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*Start-up and management of foreign
subsidiaries through replication strategy:
the case of Umana*

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Abstract

The so-called replication strategy finds application in many well-known companies like IKEA, Mc Donald's and Wal Mart, and is based on the relatively simple idea that growth can be achieved through replication of a successful business formula. However, scholars have argued that conceptualization of the replication process is much less straightforward than what might appear at first sight. The aim of this thesis is to analyze a replication strategy implemented by a private company, compare it with what literature predicts and then schematize the relative process in order to highlight issues and possibly improve the strategy itself.

The paper begins with a review of the literature, with particular focus on the replication process and the knowledge-transfer process. Following, we will introduce 2 company cases and analyze them according to theoretical pillars. Then the main case of reference will be presented, together with detailed analysis of the implemented strategy in two different markets. This will allow us to draw conclusions about how the process actually unfolds, and how and which aspects of the strategy are sensitive to environmental conditions.

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I want to thank my family and my girlfriend for having relentlessly supported me throughout this work. Appreciation also goes to the Umana company, whose top management has allowed me to work with them, learn a lot and ultimately grow as a professional. Special thanks to professor Comacchio, who has fostered genuine analysis of the topic, always providing feedback and useful insights for further development. Her ability to see the topic from different points of view is what has allowed me to draw relevant conclusions and fully understand the replication process in its complexity and multifaceted nature.



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CHAPTER 1

1.1 Introduction

The theory of replication as a formal development strategy is yet to find a definitive theoretical background and not many authors have focused on the building of a rigorous framework for it. Although companies have been implementing such strategy for a long time and some of them have enjoyed large success through it, “replication is typically conceptualized as little more than the exploitation of a simple business formula” (Winter – Szulansky, 2001).

The aim of this thesis is to build an alternative conceptual framework for successful implementation of replication strategy on a particular business case. Such objective is achieved through the analysis of available literature and of some practical cases of relevance. The case of Umana S.p.A. and its recent internationalization in Brazil through replication of a successful format as part of a corporate-level strategy is analyzed and it serves as scratch book for framework development. It is worth noting that the development of these new subsidiaries opened by the company is currently an on-going process therefore considerations will draw from hands-on experience and the resulting framework will then be applied to the real case.

The thesis is going to be divided in three macro-areas, each divided in various chapters.

The first one is a presentation and explanation of relevant literature on the topic, highlighting key variables of the replication process and reasons for failure, and in general contextualizing the topic in its complexity.

The second part goes on with the introduction of empirical cases where relevant variables are to be found and conceptualized according to the literature, with particular focus on the Umana S.p.A. case, which will be analyzed in depth and will constitute the main empirical reference.

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In the last part there will be the formulation of a replication strategy according to theoretical benchmarks previously specified. Such strategy is meant to be implemented in the Umana S.p.A. Brazilian case with the hopes of success. Conclusion will also include some hints for future theoretical and practical development as well as a general assessment on the reference case-study.

1.2 Contextualizing replication

Vast experiential evidence indicates that replication is a mean to successful expansion of businesses inside and across national borders. Also known as “McDonald’s approach” in fact, replication can be found as the backbone of expansion strategies of a large number of companies, especially in services, fast-food and retail sales sectors. As suggested by Ingram and Baum (1997), the share of economic activity of chain retail sales organizations has seen continuous growth in recent times. Moreover, the surging of the so called “click-and-mortar” economy further favors the creation of replica “points of presence” by companies that need to support the distribution of goods and services sold in net-based transactions. It is also clear that “firms may grow from their home countries to host economies by implementing replicas of their value chain processes” (Jonsson and Foss 2011) which explains the success of organizations like McDonald’s, Wal-Mart, Starbucks, IKEA. These companies have created value and gained competitive advantage on an international level by creating large numbers of outlets all built upon a similar, when not identical, business formula. Replication is thus defined as the repeated application of a successful organizational practice that can be used to achieve an organization’s objectives (Szulanski, 1996; Winter & Szulanski, 2001). Such a view does not give the idea of the complexity of the replication process, yet it exemplifies on a broad basis what a strategy to replicate aims at.

The seminal paper “Replication as Strategy” by Sidney Winter and Gabriel Szulansky (2001) certainly is the theoretical milestone for study



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of replication theory, yet valuable contributions to the topic have also come from organizational learning scholars that have focused on the transfer of knowledge implicit in the process of replication, as well as from contingency theory and from reference works like “Managing Across Borders” by Bartlett and Ghoshal. Therefore, before going into detail on the theoretical foundations of replication theory, an overview of such diverse contributions is needed to provide a more complete picture of the topic and to show the spectrum of variables that come into play when implementing a replication strategy.

As replication necessarily involves transferring of knowledge from the “center” of the organization to the outlets it creates, it is no wonder that knowledge management is believed to play a relevant role in the development of replication formats. The debate about knowledge management indeed catches a lot of attention from scholars and researchers, who look for ways to improve knowledge utilization inside organizations, yet it mainly focuses on the analysis of specific contexts like internal transfer of knowledge and best practices (O’Dell, Greyson et al. 1998), organizational learning (Argote, 1999) and knowledge sharing (Dixon, 2000). Not much effort has been done to investigate in depth the nature and characteristics of the replication phenomenon, although its spread presence in the business world. Transferring knowledge is a delicate topic and in general there’s ample room for improvement in the understanding of how it works and how can be done more effectively. A recent survey carried out by Ernst and Young on a sample of 431 U.S. companies has revealed that, when asked about effectiveness of internal knowledge transfer, only 14% of respondents found it “satisfactory” while the rest, 86%, rated it as “lacking” (Ruggles, 1998). This is probably due to the fact that knowledge assets are not easy to exploit and experiential learning plays a fundamental role in figuring out how to do it, case by case. Experiments would help clarify what are the relevant variables to be considered, but it’s not that easy to organize a real-life setting where the process can be repeated multiple times keeping some factors unchanged to see how other factors influence the final result, especially



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because it would require large efforts and investments, both in monetary and temporal terms. However, it's easy to see how replicating companies actually have the possibility to develop such an environment and test it multiple times, as it's the commitment of their strategy and their interest to clearly understand the dynamics governing knowledge transfer. It means that this particular kind of strategy could be a mean to gain insight into knowledge management theory, through study of empirical cases of replicating firms.

Inside the vast spectrum of knowledge management studies, there are also other aspects that influence replication theory, apart from its bare effectiveness assessment. As said above, the main contributions in this respect have come from analysis of related yet distinct areas of study rather than from replication theory. Re-utilizing knowledge that is already been used is a fundamental aspect of replication, conversely replication is only one of the many ways organizations can adopt to re-use knowledge. This duality causes replication to bear some similarities with other concepts developed by organizational theorists, therefore they partly contribute to its development. This demands a clear explanation of how replication differs from such concepts. Obviously the idea of replication implies that there is an original that is being copied and "moved" around, which is more or less what happens during the diffusion process of an innovation, between or across firms, or when technology is transferred intra or inter-firms. What differentiates replication from these two is the nature of the object being copied. Specifically, the replicator does not have full knowledge of the object of replication when the process starts, and this is explicitly conceived by replication theory. In other words, while an innovation, or a technology, can be copied and transferred once that is known, a replication process includes in itself the process of getting to know what is desirable and possible to replicate, thus "the target routine is casually ambiguous" (Lippman, 1982). Such characteristic draws relevant implications:



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1. Replication is difficult, costly and takes “building” time, as opposed to the copying of an innovation, which usually happens pretty fast and at low costs for imitators.

2. While innovations and technology are usually transferred altogether in their integrity, the object of replication usually contains aspects that are not replicable (e.g. human capital) or not desirable to replicate because irrelevant or even detrimental. Some of them might even be tacit, requiring them to be “recreated” by the recipient rather than copied, though entailing a process with multiple trials and iterations rather a single act of transfer (Rosenberg, 1982; Attewell, 1992; Zander and Kogut, 1995).

3. The two above imply that replication is learnt by doing, the speed and scope of it improve as the replicator repeats the process various times. Evidence of this can be found in the work of Love (1995) about McDonald's, where he notes how the company doubled real estate and construction staff to attain growth objectives during the 60s.

4. Unlike diffusion of innovations, which brings no attention to the source of such innovation, replication demands development and learning at the “central” organization in order to be more successful every time. More focus is thus centered on the origin, rather than on the recipient/adopting side.

To grasp the full nature of replication theory, one must also consider the dimensions in which it can operate. Main theorists have outlined some dualities that further help contextualizing the phenomenon, which are reported below with a brief explanation.

- Intended vs. Unintended replication. While it might happen that routines are copied as an automatic process of organizational development, replication is a strategy therefore it demands commitment.
- Spatial vs. Temporal replication. Repeating routines or activities through time, thus using memory or manuals, is sharply different than replicating a context in a different geographical location. The latter in fact involves different specific resources every time, developing and performing a range of activities very similar, when not identical, to those performed at



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the “template” organization. Moreover, spatial replication bases its learning on the working example, while temporal one usually involves learning from “history” about what used to work in the past.

- Broad vs. Narrow scope replication. The latter implies presence of a target existing before the process, and it means that aspects to be replicated are usually minor, basic routines, not re-defining of the identity of the target. The former instead characterizes replication in its “full” meaning, namely the creation, or complete re-definition, of replicas, so rather than copying routines it demands the ability to replicate so called “higher order” capabilities. Because of this, broad scope replication clearly involves higher costs as well.

- True vs. False replication. False replication is so defined because it exploits the advantageous features present at the center, like a strong brand name, but it does not include radical modification of existing routines or procedures. Most common example is given by brand-stores, where a strong brand is displayed to convey customers, but management of people is autonomous and there's no knowledge moving out of the center to the target.

1.3 Theoretical structure and foundations

As presented by Winter and Szulansky in their reference paper “Replication as Strategy” (2001), the process of implementing replication constitutes of two main phases, one of exploration and one of exploitation. In fact, while common thinking sees replication as the repeated application of a perfectly known business recipe, empirical evidence suggests that such view misses on the core aspects of exploration and learning that are instead present and relevant. The distinction between these two phases has also been highlighted by Bradach (1998), Love (1995), Schultz and Yang (1997). Viewing replication solely in the exploitation part of it implies that the replicator has perfect knowledge of what needs to be done and how to do it, thus limiting the process to the exact multiplication of a business entity



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somewhere else. “Such a view clouds the strategic subtlety of replication, because replicators create value through activities that fall largely outside this scope” (Winter and Szulansky, 2001). Excluding exploration from the picture would also imply that the profit generated by a replicator company be equal to the profit generated by one outlet multiplied by the number of identical outlets present, which does not represent reality and is clearly a much simplistic view that does not grasp the true value of replication and of what determines success or failure of this strategy.

