 2003).

Second, in a context of uncertainty about network dynamics, the development of trust and mutuality encourages actors to promote changes in the focal network. Firms have to believe that their counterparts will perform actions resulting in positive outcomes for both parties (Anderson & Narus, 1990). Additionally, the activities that promote changes both at the dyadic level and at the network level require mutuality, that is, an alignment of the objectives of the participating firms (Håkansson & Ford, 2002). Thus, firms might have to make concessions in their individual goals on the expectation in turn of achieving positive outcomes (Ford, Håkansson, & Johanson, 1986).

Third, a firm's ambition of influencing and controlling other actors is a critical driving force for the structure and dynamics of the network (Möller, Rajala, & Svahn, 2005). Some firms might act "to change routines and structures and influence others to bring about modifications of activity patterns and resource constellations" (Gadde et al., 2003, p. 362). To this extent, the network might have a tighter or looser structure (Mattsson, 1989).

In short, changing the focal actor's position in the network—that is, the process of developing "the base from which future action can proceed" (Johanson & Mattsson, 1992, p. 214)—can involve deliberate actions that aim to restructure the web of interdependencies in the network. An aspect that the literature does not explore is the possibility that such deliberate actions might rely on the replication of a "template" (a particular configuration of resources and activities) in some sections of the network.

2.2. Replication as a strategy

Firms can act purposefully to transfer and replicate practices in order to change the environment they are in (Florida & Kenney, 2000). The replication of a formula or business model is a phenomenon that a growing number of industries have adopted (Baden-Fuller & Morgan, 2010). The advantage of replication usually is the ability to perform faster than other competitors (Ruuska & Brady, 2011).

According to Winter and Szulanski (2001, p. 730), replication "entails the creation and operation of a large number of similar outlets that deliver a product or perform a service." The challenges in replication mainly come from knowing which template to replicate and how to do so (Winter, Szulanski, Ringov, & Jensen, 2012). Replication strategies demand knowledge that the firm codifies and knowledge that is tacit: "Growth by replicating such a 'formula' requires the capability to recreate complex, imperfectly understood, and partly tacit productive

processes in carefully selected sites, with different human resources every time, facing in many cases resistance from proud, locally autonomous agents" (Winter & Szulanski, 2001 p. 731). Using the distinction between exploration and exploitation (cf. March, 1991), Winter and Szulanski argue that a replication strategy goes through an exploration phase. This phase involves the creation and refinement of the template and the capabilities that, in the exploitation phase, will support the replication, which the company usually conducts at a large scale. The replicator "must derive from its limited experience with the evolving template an understanding of what is both replicable and worth replicating" (Winter & Szulanski, 2001, p. 731).

Replication involves a knowledge transfer to create or substantially modify the routines of the target company or even its identity. Over time, the replicator accumulates dynamic capabilities, thereby improving its replication's capability with each additional replication. Such dynamic capabilities reflect the replicator's knowledge of the template. The firm then replicates the template's attributes in each target company (e.g., operating routines) to ensure satisfactory operation.

The firm's successive experiences disclose the effects of different configurations of the template's elements—helping to answer questions about "what, how and where should the replicator be trying to replicate" (Winter & Szulanski, 2001, p. 733). However, the factors for the template's success might not be clear because both causal ambiguity and combinations of codified and tacit knowledge are hard to list in a manual of procedures. Thus, "there is a real challenge involved in discriminating the replicable and desirable features of the template from other possible causes of success" (Winter & Szulanski, 2001, p. 735).

Therefore, a replication strategy often involves complex and fallible judgments on what to replicate, the methods to use, and in which contexts. In addition, the replicator might have to choose between the benefits of a more precise replication (exploitation) or openness to learning and adaptation (exploration).

2.3. Research question

As this study has described, firms can actively seek to improve their strategic positions by changing network sections according to their own interests and objectives. The combination of the concept of strategizing in networks and the capabilities' approach to replication supports the following research question that this study aims to answer:

> How can the replication of a template among some actors improve their network positions?

This study suggests that, in a network context, the challenge of replication involves not only the generation of knowledge about the replication of the template, but also learning about the firm's embeddedness in the network (including the capabilities and goals of other firms that interact with the focal firm). Replication, as a dimension of strategizing, is thus an interactive learning process that identifies a firm's scope of action in a network. The process also designs, tests, and disseminates a particular configuration of resources and activities to a number of other actors.

3. Methodology

This study focuses on the process over time of designing, testing, and replicating templates as a strategy in networks. Therefore, the methodology relies on a longitudinal case study. This study focuses on a large Portuguese wholesaler of food products who aims to create partnerships with small traditional commerce shops. The project is an issue-based net (Brito, 1999) that addresses a collective issue: the process of improving a wholesaler's position by enhancing the positions of its customers within the network. A distribution network is an appropriate case to study because of its dynamics over time. According to Gadde (2014, p. 628) "intermediaries have been able to adapt to modifications

in the business context that affected their power and their way of operating. These adaptations enabled intermediaries to uphold, maintain and improve their position in the evolving distribution networks."

Further, a case study is particularly suitable to understand the how or the why of a particular phenomenon whose boundaries are not clear (Eisenhardt, 1989; Yin, 1994). This approach is adequate to study processes of change in networks (Halinen & Törnroos, 2005) and is consistent with the possibility that network replication is contingent on the exploration of several configurations of activities and resources in the network (Håkansson & Ford, 2002).

The study uses different sources of information, including written documents, field observations, and interviews in order to triangulate the results. The study collects the data in two stages. In the first stage, the study conducts seven non-structured interviews with the project's shop owners. After which, the study conducts two semi-structured interviews with the marketing director and the chief operating officer of the wholesale firm. On average the interviews take one hour, and the interviewers record, transcribe, and analyze all of the interviews. The data collection and analysis are interwoven processes that combine the ground information with the theoretical framework (Dubois & Gadde, 2002).

4. Case description

The food distribution sector in Portugal has changed substantially in recent years. A small number of large distribution players have gained prominence, while traditional small shops have faced growing difficulties. The revitalization of these shops has been a recurring issue for retail associations. They believe that the shops' revitalization would require the strengthening of the strategic position of small shops by increasing their sales and profits through "own brands."

Project *Amanhecer* (the Dawn Project, hereinafter referred to as DP) is a revitalization program by *Recheio*, who was the leading player in the cash and carry sector in Portugal with 41 outlets and sales of around 800 million euros in 2014. The project converts and adapts small- and medium-sized independently owned groceries to their model by using the *Recheio* name in association with their own names. The project began in 2011 with the revitalization of two shops and reached 150 shops in 2014.

4.1. The Dawn project

Recheio sells about 50% of its products to small shops. *Recheio* decided to launch DP in 2010, following the decrease in its customers and turnover. According to the marketing director (MD), the project represents "…a survival strategy for *Recheio*, simply because we cannot afford to lose more than half our business." According to *Recheio*, the low profitability of its customers results from bad practices such as inadequate assortments and pricing that lead to reduced turnover and low margins. The MD declares that "when they want to earn 10% margin, they apply 10% on everything. They do not know that there are items that have to be aligned with the rest of the market, otherwise customers may drive away."

The DP aims to combine *Recheio*'s scale and expertise with the shopkeeper's knowledge and proximity to local consumers. This combination requires a redefinition of their roles for both *Recheio* and the small shops. According to the MD, *Recheio* expects that each "shopkeeper is exclusively committed to sell in his/her shop. That is what he/she is good at!" In addition, the "DP is aimed at nurturing greater customer loyalty."

When a shop formally joins the DP, the shopkeeper commits to implementing *Recheio*'s model. The model comprises: (i) manuals and training in several areas (e.g., customer service, marketing, computing, perishables and assortment management, and food safety); (ii) support in managing assortments and margins; (iii) specific software to manage inventory and orders that generate detailed sales information; (iv) stock replenishment logistics; and (v) access to special conditions in contracts for energy and insurance. The model also includes highly visible elements on the shopfront and in the shop's environment (e.g., adverts, layout, signage, and uniforms).

Both parties share the investment in the shop's renovation. *Recheio* provides approximately 20,000 euros for computer systems and the shop's appearance and reopening. The shopkeeper provides the day-to-day operations and undertakes to buy 60 to 80% of *Recheio*'s products, in particular the full range of the brand *Amanhecer*. The shopfront, beside its name, also displays the *Amanhecer* logo. According to the MD, "The owner of a shop is a partner, not a worker. We like to think [of the project as] powered by *Amanhecer*."

4.2. 1st phase – pre-test

The PD originally invited two shops to test the concept. These shops were facing difficulties and the initiative could reverse their situation. The team implemented the initial concept in both shops: "They were the first ones, and the concept was strictly received" (MD). After the opening in February 2011, a three-month period followed to evaluate the shops' performance and their support systems. For the chief operating officer (COO), this experience let them "…assess adaptations of assortment, concept, aesthetics, operations, and other situations of which the team was initially unaware. There were things that we were sure would work and others that we left behind."

Regarding services, shops could have (or not) a take-away service. Concerning assortment, the PD knows that fruits, vegetables, and regional products are in higher demand. Therefore, the PD adapts the layout to ensure a noticeable position for such items. Certain equipment has to conform to the characteristics of each shop. For example, as the COO states, "the yoghurt showcase was too large. They prefer to receive the product more often. As they do not have much [room in the] warehouse, as soon as they sold the normal quantity, the refrigerated showcase would look too empty."