The existence of an exploration phase thus implies that the replicator creates value through analyzing and refining a business model in order to isolate, conceptualize and exploit the features that are suitable for replication and can guarantee profits when applied to a different location, with different human resources every time. Along with this goes the fact that knowledge transfer is fundamental to replication, therefore the replicator has to “develop capabilities to routinize knowledge transfer” (Winter and Szulansky, 2001) so that relevant accrued information is embedded in the creation of every new outlet. It is well known that knowledge about what makes a business successful is far from being a complete and perfectly describable piece of information, it is something that builds along with the business itself, made of variables that interact in non-obvious ways, and that is to be discovered and learnt by doing rather than known ex-ante. Even when the business is established and works correctly it is hardly difficult to lay out the omni-comprehensive recipe that has brought it there, therefore the task of the replicator is much more complex than just the copy and paste of a formula in various locations. Winter and Szulansky sum it up by saying “a balanced view of replication strategy must recognize the efforts to uncover and develop the best business model, [...] and the continuing challenges of knowledge transfer” (2001).

Replication is in particular characterized by broad scope knowledge transfer, which aims at aligning the characteristics of the outlet to those of the central organization and at recreating that identity at every new



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subsidiary, as opposed to narrow scope transfer which mainly involves adaptation of knowledge to the new context and modification of specific procedures or activities, leaving substantially untouched the macro-organizational environment. Broad scope transfer entails the ability by an outlet to autonomously reproduce at local level the product or service the company serves. The knowledge to be transferred comes from the central organization, which has to have the dynamic capabilities to figure out what to replicate and how to successfully do so. The dynamic capabilities of the center organization allow for knowledge transfer and therefore serve as a mean to large-scale replication and leveraging of the business model. Basically the center organization must have knowledge about the valued features of the model, what makes it successful in relation to the environment, how favorable traits are to be exported and recreated somewhere else. According to the authors, the broad scope of knowledge transfer and the role of the central organization are the key aspects of a replication strategy. Actually, these two aspects stand as distinguishing features of replication as opposed to related phenomena that also entail knowledge transfer, like the diffusion of an innovation (Rogers, 1995) or the transfer of best practices within a firm (O'Dell et al. 1998).

To capture the relevance of these two key aspects, the concept of “Arrow Core” is developed by the authors as the information set containing “the knowledge of which attributes are replicable and worth replicating, together with the knowledge of how these attributes are created” (Winter and Szulansky, 2001). The information contained in the Arrow core has to be nonrivalrous in use, meaning that using it does not cause loss in its value nor it is in any way detrimental to its quality. This is a necessary characteristic as otherwise it would mean that increasing the number of outlets diminishes the marginal potential return of each new outlet. It is instead possible to argue that the repeated usage of the information set actually improves the value of that information and consequently the value of a single outlet as the total number increases. Like the recipe to a successful business, the Arrow core cannot be known ex-ante and



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therefore is to be constructed through learning and iteration. This process of learning usually starts with the creation of the first outlets, which undergo a process of increasing sophistication as management tries to isolate and refine the value-creating features of the model. Developing the first outlets can then be seen as “a series of plans that reflect increasingly sound *hypotheses* about the Arrow core” (Winter and Szulansky, 2001). Through this process emerges the template, usually among the first outlets opened. As formation of Arrow core continues in fact, there will be one of the outlets that functions better than the others and therefore will serve as template for the development of next ones, it will provide clearer indication of the Arrow core and of what to change in non-efficient subsidiaries. It has to be kept in mind that the template is a real working example, therefore some of the aspects that made it so might not be part of the Arrow core. The personality of an exceptionally good manager, for example, surely could contribute to the success of an outlet, yet it cannot be included in the Arrow core as its quality obviously decreases with usage and can be replicated only a limited amount of times. Emphasis on the Arrow core, template and on the learning process reinforces the point of view of the authors about the importance of the exploration phase of replication before exploitation is possible. Important to underline, however, that the two are not exactly subsequent in time, they overlap at some point. This is due to the fact that speed of the replication process is relevant to its success, as it guarantees first-mover advantages and prevents entrance from competitors that might seize the opportunity. Therefore, the phase of exploitation actually starts while exploration is still happening. In fact, it could be argued that exploitation actually helps exploration as it provides tangible feedback about the effects of the fine tuning being made on the template and thus allows for changes on-the-run.

Now that the main pillars of a replication theory have been laid out, the next step is to define what can actually make replication successful and what are the main obstacles to overcome. In an attempt to isolate factors that assure success, the authors state 3 hypotheses about the Arrow



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core and the template that serve as guidelines on how the two instruments should be used.

The hypotheses are as follows:

1. A principled but flexible conception of the Arrow core will be associated with successful exploration;

2. The exploitation of a business model by replication is more successful, i.e., less prone to cost overruns, to schedule slippage and ultimately to commercial failure, when it is guided by a template;

3. When guided by a template, the exploitation of a business model by replication is more effective and profitable when replication tactics rely on an initial effort to copy the template precisely.

By formulating such hypotheses, the authors assign to the Arrow core and to the template some characteristics that should foresee good results.

Starting with the first one, relative to the exploration phase, it is stated that the assumptions about the Arrow core should remain flexible, yet principled in their origin, meaning that dogmatic adherence to the assumptions may cause “repeated failure due to extreme emphasis on precise copying of the initial template” (Winter and Szulansky, 2001).

The second hypothesis underlines the importance of developing a template from the assumptions about the Arrow core, as the use of such a template limits wastes of time and money thus ensuring success.

The last one basically warns about the risks of departing from the template. With respect to this, the replicator faces a dilemma because departing from the template clearly favors new learning and adaptation, but it entails great risks. Namely, the template is supposed to have emerged from rational assumptions and be defined by trials and errors that have allowed the replicator to figure out some of the things that work and some that do not, therefore it is unlikely that a departure from it could lead to improved results. There's evidence, taken from franchise relationship cases (Knott, 1997), that evaluation of possible paybacks



from modifying the template tend to be overly optimistic. Being the template usually made up of substantial learning, and being this learning available to other outlets or in case of surging problems, it is then logical to stick to it as far as convenient.

Being successful replication greatly dependent on knowledge related issues, and being the hypotheses kind of a pre-requisite for correct application of the theoretical concepts behind it, there are, according to the authors, precise knowledge and resources related reasons to an effective and sustainable replication strategy, which are:

- Replicator has superior access to the template, which includes tacit and experiential knowledge, very difficult to imitate;
- Replicator learns from experience and generally makes specialized investments to facilitate replication;
- Usually the replicator enjoys firm-level advantages in capabilities, like site selection or acquisition power;
- The replicator is committed to and experienced in the replication task, therefore is better informed about its history and organization.

Follows from the above that replicators enjoy a number of complementarities when implementing the strategy. Significant in this respect is the contribution of Porter (1996) which highlights how some activities performed when replicating can give origin to cumulative complementary effects, like a strong brand name that helps the development of the new outlets or a good after sales service that is guaranteed to customers regardless of the outlet they were served by.

The conceptualization of replication as it emerges from the paper shares some points with the Resource Based View of the firm, in the sense that value is created through effective use and leveraging of resources. However, the substantial difference between the two exists and is embedded in the type of resources used. The Arrow core in fact, escapes the common meaning of "resource" in the sense that, unlike usual ones, it is non-rivalrous in use, it's a resource "infinitely leverageable" (Winter

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and Szulansky, 2001), the distinction between the two types has not received much attention from scholars so far.

To conclude analysis of the theoretical foundations of replication, what stands out is that it is intended as a knowledge-based process. Traditional interpretation of knowledge transfer however sees it as a finite movement of a precise amount of known knowledge occurring from point A to point B. The Arrow core is in contrast with this definition as it is a process rather than a single movement, and, most relevant, is basically never completely known, it gets known as the process goes on. One of the most challenging tasks facing a replicator is then to understand which learning can be helpful in a particular condition, how much of it needs to be transferred and how to do so. This ambiguous nature of replication strategy makes it hard to grasp its defining characteristics. Nonetheless, understanding the pillars, sticking to the boundaries given by the hypotheses and acting fast and right on the market might be the factors that facilitate success and bring sustainable growth.



1.4 The replication process

The analysis in the previous pages has clarified how replication is a process rather than a single, instant movement of knowledge from the origin to the recipient. This attribute of replication has implications on how the strategy can be implemented because a process needs to be constructed, managed and goes on for a period of time, rather than being an instantaneous single act. Being a process adds to the replication strategy some dimensions that would not be required otherwise. In particular, it needs a structure and some content, has to be organized and time is a relevant variable too. This section focuses on highlighting the general characteristics of replication processes and isolating the ones that appear to be more relevant.

It is known from the work of Winter and Szulansky (2001) that replication is divided in two macro phases, exploration and then exploitation. This division however does not give more insights on what constitutes the two phases and on how they have to be structured. When implementing a replication strategy, managers or agents have to design a process that allows them to somehow codify the exploration and transfer it to the recipient for exploitation. This requires them to isolate the factors that are believed to be the source of success and then recreate those factors at recipient site. Basically what is being investigated is how the Arrow Core is created, what organizational aspects it comprises and how it is transferred.

To analyze a process correctly, we first need to identify key actors and relevant variables. Key actors in this case are the managers responsible for developing the new outlets, who must have knowledge of the Arrow Core and understand why that “recipe” was successful in the first place. It is important to highlight here that the objective is analyzing replication in the case of a firm that decides to open proprietary outlets all similar or equal to an initial successful template. The cases of franchising networks or growth through mergers and acquisitions imply relationships between the replicating agents and the receiving entity, be it a franchisee or an



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existing organization, that might be more complicated and might bring into the picture a number of incentives and relationship dynamics that are outside the scope of the paper. The framework of a firm that decides to open new replica outlets instead allows us to focus on the process in its purest form, free from the influences of external entities that might be against it. Obviously in the receiving outlets there will still be people that have to learn how to perform activities as done at the origin, but the decision making is concentrated at the origin and thus it is reasonable to assume that it will not be biased by negotiation with other power parties. In fact, in the case of opening of new outlets, the HQ managers can impose the structure on newly hired people and build the outlet from scratch, which should be easier than having to negotiate with a franchisee or having to restructure an existing company. It is clear that the people hired in the new outlets might still make resistance to the proposed structure, due to prior experience and knowledge, but when entering the company they are supposed to accept what superiors mandate. Therefore, in this type of framework replicating agents have more freedom to act and implement the template, and at the same time in case of failure responsibility is more likely to be found in the actions of such agents rather than in external factors, as they did enjoy kind of a white board when implementing the strategy. Putting the responsibility of an eventual failure almost totally in the hands of replicating agents has the advantage of allowing analysis of design and effectiveness of the process in itself, clear of influences from other powerful agents. We thus assume that the key actors are the managers coming from the HQ, that they have knowledge of the template to be replicated and that they can act with substantial freedom over the outlet.