4.3. 2nd phase – expansion

In this phase, *Recheio* opens the project for other shopkeepers to apply. Sector experience, location, and shop size lead to the selection of 24 new retailers. *Recheio* does not apply the criteria in a rigid way, and these new shops are quite diverse, for instance, regarding the ideal size of 150 square meters (1615 square feet) or having a warehouse. The flexibility in the criteria allows other issues to arise. For example, in one shop that the project created from scratch, the owner had no experience in retailing. According to the MD, "in addition to having found that the owners had the right profile, in terms of personality, the location and positioning that we were thinking for the shop had immense potential as well." After some months, the assessment was positive: "We were not wrong. The shop grew from zero consumers to a number of loyal customers as high as the other shops that were in the market for twenty years or so" (MD). However, the owner's lack of experience required greater support from the team to operate the shop. The MD said that "we put people there, who came [from *Recheio*] to work at the grocery shop. If the owner does not have that knowledge, the operation tends to be very hard if we do not help him." Therefore, despite the success of this particular shop, experience in the sector becomes a mandatory requirement for new shops to join the DP.

The template keeps a set of standard and common elements for all shops. The COO declares that "all that concerns the back office and operational management of the shops is standardized, as well as their image, since it contributes to the brand positioning of *Amanhecer*." Because retailers sometimes have a better knowledge of the local context, the benefits of the uniqueness in each shop become evident. Therefore, a degree of flexibility becomes part of the template. For example, the range of products and suppliers for each shop could vary because

some owners consider that certain products (or suppliers) should be available. This flexible disposition makes the DP particularly attractive to shopkeepers. According to a shop owner, "one of the factors that made me apply for DP was the freedom that they let me have in choosing my suppliers. In a competitor's project that I assessed, this did not happen. They always had to approve everything, and this was a very complicated process."

Some shopkeepers do not agree with the DP's requirements. The owner of a gourmet shop with own brand products, did not give priority to the DP assortment. "They did not want that their brand lost space on the shelf… It was a lesson for the future" (MD). Whenever possible the PD tests for possible alternative solutions. According to the MD, "often it is they who are right. They are on the ground, not us." One of the shops adopted a different timetable because most sales happened in the shop's first hour of operation. In another case, the shopkeeper changed the layout: "We wanted to put the frozen cabinet on the left side of the shop. On the right, it hindered circulation and made us give up two shelf cabinets. However, the owner insisted in putting the frozen cabinet on the right since, according to him, the customers always went right when entering the shop" (MD).

The importance of trust between the parties surfaces during the refurbishment of the shops. According to the COO, "all that we propose to a shop is a suggestion. It is not mandatory by contract. The better the relationship with them, the better for us." According to the MD, "it is good when the 'door' is open, when there is already a relationship with *Recheio*. From there on, everything is easier. You gain trust on what *Recheio* may do. There is then intrinsic trust in the relationship."

In addition to local adaptations, sometimes shopkeepers propose changes that other shops had implemented. In general, the DP disseminates solutions among shopkeepers: "Sometimes, people in the shops have very good ideas and what we do, in these cases, is encourage [others] to do the same things" (MD).

4.4. 3rd phase – reflection time

The increase in the opening rate of refurbished shops provides a substantial time savings in their revitalization: "the latest 15 [of a 26 shops total] were refurbished with a week of difference between them. A new one opened every Thursday" (MD). A year and a half after the launch, the outcome of the DP greatly satisfies the participants. The declining trend in shops sales had reversed. In general, shop owners declare that this reversal mainly results in less wasted time on operational processes, better management of assortment, improvement of the environment, and greater visibility of their shops due to the marketing efforts of the DP team. According to a shop owner, "… now, we can do many things that beforehand we were simply unable to for lack of resources."

Despite its apparent success, the DP was temporarily put on hold. According to the MD, "the first year served for fine-tuning. We had two shops that went well and we knew the way. However, there are other alternatives and we kept on trying a bit of each until we could focus more on the concept. We wanted to open shops; we wanted to try it…" In general, they reinforce their initial conviction that the project viability requires both the replication of standard elements and a disposition to incorporate local specificities.

The project team finds evidence that not all retailers are willing to cede the control of some activities. According to the MD, "there are shopkeepers who have the idea that 'the business is mine and no one tells me what to do.' They were not the right people for the project, but now they are already involved in the project, so we have to move on with them." The existence of prior relationships and mutual trust has proved to be essential to cope with this issue when, henceforth, the DP invites new shops to join or the shops formally apply. According to the MD, "what we are trying to do is to reduce the time that each shopkeeper devotes to tasks that do not add value. If he does not trust *Recheio* to have the best price and conditions, and if he is always looking

at the competition, we can conclude that he is not committed to the project. His 'profile' is not right for an 'Amanhecer' shop owner."

5. Discussion and analysis

The case shows how a major company in the wholesale food sector changes its position in the network by designing, testing, and replicating a template involving several retailers. Four aspects result from this research that respond to the question in Section 2: *How can the replication of a template among some actors improve their network positions?*

5.1. Active posture of influence

The first issue concerns the actors' perceptions of the interrelationships in their network positions as the basis to support an active attitude of influence over other actors in the network. As the case study indicates, the *Recheio* managers become acutely aware that the success of their firm depends substantially on the performance of a large number of small traditional shops. The continued fall in revenue from these customers shows that the wholesaler's survival depends on its ability to improve its position by influencing the positions of a substantial number of diverse small shops relative to consumers.

5.2. Template replication as a change driver

The second aspect concerns the likelihood of these actions to induce changes in the practices of several actors in the network by replicating an operation template that would require changes in the relationships between the actors. As the study has described, the DP managers realize that increasing the sales effort of their existing customer base alone would not suffice; they need to go further and change the nature of that base. They come to understand that the poor performance of the shops results from the widespread use of bad practices by a substantial number of shopkeepers. In this context, they consider the necessity of replicating across those shops a template of good practices. The replication requires a change in the division of work between *Recheio* and its customers and a closer coordination of activities ("the shopkeeper should be in the shop, and we take care of the rest").

5.3. Process of change

The third issue is the process of change as a learning process for the actors. This case study supports the idea that the reconfiguration in the network is a process of knowledge development about the configurations of the template itself and the network. The case study shows that doubts can arise regarding what elements to retain in a template in the exploration period and that the experience from the 2nd phase can be important in finding out what other factors can affect the efficiency and effectiveness of the replication process, particularly the criteria for the formal admission of a shop. In particular, the 2nd phase highlights the role of the shopkeeper's previous experience in retail and the importance of mutual understanding and trust building between the parties.

Because a contract cannot formalize everything, the presence of mutual trust is essential for the introduction of a new configuration of activities and division of work between the parties. The replicator's experience shows that ignoring a shopkeeper's initiatives and knowledge is a mistake. This experience is important for the viability of his or her local shop, which, in some cases, the project could extend to other shops.

5.4. Changes in the structure of focal network

The replication of the template occurs along with the changes in the network structure. The replication requires a focal network that is more homogeneous and has a tighter structure than the previous one. The

previous relationships with the shops involve mostly repeated transactions of different mixes of assortments by different shops. The changes the stores carry out impinge on activity links, resource ties, and actor bonds between the parties. The new division of work involves a strengthening of the activity links (e.g., logistics, inventory management, and promotion). Some of the resources in these processes are specific to the network (e.g., software and operating routines). Further, the actor bonds of trust and a degree of mutuality are a requirement for the operation of the new configuration to work. These bonds reflect the impossibility of complete monitoring of the counterparts' behavior and the collective interest in preserving degrees of local autonomy.

6. Conclusions and suggestions for further research

Firms can be particularly active in changing networks to improve their strategic position. By combining the network approach to strategizing with the capabilities-based approach to replication, this study offers both theoretical and managerial contributions. First, this study shows that a strategy that focuses on improving a firm's performance through the change of its position in a network can take the form of a replication of a particular configuration of resources and activities that involves various actors.

The second theoretical contribution results from the emphasis that both approaches give to learning processes in the specific context of each firm: a replication strategy involves knowledge development both on the template and on the discovery and exploitation of the specific network where the firm will test and replicate the strategy.

Third, the collective nature of replication strategies can result in restructuring the web of dependencies in the network. This study shows that strengthening the position of the focal actor through the replication of the template stabilizes the focal net around that actor with similar configurations of resource ties, activity links, and actor bonds. Further, the case study shows that the process of change can result in a focal net with a tighter structure that is likely to be contingent on the nature of the template.

The results of this study show that managers should be aware of preserving variety in focal networks when trying to replicate good practices. Likewise, this study does not advise the assignment of the implementation and operation of a template to the specific capabilities of a central replicator. Actually, the template's effectiveness is likely to depend on the capabilities and intentions of several firms that interact over time.

This study concludes with suggestions for future research. Since the focal net exists in a global network, both the diversity of relationships with other actors (up or downstream) and competitors who might promote other types of arrangements (e.g., franchising networks) could be worth considering. These aspects introduce an element of tension that can counteract the emergence of a recipe for best practices in the network (Gadde, 2014). The study also suggests that studies on replication strategies that involve configurations that are more complex can help to better understand the interconnection between replication and adaptation in networks (e.g., Miraglia, 2012).

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