The next step is to identify relevant variables. Such variables can only be the elements that made the template successful and thus compose the Arrow Core. The Arrow Core characteristics in turn have by definition to be embedded in organizational practices, processes, habits and procedures, therefore these are the elements that must be replicated. In one word, these can be summarized as routines. By routines, Nelson and



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Winter (1982) mean all regular and predictable behavioral patterns of firms. They are the organizational equivalent of individual's skills in that they provide capability for a smooth sequence of coordinated behavior (Nelson and Winter, 1982). Literature suggests that routines are an important source of competitive advantage for firms, Nelson and Winter (1982) have stated that "Organizations with certain routines do better than others [in the short term], thus their relative importance in the population is augmented over time [through investment routines which are keyed to profitability]" (1982:14). Thus, routines need to be redesigned and replicated carefully if that competitive advantage is to be maintained. The paper "Redesigning routines for replication" by Gupta et al. offers some insights into routines replication and thus serves here as a basis for drawing considerations about the process. It appears that there is not much literature about how routines are originated and how they can be replicated, instead scholars have focused much more on the execution of such routines and the blueprint of a routine. Postrel and Rumelt (1992), Cohen and Bacdayan (1994), and Cohendet and Llerena (2003) each recognize the importance of the blueprint of a routine, but they presuppose its existence rather than develop a theory of its origin. This is due to the fact that routines are not always easy to observe and describe in isolation as they are often embedded in habits and costumes, moreover most routines originate through a process of trial and error rather than from a single decision. Routines are thus supposed to be observable and fully understandable once they are in place. The authors Winter and Szulansky (2001) challenge this view as they claim that if it was so, replicating such routines would simply mean exploiting a perfectly known business formula, while in fact replication is much more than that, as previously explained in this paper.

The process of replication thus requires agents to find out which routines are at the basis of the template and how they can be replicated. There will be cases where a routine can be simply copied equally, because it is perfectly known and it is not causally ambiguous nor has strong interdependences with other routines. In most cases however, routines



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have these attributes therefore simple copying is infeasible. Rather, according to replication theory, firms spend time and resources to fully understand which aspects of a routine are worth replicating and they do so gradually over time as the experience and knowledge of what works and what does not increases. In some cases, full redesign might be the best solution. Gupta et al. state in their paper that “under these conditions, the routine’s blueprint needs to be redesigned prior to implementation. We know very little about this redesign process” (Gupta et al, 2015). In the framework being analyzed in the paper, routines need to be recreated in a completely new environment. This process involves both the discovery phase and the redesign phase because assumptions about what is worth replicating have to be made and at the same time the routine needs to be adapted to the new environment, “in essence, the “discovered” routine needs to be redesigned for the new context” (Gupta et al. 2015).

From what said above, we can lay out some fundamental assumptions for the replication process that apply in the framework we are analyzing. These are:

- 1) When replicating in an entirely new context, replication process entails redesign and recreation of the routines that constitute the template.
- 2) Routines to be replicated are casually ambiguous and interdependent, which makes it infeasible to simply copy and paste.
- 3) Replicating agents have to discover the blueprints of routines and then understand which elements are worth replicating and which are not.
- 4) Redesign has to happen before implementation in the new context.

These assumptions are meant to give some boundaries to the replication process and clarify what constitutes it, plus a “time” recommendation that indicates the temporal sequence of actions.

Bearing in mind the assumptions, focus now has to shift to the elements of the process and how they need to be treated. Going down to the very



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basic, understanding and redesigning a routine means making decisions about what makes that routine so valuable and which parts of it want to be recreated. To make this possible, replicating agents have to split that routine into its distinctive elements and individuate which are valuable and compatible with the new context and which are to be abandoned. This is the first step of the process: dividing a routine, which is a series of tasks and actions, into its main steps so that these can be analyzed and decisions made. Once the different sections have been identified, each one has to be weighted for the new context, and the agents have to decide whether and in what degree it has to be copied or redesigned. This obviously demands some prior knowledge of the recipient context. Moreover, the work of Gupta et al. (2015) also sheds light on another critical issue at this point. Namely, when analyzing the different sections of the routine, replicating agents have to worry about the interdependencies among sections and between routines. The author in fact states: “Elements of the routine were highly interdependent, but decisions were deliberated in isolation rather than as part of an interconnected system. Each of these adverse factors has precedence in the strategy and organizational theory literatures.” (Gupta et al. 2015). The existing interdependencies thus require managers to take into account that every decision on a single section might have unexpected consequences on other areas of the same routine or on different routines. This part of analysis of routine’s elements and the relations between them is probably the most critical part of the process. Failing to understand the importance of an element or ignoring its influence on other elements in fact are both errors that might cause failure during the implementation phase. With respect to this, Gupta postulates that there are three types of problems that might hamper the decision making process: compatibility issues between routines; information problems; incentive problems (Gupta et al. 2013). The first one might happen if a relevant interdependence or connection is overlooked therefore when the routine is recreated in the new context there are unexpected consequences that make it detrimental. Information problems arise when the party making the decision is not well informed. For example, if it does



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not have enough knowledge of the recipient situation, be it about costumes or rule of law, it might introduce a routine that goes against the habit and thus people will likely resist it. Similar to this, incentive problems might cause the decision maker to not be motivated enough or even to have interest in failing the process. An example of this might be a replicating agent whose compensation does not increase if the replication goes well. In such a case the agent might not be motivated enough and thus might decide more in the face of his/her reputation rather than anything else. Moreover, in general problems in replication at macro level thus might emerge from properties of the routine itself, characteristics of the origin or of the recipient and also issues of fit between the routine and the recipient (Darr, Epple, and Argote, 1995; Knott, 2003; Szulanski, 1996; Zander and Kogut, 1995).

Once the replicable elements of the routine have been identified and all have been scrutinized as said above, the replicating agent redesigns the routine accordingly and implements it in the outlet. Once the implementation has begun might anyway arise problems, thus studying and fine tuning has to continue all along. After it has been redesigned the routine needs to be tailored to the environment as some unforeseeable externalities are usually expected to arise.

To sum up the replication process, following is a scheme with the main passages and a brief description of each.

1) Identifying the baseline routines that constitute the template.

The template to be replicated is made up of a number of routines, which must be known and understood by replicating agents.

2) Dividing a routine into its fundamental elements or sections, each of which has to be analyzed in itself as well as in its interdependencies with others.

Routines are made of tasks, procedure, actions and so on, that have to be compatible with the new context, and much attention has to be given



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to how each “step” is interconnected with the others in the system, so to avoid unexpected externalities.

3) Making a decision as to which elements can be replicated, which have to be redesigned and to what degree.

Knowing the details of the elements and knowing the recipient context, managers have to decide what can add or maintain the value of the routine once it will be replicated. This is the most delicate part of the process as decision making should be kept free of biases like information problems of incentives issues

4) Redesign the routine according to the decisions made and drafting the plan and timeline for implementation.

The stage of implementation has to be structured so that the routine will be clear to recipients and adoption will be as smooth as possible. Fragmented or unclear implementation models will likely generate resistance on the recipient side.

5) Continue fine-tuning and review of the routine in place so to resolve potential unforeseeable externalities and improve fit between routine and environment.

As replication is a process of learning by doing, once the routine is implemented unexpected outcomes might come out therefore managers have to continue revising the routine so that over time it will be perfectly adapted and fit for the environment.

To conclude the section, we want to stress the importance of careful analysis of routines' elements during replication and redesign. As the literature indicates, “The real substance of the redesign process is captured in the negotiations and decisions regarding which elements of [...] baseline routine to preserve versus which to modify and how (Gupta et al. 2015).

Moreover, it has to be kept in mind that when making decisions (step 3 of the process) potential conflict between involved parties might arise due to



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different points of view, interests or knowledge. It's important then that the group of decision makers tackles such conflicts by understanding who is the affected party, why, and what can be done to overcome the problem. Meetings with the relevant stakeholders are the best way to understand the problem and jointly look for a resolution. Ultimately, it has to be clear since the beginning of the process who has the final decision rights for determining which alternatives will be adopted in the new routines, otherwise the process might slow down or even come to a halt.

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CHAPTER 2 Replication as a knowledge based process

2.1 Knowledge as a basis of competitive advantage

Replication strategy involves transferring of knowledge from the center of the organization to its outlets therefore replication is a knowledge-based process. This implies that knowledge is a relevant variable, and it deserves deeper analysis.

First of all, it is important to understand why the knowledge a firm “has” is so critical to its performances and competitive advantage. Explanations of competitive advantage that rely primarily on the positioning of organizations in an industry (e.g., Porter, 1980) or the deployment of organizational assets through competitive interaction with rival firms (e.g., Dixit, 1980; Shapiro, 1989) have been relatively deemphasized. It has been demonstrated through empirical findings that the differences between firms are responsible for the different level of performances much more than the differences between industries or sectors (Rumelt, 1991). “Organizational-level differences are now acknowledged as a critical source of variation in firm performance over and above industry differences” (Argote – Ingram, 2000). Organizational differences are caused by the different type of resources that firms have available and how such resources are used and protected. Therefore, organizational resources shape a firm and influence its performances, the point is in understanding which type of resources are key. A way to establish the importance of a resource is to look at its “price”, which reflects its value to the organization (Barney, 1986). For this reason, it follows that resources created and developed inside the firm are more valuable for competitive advantage than those purchased from outside. Moreover, to be the source of such advantage, a resource needs to be difficult to imitate, otherwise competitors would quickly close in on the gap and cancel the advantage. Key resources then are those developed inside and difficult to imitate. Knowledge has both the attributes, therefore it can be argued that it is one of the main resources of competitive advantage. Considering knowledge as a broad concept that



includes competencies, capabilities, routines, innovations, there is spread consensus among researchers that it is what an organization comes to know that defines its performances (Spender & Grant, 1996; Teece, Pisano, & Shuen, 1997).

Much research has been done on the value of knowledge inside organizations, and on its importance for the development of competitive advantage. Less attention however has been given to the creation and transfer of such knowledge. It is well known by now that what an organization “knows” determines its success, but it’s less clear how this information actually is created and how it can be effectively moved to other units or locations. Knowledge transfer indeed is a cumbersome topic, and its theoretical foundations have been debated. To understand how knowledge is created, leveraged and transferred, it is required to fully understand the process of knowledge transfer and its structure. Below we provide for a literature review and some explanations about knowledge transfer issues.

2.2: Knowledge transfer

Literature review indicates a formal definition for the process of knowledge transfer, given by Argote and Ingram (2000): “the process through which one unit (e.g. group, department, or division) is affected by the experience of another.” Such definition resembles that given by social psychology, yet it enlarges its scope beyond the individual level. In organizations in fact, the process transcends individuals and also involves different levels, like a group, a product line or a division. Evidence of knowledge transfer can be found in a variety of situations. For example a product line that improves efficiency by applying errors management techniques as applied in other lines or subsidiaries, or a franchise that improves profit copying marketing techniques of a sister franchise.



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Studies of knowledge transfer inside organizations were mainly based on the “signaling metaphor” (Shannon and Weaver 1949), which defined the main components of the communication act: source, message, channel, receiver. Based on the mathematical theory of communication, from the same authors, the signaling metaphor and the framework developed from it, are considered among the most relevant single contributions to the development of theories and models about communication (Serevin and Tankerd 1988). It “has had a formative influence on the study of knowledge diffusion and transfer” (Attewell 1992). The framework provided by the signaling metaphor was an easy and understandable way to picture the communication act, isolating its components. It depicts knowledge transfer as a costless and instantaneous act that happens when the source sends the message to the receiver through the channel. The frictionless view of knowledge transfer is especially evident in early studies of international transfer of technology (Teece 1977), technology diffusion (Nelson 1981) and diffusion of practices within organizations (Rogers 1983; Attewell 1992; Leonard-Barton 1995). However, the limitations of this framework were noted early on by scholars who pointed out the reasons why knowledge transfer in reality was subject to many deviations from the metaphor approach. Among these reasons, “the emotions and experiences of sensemaking individuals” (Rogers and Kincaid 1981); the peculiarities of the relationship and of the social context in which the transfer is embedded (Szulanski 1996; Hansen 1999; Kostova 1999); limited information processing capacity of ‘social channels’ (Arrow 1974); and inevitable distortions in the communication process (Stohl and Redding 1987; Putnam, Phillips et al. 1996). Furthermore, the nature of the transferred knowledge also enters the picture and was not considered in the signaling metaphor framework. (Nelson and Winter 1982; Winter 1987; Kogut and Zander 1992). In fact, it has been noted that when transferring knowledge about say, an internal practice, this will present some characteristics that might be useless or even damaging in the new context. Moreover, some other components are impossible to transfer, like unique human capital, and some are tacit, thus not easily



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understandable and moveable. The concept of stickiness was developed to explain these limitations thus amending the signaling metaphor (Teece 1977; Nelson 1981). A paper by Cappetta, Szulansky, Winter (2015) gives the most common definitions of stickiness: cost associated with technology transfer (Teece 1977); the slowness of diffusion; the incremental cost of consummating a transfer (von Hippel 1994); or as the eventfulness of a transfer Szulanski 1996). Stickiness is thus what makes transfer not an instantaneous act but rather a process. Also, when the knowledge to be transferred is complex and its elements are interdependent, it has to be figured out which elements can and have to be transferred. The framework of a process of knowledge transfer has been adopted in various studies aimed at classifying its phases and recurring issues. The dominant approach with respect to this is considering a multi-staged process that starts with an initiation phase that is then followed by one or more implementation stages, depending on the model (Rogers 1983; Szulanski 2000).

The issue of effectively transferring knowledge is central for organizations as they have to be able to effectively manage knowledge assets and their distribution and creation inside the firm. The replication strategy offers a useful framework for analyzing knowledge transfer processes because it gives insights on the issues arising when replicating a process, a routine, a section, and transmitting the respective knowledge to recipients. The process of knowledge transfer is a key element of a replication strategy, and it can influence its success. “The replication perspective on knowledge transfer helps further specify the process of transfer” (Cappetta, Szulansky, Winter, 2015). In particular, in the transfer the source does not emit a message to be received, “but offers or constitutes a template that must be replicated” (Cappetta, Szulansky, Winter, 2015). In fact, when implementing a replication strategy, the aim of the replicating agents is to recreate a new different setting with equal or similar characteristics to the original one, using similar resources and similar integration systems. The creation of a “working example” of the template through trial and error implies that the



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transfer of knowledge cannot be a single instantaneous act but has to be completed in multiple steps to cover for errors, misunderstandings and respond to different environment-related issues. The fact that multiple trials have to be made to complete the transfer has been linked with the uncertainty and equivocality inherent in the complexity of practices (Nelson and Winter, 1982) or distortions and filtering in the communication process (Stohl and Redding, 1987). When replicating, it is almost impossible in fact to foresee all the possible issues and thus refining and gradual improvements are needed to complete the process. It has been empirically observed that when these problems arise, detailed following of the working example usually helps in understanding and solving them (Nelson and Winter, 1982), but when that is not possible the only way left is trial and error. The perspective of replication on knowledge transfer also highlights the different nature of the source of the information. While the signaling metaphor in fact assumed the source only had to send out the information, the replication perspective augments the framework by focusing on the “encoding” stage of the message transfer (Cappetta, Szulansky, Winter, 2015). In case of complex practices and settings, there might not be a simple and well understood message to be transferred. In fact, because the knowledge might be in the forms already describes, like tacit, non replicable, and so on, the source does not have the ability to encapsulate it in a codified messaged, rather it has to recreate a similar real setting of elements and interactions.

Focusing on the knowledge transfer process, Szulansky's work (2000) describes a transfer of knowledge in 4 phases: initiation, initial implementation, ramp up phase, integration. The first one is the preliminary phase of thinking and planning the transfer, gather the resources to make it possible. During initial implementation and ramp up, the recipient goes through the process of “learning before doing” (Pisano, 1996) thanks to planning or experimenting in a controlled environment, and then of “learning by doing” in which the conflicts and issues arising from the use of the received knowledge are spot and solved (Von Hippel



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and Tyre, 1995). The last phase of integration includes the follow-up process after the implementation, aimed at ensuring continuative conformity to the template and eventually improving it. Each of these stages might present stickiness issues, in the sense that each might be hampered by factors inherent in the knowledge or in the agents replicating it. The difficulty to recognize opportunities to transfer for example is classified as initiation stickiness. Implementation stickiness means the difficulty in exchanging information between the source and the recipient in an efficient way, understood by all. During ramp up phase stickiness is present in the form of problems that arise and cause performances of the recipient to be below expectations or below the original template's ones. Finally, the integration phase also might be influenced by stickiness, in the form of problems in making the transfer a routine, achieving long-term compliance and removing potential issues.

The knowledge transfer model presented by Szulansky has the advantage of identifying the phases of the process. These phases are characterized by the level of completeness of the knowledge transfer. At the beginning the source elaborates the transfer and exchanges information with the recipient. Then implementation starts and source and recipient collaborate to follow the template, so to allow for knowledge recreation and learning by doing. Finally, when the transfer is complete, the process does not stop but goes on to prevent possible fallbacks. This characterization of the process fits in the replication perspective because a replication strategy unfolds parallel to it and thus permits to classify its stages.

Analyzing the knowledge transfer under the replication perspective also has the advantage of hinting at the possibility to understand why stickiness generates in the first place. Current knowledge transfer research in fact does not focus much on explaining why stickiness is created, but rather it explains its effects on the transfer process. Being able to identify why stickiness arises, one might get to understand how to transfer knowledge effectively limiting stickiness influences. The replication strategy theory suggests that when transferring knowledge,



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some barriers might generate stickiness and thus cause problems in the transfer. Such barriers might be the reluctance of the source to share the information about the working template, the resistance of the source to learn it, as well as inefficiencies due to communications or channel problems. Authors, with respect to this, indicate that “A replication perspective suggests that knowledge transfer occurs through replication, and that barriers cause stickiness by reducing replication accuracy” (Cappetta, Szulansky, Winter, 2015).

Once the process is formally defined, it has to be measured. Researchers agree that there are mainly two ways to assess knowledge transfer, by directly measuring changes in knowledge or by measuring changes in performances. Both ways pose some challenges and are to be used according to the objective of the measurement. When looking directly at changes in knowledge, questionnaires and assessments are used, but these instruments usually lack the power to identify tacit knowledge. Experiments by Berry and Broadbent (1984, 1987) showed how a group of managers' performances during a simulation were better than a second group that had never tried the simulation before. Although they could not specifically articulate what is that they have learnt that helped them to perform better, indeed some learning had happened. Tacit knowledge is a relevant part of the knowledge in organizations, it usually develops over time and is fragmented in multiple steps and moments, that's why it's not easy for people to pinpoint the details. Thus, directly measuring knowledge transfer is suitable when the objective of measurement is formal, technical knowledge acquisition. In such cases, where the scope is a defined entity, direct measurement will assess if transfer has occurred. Another critical aspect of this kind of measurement is that knowledge in organizations is spread around, it “resides in multiple repositories” (Argote & Ingram, 2000) thus not exclusively in individuals. As questionnaires, self-report and formal protocols are the main tools of measurement in this case, individuals are the objectives, thus knowledge embedded in other containers cannot be measured. Clear example of this is when a new software is developed for a machinery or process.



Knowledge of the people operating the machine did not change, yet indeed organization's knowledge did and performances improved.

The second approach, which consists in measuring knowledge transfer by measuring changes in performances, can help identifying when tacit knowledge moves around the company and when knowledge changes independently of individuals. A change in performances can be the indicator of an improvement in knowledge. The software example cited above is a proof of this: performances increased thanks to tacit learning being acquired or to technical improvements. However, this way of assessing knowledge transfer also presents some issues. Mainly, controlling for other factors that can alter performances other than knowledge transfer is particularly cumbersome. Improvements in fact can be due to technical or organizational reasons that nothing have to do with new knowledge entering the picture, therefore these aspects can cloud the measurement. Performance-based approaches were used by Darr, Argote, and Epple (1995) to assess how productivity improvements in fast-food chains could be related to experiences occurring in other stores in the franchise. Similarly, Baum and Ingram (1998) analyzed the extent to which the survival of hotels was affected by the experience of other hotels in their chain.

To add completeness to what already said about knowledge transfer, we also introduce a model that explains where knowledge resides into organizations. This will help in practically visualizing where the knowledge that has to undergo the transfer process is present inside a company.

2.2 Knowledge repositories inside firms

McGrath and Argote (in press) developed a useful framework for identifying where knowledge is embedded and how it can be leveraged and transferred. The McGrath and Argote framework builds on previous theoretical frameworks (Argote, 1999; Argote & McGrath, 1993; Arrow, McGrath, & Berdahl, 2000; Levitt & March, 1988; McGrath, 1991; Starbuck, 1992; Walsh & Ungson, 1991). Having demonstrated that



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replication is a knowledge-based process, and given that replicating agents must know where knowledge is and how it is structured in order to be able to transfer it, this model serves as a theoretical benchmark for practically classifying and identifying knowledge inside a firm. The model goes beyond the notion that knowledge is present only in individuals and argues that there are various “repositories” of knowledge inside a firm. It stands still that a relevant part of the knowledge a firm has does actually reside in individuals, especially tacit knowledge, but other elements of a firm’s structure are repositories of knowledge and thus moving or modifying such repositories might transfer knowledge from one point of the firm to another, like a different location, unit or division. The model is presented in the following pages, and then we will draw the relevant implications for replication strategy.

First of all, the model identifies the locus of knowledge inside firms, the so called “repositories”: members, tools, tasks. “Members are the human components of organizations. Tools, including both hardware and software, are the technological component. Tasks reflect the organization’s goals, intentions, and purposes” (McGrath and Argote, in press). These basic elements can combine to form subnetworks, which are:

- Member-member network: a firm’s social network;
- Task-task network: the sequence of routines and activities a firm uses to perform;
- Tool-tool network: the technologies and instruments a firm uses to perform tasks.

For the organization to operate, the elements are not only supposed to combine between them, but across them. In particular:

- Member-task network actually is the division of labor, which assigns each member to specific tasks;
- Member-tool network specifies what tools each member has available to use;



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- Task-tool network defines what instruments are to be used to perform a certain task.

From the above emerges the member-task-tool subnetwork, which indicates who performs what tasks and with what tools, which means “how”. “According to the framework, organizational performance improves with increases in both the internal compatibility of the networks and their external compatibility with other networks” (McGrath & Argote, in press).

By internal compatibility is meant the level of effectiveness in the combination between elements of a subnetwork. For example, performances benefit when the member-task network assigns each task to the member who is most qualified to perform it. External compatibility instead is the degree of compatibility between subnetworks. Continuing of the same example, when the best qualified members are assigned to their tasks, and also have at disposal the needed instruments to perform those tasks, it means that the member-task network is compatible with the member-tool network. Other researchers have also emphasized the importance of the compatibility or congruence of organizational components as a contributor to organizational effectiveness (e.g., Argote, 1982; Leavitt, 1965; Nadler & Tushman, 1980).

Apart from individuals then, knowledge is contained in the other networks and subnetworks. Tools and technology for example are repositories of knowledge because a new tool or an innovation in technology might completely change and improve what a worker can do with that tool, therefore increasing the knowledge in the company. Similarly, tasks and routines contain knowledge because a particular procedure or process in a firm might be designed in a way that reduces costs or time and thus that procedure encapsulates some knowledge in its functioning. The cross-elements subnetworks also contain knowledge. Take the member-task network for example, clearly being able to couple members to appropriate tasks demands knowledge about who is best at doing what, and that knowledge is represented by the subnetwork. Organizational



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learning's scholars have demonstrated how productivity increases and organizations typically gain experience by knowing which member is good at which tasks and assigning tasks accordingly (Argote, 1993). Studies have also shown that small groups' performances increase over time as members efficiently learn and define who knows what (e.g., see Hollingshead, 1998; Liang, Moreland, & Argote, 1995). Wegner (1996) captured the concept of "who knows what" by coining the term "transactive memory", meaning that transactive memory systems embed knowledge of who is proficient at which tasks (the member-task network) and who is proficient with which tools (the member-tool network). The task-tool network instead is defined by the knowledge of which tasks are to be performed by humans and which by automation, together with the knowledge of which tool is better for a specific task. The way of finally combining members, tasks and tools represents the knowledge of who is best at doing what and with which tools it has to be done. This knowledge is embedded in the coordination network, which is not but the representation of the gains in knowledge the firm obtains through research and experience and how such gains are incorporated in the normal structure and functioning of the organization as a whole.

Taking into analysis the specific context of replication, one could argue that replicating agents need to know about repositories as some of them might contain knowledge that is part of the template to be replicated. The challenge these agents face is thus to be able to identify the knowledge in a specific reservoir and then transfer it in a different, new location. Simple logic suggests that this can be achieved in a number of ways: moving people to the new location, moving the reservoir altogether, or recreating the reservoir from scratch following the example of the original one. In principle, knowledge could be moved by simply moving the reservoir that contains it, but in practice this is difficult to do. A knowledge reservoir in fact is composed of its elements, members, tasks, tools, and such elements are interdependent with one another. Interdependencies among basic elements are difficult to replicate because they are due to the specific location and team members' predisposition, therefore in a



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new setting with different people compatibility issues may arise. For example, a division of labor developed in one organizational unit that fits the skills of its members may not work in another unit where members have different skills and areas of expertise (Argote, Ingram 200). The interactions among the different elements of a network are often implicit and develop over time, with experience, so to improve the network internal compatibility, therefore changing the location and the members causes those interactions to be no longer valid. Moving the network altogether, elements and interactions is thus for sure more complicated than moving the elements alone in isolation, without interactions among elements entering the picture. It is less likely that the networks will fit the new contexts than the basic elements (member, tools, and tasks) because the networks consist of more components that must be internally compatible, compatible with one another, and compatible with the new context in order for the transfer to be successful (Argote, Ingram 200). Other researchers had already highlighted how the interdependence of various components of knowledge is an obstacle to transfer (Teece, Pisano, Shuen, 1997). The framework presented here, by classifying reservoirs and analyzing the different types of interactions going on inside networks, helps in finding out which types might be more complicated to transfer and which instead pose less trouble. This allows the replicating agent to go beyond the simple conclusion that moving elements alone is easier than moving a network, thus allowing him/her to implement more complicated transfers and adapt the strategy to each situation.



2.4 Knowledge transfer in the replication perspective

We have demonstrated how the framework of replication constitutes an optimal perspective for analysis of knowledge transfer inside organizations. Basing on the assumption that complex knowledge must be recreated by the recipient rather than simply communicated, the replication setting provides for the possibility to model such a process and to understand its components and interactions. At the same time, the unfolding of a knowledge transfer process during replication efforts has an impact on replication's outcome and also on the structure the company creates to make such replication possible. We want to understand such implications so that, when analyzing replication on an empirical level, we will be able to see how knowledge-related issues have influenced outcome and how they have been tackled. We assume that there must be elements of the company's structure that favor or hamper knowledge transfer, therefore replicating agents have to take actions to control them. This is only possible once that the nature of the knowledge transfer process has been explained and understood through this chapter.

The knowledge transfer process in replication is based upon the construction of a template, a working example of the object to be replicated that has to be recreated in the recipient's context. The transfer of knowledge happens during formation, implementation and refining of such a template. Replicating agents, those responsible for transferring the knowledge, have to make sure that the template reproduces closely and actually contains such knowledge, plus accounting for barriers to transfer and/or complementarities that favor its transfer. Each organizational environment will in fact present internal complementarities that might favor knowledge transfer, while at the same time some barriers might exist that slow the process down or cause failure. Given that "Emphasizing accuracy seems to be a typical response to make replication efforts more effective" (Cappetta, Szulansky 2001), it stands clear that factors which have an influence on the ease or difficulty to maintain accuracy have to be taken into account by replicating agents.



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Barriers to transfer are identified as all those factors or elements that pose an obstacle to effectively transferring knowledge from a place to another. The main barriers usually are:

- Reluctance of the source to share all the knowledge to be replicated, for fear of exposing it to possible spillovers;
- Resistance by the recipient to internalize the knowledge, due to incorrect understanding of it or inertia of pre-existing knowledge;
- Low effectiveness of the communication channel, from the initial training, to template characteristics to successive refining, if knowledge is not communicated clearly the template cannot be recreated accurately;
- Incorrect codification and understanding of the knowledge by replicating agents, which might indicate a misunderstanding of some of the interactions inside knowledge and with the environment.

Replicating agents thus have to avoid such barriers, and organizational structure must also aid in limiting their formation. Departing from the template has been found many times to cause harm to the replication process. Adler (1990) has explained as knowledge embedded in complex processes often relies on poorly mastered process techniques, therefore departing from the functioning example might cause operational problems that are difficult to manage. Moreover, "When agents are not able to predict the effects of various possible courses of action, they may resort to imitating the observable behavior of agents who seem to be successful, or who at least have more experience with the new environment (Cialdini, 1984).

The Intel's "copy exactly" approach is proof of this: being the production of semiconductors made hard by a large number of complex causal factors, the company is structured with a central committee that has to approve every change to the production process specifications. This is an example of organizational structure specifically built to account for the complex nature of the knowledge to be transferred and ensure accuracy. Another example is the Rank Xerox company, where every change to



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processes in a business unit can only be approved if the unit has already reached the performance benchmarks of the “template” office. Once more, this indicates emphasis on accuracy to limit the insurgence of barriers.

We assume some of these barriers shape the structure and behavior of every company that pursues replication, therefore in the empirical analysis we should find elements that are specifically designed to contrast them. Also, each company might respond in different ways, and this too adds on the possibility to understand knowledge transfer better. Basing on what said in this paper so far, specifically we expect to find:

- Mechanisms ensuring that the knowledge contained in the template is as clear as possible, to both replicating agents and recipients, so to avoid resistance on both sides. These might include committees designed to impersonate that knowledge, manuals, learning and training sessions.
- Structures that prevent departure from the template, like uniform processes and routines, effective benchmarked performance evaluation systems, and mechanisms to ease communication between the parties involved;
- Organizational structure designs that allow for efficient management of a dispersed net of replicas, providing for the rules of conduct that make the replication process possible and assuring that the knowledge to be transmitted flows as smoothly as possible internally;
- A setting that allows for iteration and repetition of the template's refining steps, until an optimal point is reached and all possible distortions have been accounted for. This is needed because when knowledge is complex it is usually not possible to foresee all the consequences of a transfer in a new setting beforehand, therefore iteration and gradual improvement on-the-go are the solution.

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Barriers to transfer are only part of the factors to be considered when transferring knowledge. On the other side, there might also be organizational complementarities that actually favor it. The acknowledging and leveraging of such complementarities also is something replicating agents have to take into account, and it might actually help them in limiting the barriers to transfer.

Take for instance the case of MC Donald's expansion. Initially the menus were adapted to local habits, but the outlets resulted unprofitable. Then they were restructured to resemble all in all the "American" way and started to do better. The functioning of a MC Donald's, the template, was tailored for that kind of service, and altogether that model, including menus, was the essence of the value creation. Thus, the type of products of the outlets (e.g. the food) was complementary to the production process (e.g. the fast-food model), in the sense that the latter was optimal for that kind of production, not a different one. Moreover, an identical model being replicated everywhere favored the development of a specific and detailed template to be followed, which in turn makes the knowledge contained in it more codified, understandable and "foolproof".

Another example of complementarities positively affecting the outcome of replication is to be found in the already cited Intel's case. Producing semiconductors is technically hard, but at the same time it's pretty easy for competitors to copy the process once it has been perfected. Parallel to this, transferring this type of knowledge is complicated because technical requirements are mixed with opaque causal relationships not easy to understand or recreate. Thus, being the knowledge hard to create but easy to copy, and being it complex in absolute terms, pushed in favor of the creation of a central committee that: contained the knowledge to be recreated, was conscious of its complex nature, followed the template closely and made it harder for that knowledge to



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spill out. All these factors combined made the replication successful for the company.

Similar to what happens with barriers to transfer, we expect replicating companies analyzed in the following chapters to exhibit structures and routines that take advantage of complementarities and use them to improve the overall efficiency of the knowledge transfer process. With respect to this, the framework of the “knowledge reservoirs” explained in section 2.3 provides for a useful way to classify compatibility among different elements of the company and different environments. This model in fact assumes that knowledge inside organizations is contained in various repositories, that can combine among and across them. When replicating agents have to transfer that knowledge, it is reasonable to assume that they have to know where the knowledge is and how its aspects are interdependent so to uncover potential complementarities and/or barriers. Therefore, the “reservoir” model can help the agents in locating the knowledge first and then provide guidance for understanding the non-superficial relationships in it contained. We can use that model to make it easier to spot complementarities among the networks of members, tools and tasks and the respective “combination” subnetworks (members-tools-task subnetwork for example). In this way, it will be easier to identify the complementarity and understand it, in terms of actors, elements and interactions among them.

For full understanding of the next chapters, that are about empirical evidence and managerial implications of replication, it is important to keep in mind the impact of knowledge-related issues, the difficulty to transfer knowledge, the barriers to transfer and the complementarities. In this way, the organizational responses to these difficulties and the actions taken to favor effective replication can be understood from a knowledge asset management perspective.



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CHAPTER 3 Replication Theory in practice

The business environment is full of cases of firms that successfully developed through replicating their value chain, like the already cited IKEA, MCDonald's and so on. By presenting two business cases, the aim of this second part is to identify the elements of the strategy that were applied and highlight which might have been the main facilitators of success, having in mind the theoretical hypotheses laid out in the first chapters. The cases presented here will serve for empirical comparison with the main case of interest and for the formulation of a more comprehensive strategy. The analysis will deepen with the main case of Umana S.p.A., an Italian HR and Staffing Agency that is currently undergoing its first internationalization process and applying a replication strategy. The history of the company will be briefly laid out, then concentration will shift to the analysis of the implemented replication strategy and the elements of success or failure in comparison to the other known cases.

Empirical evidence suggests that some sectors and business types are more inclined to develop through replication than others. Although being very different between each other in fact, companies like Citigroup, Wal-Mart, Home Depot, Ikea, McDonald's, all have in common the creation of a net of similar outlets that perform similar services in similar ways. The similarity in the approach to business development causes that these diverse companies present common elements for what concerns the structure of the net. In particular, the type of structure associated with a company that creates replica outlets is classified in literature as Multiunit structure. A comprehensive study by Harvard Business Review called "The Multiunit enterprise" (David A. Garvin and Lynne C. Levesque, HBR, 2008) sheds light on the characteristics of such companies and can help comprehension and comparison of the business cases by providing common elements that are present in all of them even though they come from very different sectors. In presenting the cases we will focus on the implications that replication strategy has on structure, keeping the theoretical framework of the Multiunit enterprise as a reference



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benchmark. This should permit us to draw general considerations about replication strategy's field management structures that are independent of the sector. It has to be reminded however that such considerations do not aim at being always valid nor it can be said that replication is equal regardless of the sector, rather we want to find out if there are some general guidelines or commonalities between sectors when a replication strategy is being implemented.

First, we need to provide a quick description of what a Multiunit Enterprise is and how it functions. The HBR study named above notes how companies that create a net of similar but geographically dispersed outlets share a similar structure to manage the net, and how the jobs performed by the various sections of such structure are consistent in different sectors. The Multiunit enterprises cited in the study and those cited in this paper in fact span from the food sector (fast foods, restaurant chains) to the furniture one (IKEA, Home Depot), from the banking sector (Citigroup) to various other services, like car rentals (Hertz), retail (Wal-Mart) and HR and personnel services (Adecco, Umana S.p.A.). The study's key finding is that all Multiunit enterprises "employ four levels of field managers with carefully defined responsibilities and use five organizational-design principles to implement strategy effectively" (The Multiunit enterprise, David A. Garvin and Lynne C. Levesque, HBR, 2008). The four levels are classified as: Store Managers, District Managers, Regional VPs, Divisional Heads. Note how the geographical dispersion of the outlets is common to all multiunit enterprises and thus the problems in managing such a dispersed network of replicas are more or less the same regardless of the sector, which causes the levels in the managing structure to be the same. We will not go into detail of each job and level because it is not the scope of the paper, but what follows is a brief description of them according to the study. The aim is to highlight the main characteristics of the hierarchical layers and see common trends. See the whole study for more detailed descriptions.



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Store managers, branch managers, or restaurant managers (depending on the industry) are responsible for both day-to-day operations and the execution of new initiatives. The corporate headquarters usually control everything from store layout and product selection to pricing policies and inventory levels thus store managers work within tight constraints. Although store managers are evaluated on the achievement of financial targets, along with numerous operational, customer-service, and employee satisfaction goals, they have very little say in setting those targets.

District managers focus on ensuring consistent execution, improving performance, and developing bench strength in all their stores. District managers are responsible for opening new stores and implementing new initiatives and have a little more say than store managers do in budget making, real estate decisions, and local advertising.

Regional Vice Presidents focus on markets, key competitors, growth opportunities, and systemic problems. They are critical intermediaries between the field organization and headquarters, linking stores with company goals. Usually the regional human resources, sales and marketing, finance, and loss-prevention departments and occasionally the real estate function report to them on a dotted-line basis while maintaining direct lines of reporting with headquarters departments.

Divisional Heads, like their regional counterparts, focus on new initiatives, growth opportunities, and systemic problem solving. Their distinguishing features are the ability to direct the organization's attention to major problems and the greater responsibility they bear for representing the field organization in corporate decisions.

The challenges faced by these managers can be summed up in four main categories. First of all, being these companies made up of large agglomerations of separated units, it's hard to maintain consistency and thus a lot of attention has to go toward constantly aligning priorities, plans and practices across a highly dispersed organization. Another issue is presented by the customization vs standardization dichotomy. In fact,



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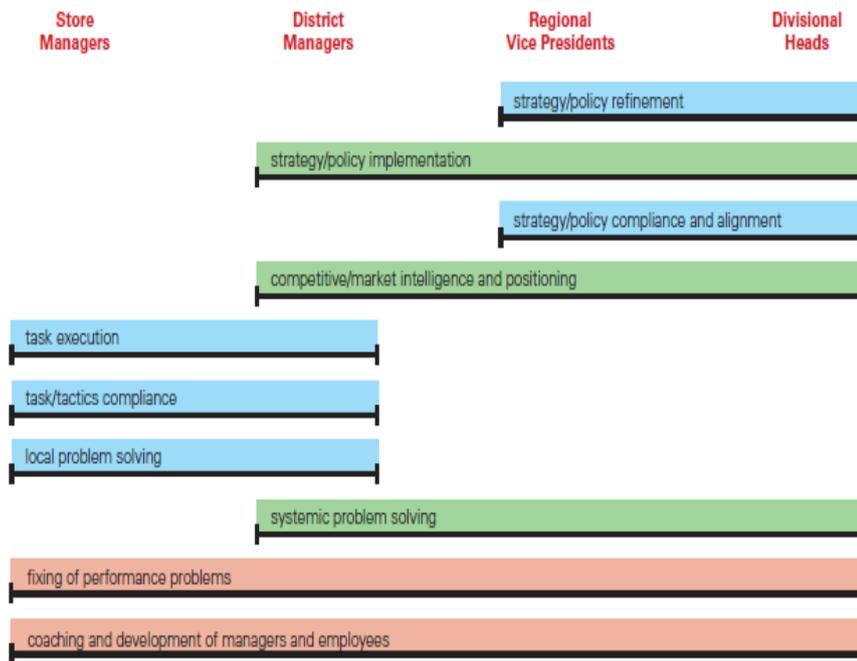
local and regional markets have distinctive features that demand for some degree of differentiation, therefore headquarters need to understand what is the optimal level of customization allowed to field managers. The advantages of local responsiveness have to be balanced with those of uniformity and standardization, and responsibility to make changes has to be well distributed between the different layers of management to avoid both going out of the broad corporate scope and not closing in on specific local opportunities. The third challenge concerns the division of responsibilities and decision making powers between the levels and the communication of objectives to the respective managers. In fact, when allocating responsibilities for implementation of new policies or when communicating new goals or procedures, headquarters must focus attention on clearness and accountability, otherwise a policy might be misunderstood, policy implementation might be slow, it might generate resistance at lower levels and it might be hard to identify who was responsible for communicating and implementing. Finally, multiunit enterprises all struggle to get the best out of field managers. This is due to the peculiar characteristics of the field management roles, which present attributes of both the general manager and the middle manager. Like a general manager, a field manager has to coordinate different tasks and is responsible for generating profit from a unit, but at the same time they do not have the autonomy and decision making power of a general manager say in a multidivisional structure. They do not control some of the factors that influence performances, like marketing expenses, pricing and real estate investments, therefore defining their responsibilities and execution processes is not easy. Moreover, in multiunit organizations responsibilities and tasks of one manager are incorporated in those of the level above, which might generate confusion and unclearness. The overlapping of roles and responsibilities appear to be one of the main distinctive features of this type of organizations and it is what most differentiates it from the classic centralized and standardized structure type of global enterprises. In fact, while the bureaucracy standardized companies base on strict division of labor and tasks, the multiunit



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structure “creates a set of general management jobs with overlapping responsibilities. Together, the managers form a multilayered net to catch all of the problems that can affect strategy implementation” (The Multiunit enterprise, David A. Garvin and Lynne C. Levesque, HBR, 2008). Following is a graphical representation of such framework.

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hbr.org | June 2008 | Harvard Business Review

Figure 1: field managers in Multiunit structure



This structure bears some general implications to be considered when designing jobs and roles, and these implications are valid for all sectors as the series of problems and difficulties faced by managers are similar, as demonstrated previously. The authors deduct five design recommendations that evidence suggests are valid for organizations of all sort.

- 1) Allow overlapping roles and responsibilities. When the responsibility for implementation and results achievement is spread among jobs and functions, the organization is able to spot and tackle problems more effectively. It's like having two or more people making the same questions and checking the same things, which makes it easier to find out problems and faster to solve them.
- 2) Use integrators at all levels. Managers in multiunit organizations are expected to coordinate diverse activities and optimize the whole rather than the parts. Having integrators at different levels helps in balancing standardization and customization.
- 3) Set up information funnels and filters. Overabundance of information due to the presence of various interpreters (e.g. the various field managers) might hamper implementation and end up overwhelming decision makers rather than helping them. For this reason, regional and divisional managers have to filter the information coming from lower levels and pass it up in understandable, useful and manageable quantities.
- 4) Appoint translators to convert strategies into action. Basically the same problem of point three reversed. When information is coming from the top and going to the bottom, it has to be translated into more detailed and practical action plans, therefore field managers must serve as translators of strategies into action.
- 5) Share responsibility for talent development. Nurturing talent appears to be a central issue for managers in multiunit organizations. This is due to the fact that successful functioning of the structure is directly related to the effectiveness of field managers, therefore is it of vital importance that each field manager develops talent in their units so to improve overall performances.



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When presenting the business cases of reference, it is important to keep in mind the classifications of managers in the multiunit framework, their responsibilities, and the design considerations expressed above. This will allow to find their evidence in the real replication cases, see what influence such aspects had on the organization and how the structure's shape is influenced by the specific factors of each case.

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3.2 Autogrill

Replication cases are not that common in the Italian market, compared to other national markets like the United States for example. This is mainly due to the fact that replication as a strategy has mainly been applied by large services companies, like restaurants chains, banks, HR services, hotel chains and so on, and in Italy there are not many of these types of firms. Nonetheless, in recent year some companies have started to implement replication models in Italy too. The sectors involved are mainly restaurant chains, hotel chains and HR services firms. The Autogrill company, operating in the fast-food and restaurant sector, provides for an interesting replication case in our home market.

First, we want to introduce the company and explain its replication process. Then, we will draw some considerations about the strategy that are relevant for the scope of the paper, namely the template formation and replication processes, the organizational field structure, the team composition at replica outlets level. Note that these 3 main aspects will also be considered in the analysis of the 2 other case studies, Adecco and Umana, both HR service companies.

The Autogrill S.p.A. company was born in Italy in 1977 and now operates in 30 countries, employs about 62.800 people in more than 5.300 offices or stores and in 2014 net profit were of 3.9 billions of Euros. For more general info about the company see <http://www.autogrill.com/it/chi-siamo/noi-breve> and <https://it.wikipedia.org/wiki/Autogrill>. In Italy the company operates 450 outlets.

For “food and beverage” chains, geographical dispersion is a constant element, which demands for the creation of sets of routines that allow each single outlet to perform the service in a similar way. For this reason, have always existed inside the Autogrill company manuals of routines and processes. However, such manuals indicated mainly the general guidelines and objectives of the company for a certain area or service, thus they were not much used at the operational level. For instance, they included recipes for the snacks but practically these recipes were

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transmitted orally and this resulted in substantial differences between regions, which caused the level and quality of the service offered to be heterogeneous. Basically the manuals did not describe operational processes, but rather provided information about the rationale and aim behind the various business areas or products. (Cappetta R., Giorgi S., "Replicanti di successo. Il caso Autogrill", *Economia & Management*, n. 4, 2003). Between 1998 and 1999, the company underwent a process of restructuring due to its international expansion. The general management recognized the importance to develop standard operating procedures and uniform processes not only for brand management and marketing, but also at the operational level. This result was pursued through the abolishment of the old manuals and the creation of a new, unique one that had the double function of identifying the standard routines and making them available and usable by the lower operational levels as well. To give a practical example of this, the section relating to preparation of coffee in the old manuals was about the best possible varieties and ways to enjoy coffee, while in the new one there were just 5 steps indicating the procedure to actually prepare it.

The first step undertaken by the company to implement replication was the preparation of this manual, which is the result of two analyses. The first task was to divide the activities performed at corporate level from those performed by the outlets. Thus, brand management, institutional relationships, administration, finance, HR and innovation are centralized at the HQ and stand still for the whole firm, while the activities performed by the outlets were all to be replicated and thus formalized and included in the manual. The main areas covered at outlet level and that had to be replicated are: logistics in and out, stock management, sales, post sales, store management. The resulting manual had to provide instructions for opening a new store, directions on the division of roles inside it, how to receive raw materials, how to perform tasks, plus it served as a control mechanism for the HQ to check compliance.

The production of this manual was parallel to the identification of 18 outlets in Italy that would serve as "working" examples of the procedures



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to be replicated, so to have real proof of what could work and what could not. These 18 outlets are meant to be the “template” containing the knowledge of what has to be replicated. People working in such offices are supposed to have knowledge of both general rules of conducts and of practical processes implementation. Each new activity or routine would be put at test in one or more of these outlets to see its effects and experiment it in a “protected” environment. If the result was satisfactory, then these templates would pass the knowledge to nearby outlets for them to incorporate it. This passage happened through learning sessions held in the templates for the other outlets managers, and through visits of the templates’ staff at dislocated outlets. It appears that the template stores have a somewhat double nature: they receive and experiment new knowledge coming from the HQ, and then once it has been found to be useful they pass it to other replicators. The stores take on the functions of the working template indicated by theoretical foundations of replication theory. They in fact encapsulate the knowledge to be replicated, test it in a real but protected environment, and then transmit it to other replicators. Note how this allows for considerable cost reductions for the HQ, which basically delegates the construction and replication of the template to a more local level. This aspect will be further analyzed in the next pages. The novelties introduced and approved in the template stores were then included in the unique manual, so that they would be further spread and standardized across the field organization. The unique manual and the template stores thus worked both toward the discovery and codification of the business model to be replicated. Just like replication scholars suggest, the creation of a template demands the ability to codify some of the knowledge, to experiment the rest of it and to test the whole in a working example. With respect to this the creation of multiple template stores appears to be a very interesting strategy because it facilitates diffusion of the template model and at the same time allows for multiple “laboratories” to conduct tests on routines and processes.



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What said so far classifies Autogrill as a replicating company and the main characteristics of the replication process implemented were:

- Creation of multiple templates that embed knowledge to be replicated and also serve as laboratories to test changes;
- Creation of a unique manual containing all the codifiable knowledge of routines and processes and diffusion of this manual to all outlets;
- Exploration phase of replication is impersonated by the refining and continuous testing in the template stores;
- Exploitation phase is impersonated by the outlets born thanks to the information received by template store.

The replication process of Autogrill presents some peculiar aspects. The center is surely present in the replication process, as it defines the functioning of template stores and redacts the manual, but it has delegated the execution of the process at more local level. The managers working at template stores in fact are the real replicating agents, as it is them that pass the knowledge of the template to other replicators. This saves costs to the HQ because it does not have to oversee each replication directly, moreover it allows for multiple replications to happen at the same time, thus increasing exploitation. The template stores and the replicating agents in it thus contribute to the formation of the template along with the center, and possible new ideas might come from these stores, from the center, or from the replicators that visit the template stores to learn. This allows for the template to be influenced by local actors and thus be responsive to the need of adaption when required. At the same time, the center promotes uniformity and through the manual it spreads its knowledge, thus providing for standardization. The complex balance of customization versus standardization is in this way assured as new ideas can come from different points of view, are all tested in the template and then good ones will become part of the uniform model. The fact that templates are real stores also means that innovation and tailoring of the model can happen constantly. Having various working templates and using them in the



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described ways actually allowed Autogrill to strike a balance between the forces that influence the replication process. We have already seen how the dichotomy adaptation vs standardization was dealt with. Furthermore, the exploration and exploitation phases are both well-structured, and overlap to avoid excessive emphasis on exploitation, which seems to be a tendency in replicating companies (Volberda, 1996). The Autogrill templates are in fact the place where the original success formula is recreated and at the same time are the places where modifications are tested and eventually inserted in the scheme, and being the templates real stores we have already seen that modifications can happen over time thanks to new ideas coming in. In a more traditional replication setting, the center holds all the knowledge and “sends” it out through replicating agents. In this situation, it’s much harder to create various permanent templates and it’s also harder for local actors to introduce new ideas, as they would need to take it to the HQ and convince management. At Autogrill instead, communication happens inside the template, making it much easier and more direct. Another difficult part of the replication process is the effectiveness of the knowledge transfer. We have seen in previous chapter what makes this process complicated, and here we can see how those problems have been solved in this case. Knowledge is spread in various points and in both forms, codified (the manual) and practical (template stores), and this allows for more completeness, helping replicators in understanding it totally and avoiding missing relevant points. Barriers to transfer are reduced because the replication process is moved down the company to template office managers, that have more relationships with local replicators than the HQ, can communicate more openly and thus can transmit knowledge easier. Further reduction in barriers to transfer comes from the fact that knowledge of the template does not only resides in central management, but it becomes domain of all offices especially the templates. This makes it easier for the recipient to get to that knowledge and acquire it without the pressure of centrally mandated teams that usually little know about the peculiarities of one specific region and end up generating resistance to change. Regarding knowledge



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transfer, it also appears that creating templates like the Autogrill ones gives origin to complementary effects. For instance, the real working templates provide for effective exploration, and at the same time being multiple and locally dispersed facilitate exploitation. Furthermore, the fact that replicating agents are the managers of these templates favors balance of customization and standardization and also favors knowledge diffusion as they are much more accessible than what the HQ could be, because of geographical dislocation and number of them available.

The analysis made so far was meant to identify and characterize the replication process of Autogrill, next we want to see its effects and implications on field structure and office-level team composition.

Unfortunately it was not possible to obtain complete information about the field management structure applied at Autogrill, yet we have some indication of how it was and how it works. The general structure of the company before the replication strategy was implemented was of the Functional type, but when the replication effort really started the company shifted to a more complex structure. Considering the size of the company and the large amount of services it performs, it is kind of hard to classify it under one single label, thus we'll limit ourselves to describing the facts. The more complex structure named above is one that maintains the functional division, but adds further divisions to account for the different channels and types of stores the company has. In particular, the stores are divided according to their location, be it a motorway, a station or an airport. This allows the company to manage the different needs of different stores efficiently. Furthermore, functions like administration, finance, HR, marketing have all been centralized and serve the company as a whole. The structure described appears to resemble the multidivisional form, in which there is coexistence of divisional and functional formats. Central functions are functional, but then at lower level the grade of complexity, the number of products/service and the geographical dispersion of outlets all call for a divisional structure.



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Without a divisional format it would be very hard to manage the same function in different types of stores and different markets/countries.

For what concerns the structure at outlet level, the paper by Cappetta and Giorgi provides a clear description of the framework. The applied model resulted “from the need to balance local autonomy with replication accuracy” (Cappetta R., Giorgi S., “Replicanti di successo. Il caso Autogrill”, *Economia & Management*, n. 4, 2003) and is based on the existence of “modules” of replication, which differ in the subject/product (Spizzico, Ciao, Burger King) but are equal in all the rest. All modules in fact have the same organizational structure and the same model for people management (selection, promotion schemes, career paths, division of responsibilities, incentives). The “module” format places a Director in charge of every outlet, and he/she is the prime responsible for outlet’s performances. Below the Director are two key figures, an Offer Manager and a Service Manager. The Offer Manager takes care of products, supply, production plans and promotions, while the Service Manager is responsible for managing employees, hirings, promotions, holidays, shifts, and post-sale customer handling, complaints, conventions, relations with external parties. Below these two are the employees of the outlet. The employees’ division is particular of Autogrill, in fact every employee knows and can perform all the functions inside the store (cashier, bar, market,...) so that they are interchangeable and conformity to the standardized model can be assured in any case. This is a fact that further favors accuracy in replication. If all the employees have the knowledge to perform every activity in the outlet, it will be much easier to stay true to the model and to avoid departures due to idiosyncrasies at the local level.

To recap the case of Autogrill, we take into account the considerations made by the authors Cappetta and Giorgi in the already cited paper. The two borrow the three leverages of organizational design defined by Keidel (1991) and see how these are present and leveraged in the case.



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The first one is Control, and it indicates the control of the HQ over the creation and faithful implementation of the template in this case. The center in fact has to be able to create the template, test it, codify it, transmit it, check for adherence over time, benchmark performances and look for potential to improve constantly. The model of the working templates plus the manual plus an efficient intranet system appear to allow the HQ to leverage control. The only problem might be constituted by the working templates, because if knowledge is present in the working templates, then it's not anymore at the center only, and it might spillover. Furthermore the template can also be modified by actors other than the center as we have said previously. However, to avoid losing control over the template the center has to approve every modification so to include it in the manual and probably not all the knowledge is present at the template, but just the most operational parts of it. Through use of the manual and because there will always be hidden parts of the template not known to local actors, the center really does leverage control. The authors warn for excessive focus on this leverage by the center, as it might cause blind attention to exploitation and forgoing of exploration. However, the opinion of who writes this paper is that control by the center appears to be a fundamental part of every replication strategy. Everything in excess is no good, but control by the center is something that has always to be assured when replicating because the risk of departing form the successful model is always present. Furthermore, accuracy seem to favor the good outcome of replication.

The second leverage is autonomy. We know that accuracy and control of the center are not enough to guarantee success, and some autonomy has to be given to the replicating agents so that they can internalize the knowledge of the template and eventually modify it to accommodate for local conditions. In the case here it seems that autonomy is granted by the fact that replicating agents themselves work in the template, so they have direct access to it and can easily spot compatibility problems and signal them. Moreover, the replicating agents in Autogrill also spread the knowledge to other replicators, and although they have to follow the



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procedures dictated by the center (and encapsulated in the “Modules”) they do enjoy some level of autonomy just for being them to physically do it.

Cooperation is the third leverage and it is relevant for exploration as well as for exploitation of the formula. In fact, when two parties cooperate, let's say the template managers and the replica outlets managers, two outcomes are possible: a new outlet is born, thus exploitation improved; or a new idea came up to improve the template, thus exploration was the result. Through cooperation among parties the center can foster innovation and replication at the same time. The authors claim that this third leverage was not much considered by Autogrill management, in fact the possibilities for two parties to meet was limited to predetermined moments, like the training at the template office and the visits of template managers at replica outlets. Encounters between replicators and between the center and replicators were sporadic and not favored in any way. This might limit the ability of the company to explore new possibilities for the template and thus produce too much focus on exploitation, according to the authors. Once again, our opinion is slightly different, in the sense that cooperation has to be ensured but only through specific channels. In fact, it has to be considered that each possibility of cooperation is a possibility for accuracy to diminish, and it's very hard to control huge numbers of interactions going on inside a company, therefore limiting the moments of cooperation to well defined and useful ones, like the transfer of knowledge, appears to be a good strategy for ensuring accuracy and control.

To conclude the chapter, we want to stress the main characteristics of the replication process of Autogrill in Italy:

- Creation of 18 working templates (real stores) → exploration of the template;
- The template managers pass knowledge to the outlet managers who replicate accordingly → exploitation of the template;



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- Creation of a unique manual with all the routines and procedures
- 2 functions: 1) codifying knowledge to make it easier and 2) enhancing control by the center on adherence to the template

Implications:

- The templates are real stores, thus the center delegates replication process to template managers, which become the replicating agents;
- Center has to ensure control over replicating agents, thus use of the manuals and of the “modules” structure.
- Exploration and exploitation overlap constantly because the templates are intended as models, thus over time they can be improved.
- The template stores ensure a balance between standardization and customization, in fact they facilitate control by the HQ over the template and at the same time give the possibility to local actors to suggest improvements.

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3.3: Adecco

Adecco's activity in Italy began in 1997, when Law 196, introducing temporary work contracts, was approved. While working on getting the Ministerial Authorization to operate as a temporary staffing agency, Adecco proceeded to open the first 6 offices in Italy, in order to be right ready to start once the authorization came. On December 27, 1997 the company did its first staffing contract. For the first couple of years, the market did not developed much, then it started to pick up and at that point Adecco's management decided to invest and create a large network of offices around Italy.

The parent company Adecco was born in 1996 after the merger of French company Ecco and Swiss one Adia. It's largely considered to be the biggest player at the global level, operating in around 60 countries, employing 33.000 people, and with a total turnover of 20.5 billions in 2011. It's also among the firsts player in the Italian market, with a 1 billion total revenue for the year 2011. (For more data see <http://www.adecco.com/about/default.aspx>). The start-up and expansion phases for the Italian offices had the aim of creating an efficient distribution of offices in key geographical areas, like industrial districts and bigger cities. The company's development follows an internally recognized process of expansion through replication composed of two approaches: Strawberry Approach and Distributive Cloning. In the first period of entrance in the market, offices were opened in almost every regional capital city so to spread knowledge of the brand, develop local know-how and allow responsiveness to local conditions. The Strawberry Approach means aggressive expansion, which is made possible by the knowledge and experience the parent company has acquired over the years and the processes it structured to succeed. Once that all the key regions, cities and districts had been marked with an office, the distributive cloning approach kicked in. Every office had to grow till certain KPIs defined by the headquarters, and then a new "clone" office would generate from it. The outlets had to reach a certain number of clients, 15/20, an average number of workers staffed in client companies,

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(60/70), and financial break-even, for then each would be split in two distinct units and costs centers. People employed in the original office were responsible for finding and developing the ones who would then go to the new one. The “cloned” office takes on a part of the clients base of the original one and starts developing its own sales network to sustain itself and reach the same KPIs. In this way, every new outlet is ready to replicate in a new one. Also, the team operating in the original office appears to be a critical variable for success, as it is responsible for training the new one. This kind of expansion strategy aims at creating geographically dispersed replica outlets able to offer the same services in similar quality requirements, and also work according to the same processes and routines. The headquarter is responsible for overseeing the activity of outlets and make strategic decisions, while field managers are supposed to get to know the market, understand it, close in on profit opportunities and guarantee high level quality of service, which is a relevant success factor for staffing agencies. It can be easily argued that this is a replication strategy by noting that there is a “template”, the first offices opened, that develops itself with the help of the center and then replicates. In the first phase, the Strawberry Approach, knowledge is created inside the template by local actors that follow general guidelines from the center, and the result is the creation of a working example of the template. This process is thus characterized by a “learning by doing” approach, in which the team of the first office has to develop the capabilities to generate value. Once the break even point is reached, the template is replicated identical, so to ensure compliance with the same standards and guarantee continuous possibility to grow more. Knowledge in this phase of “distributive cloning” flows from the center to the outlets progressively and in standardized form.

These two approaches of Adecco's strategy resemble much the two phases described by replication theory scholars cited in the first chapters. Respectively, the first one is an exploration phase, where the template has to be structured and adapted to local conditions, processes have to be set up and optimal functioning is the aim. Then once the template is



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known, the process goes on with a second phase of exploitation, where the working example is replicated. The generation of large numbers of new outlets resulted for Adecco in scale economies and thus the model generated profit. This exploitation phase brought the company to open 100 outlets at the end of 1998, 200 by 1999, 400 by 2000, 500 in 2001. Expansion then considerably slowed down, with offices growing in sales but not creating new ones, probably due to the fact that most geographical locations had been covered and the market in general went through moments of crisis and slowdowns. Nonetheless, the existence of these two phases classifies the strategy adopted by Adecco as a replication strategy.

For such, we expect to be able to identify some common trends with what depicted previously in this paper about replicating companies' structure and configuration. We have already demonstrated the existence of an exploration phase followed by exploitation phase, which means that the expansion path of Adecco in Italy follows the replication strategy framework described by Witner and Szulansky in their paper *Replication as Strategy* (2001).

Adecco's replication appears to be a knowledge based process, which was also a characteristic of replication indicated in chapter 1. In the first phase in fact knowledge from the center increases as the template improves and enriches, then the knowledge acquired with the working template is spread around through the "clone" outlets in a standardized form. The knowledge aspect appears to be of much relevance in Adecco's strategy. The employees of a "template" office in fact have to learn from the center about the guidelines, develop the office, and then pass that knowledge to the ones who will take care of the new outlets. This process involves an initial phase of learning by doing. Then knowledge about the working example has to be transmitted to newcomers so that they can in turn succeed in developing their outlet. This happens through a number of processes implemented by the headquarter like initial welcome programs, training modules, periodical training reviews, and constant flow of information from the center to the



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outlets and vice versa. As described by scholars of knowledge transfer, the knowledge to be transferred is embedded in multiple repositories. Apart from member of the teams, also processes and routines contain knowledge and that is the reason why consistency in implementation of procedures, learning processes, and effective control mechanisms are all factor that influence the outcome of the replication. Inside Adecco in fact, these aspects received a lot of attention, the system structure was defined strictly by the center and its implementation was helped by extensive use of information technology and communication systems.

The company also developed standardized reporting systems and uniform KPIs to evaluate performances and compare offices. The targets set in term of clients served, sales level and so on were common to all outlets, so that the headquarter was able to quickly locate problems and could compare performances among outlets. Replication theory specifies that the intervention of the center in setting the goals, communicating them and monitoring results is crucial because it serves as a guide for the geographically dispersed offices, which might otherwise not be productive or not in line with the corporate strategy.

Adecco's strategy appears to be one of both horizontal and vertical replication, which basically means broad scope replication is being implemented. Each outlet in fact, has the same internal team-structure (horizontal replication) and also the hierarchical chain above the office team is the same for all (vertical replication). Some aspects of the Adecco's strategy most exemplify the broad scope of the replication strategy: 1) through use of a "template", a successful working example was defined and then new outlets were opened following this example; 2) every outlet is able to offer the same set of services, respecting similar standards for quality. Each outlets can thus perform the same "delivering" process from start to end; 3) the center is much involved in the activities of the outlets, it monitors and implements policies, maintaining constant contact with the outlets thanks to efficient IT and communication systems.



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We have described how the Adecco company implemented a replication strategy to expand in the Italian market. Such strategy has been found to be consistent with what replication theory deems to be the fundamental aspects of a replication strategy. Being so, we move on to analyze the company's structure in order to compare to the multiunit framework which is typical of firms of this kind, as proved by the HBR study presented earlier. Adecco's central internal structure is composed of the general management, which is located in the headquarter, and three central functions that depend from it, namely the administrative function, the commercial function and the selection and HR function. These three help the field organization in the various aspects of the job: the administrative function ensures compliance with standards and procedures in the general administrative management of outlets; the commercial one supervises sales results and gives guidance to sales field managers and reps; selection and HR function supports outlets' HR managers and employees in their activity and provides training when needed. All three functions are devoted to training their respective field staff. These functions are all centralized in the headquarter, and are at the same hierarchical level of the central management. Apart from them, the organization also has a field structure to manage the net of outlets. The field structure is divided according to geographical areas, thus there is a DOP Director (Divisional Head), an Area Manager, a District Manager and an Office Manager. The Divisional Head reports to the Director General. The field organization thus presents 4 levels of hierarchy that from bottom to top take care of larger geographical areas and larger number of outlets. In Adecco we know the each DOP (operational division) overviews the activity of 100 outlets, then the number of outlets supervised narrows down with Area Managers and then District manager, until the Office Manager who only has responsibility for one office. The classification provided for by the HBR study also indicated 4 layers of hierarchy as the main form of structuring field operations. We list the layers below and relate Adecco's layers to them to ease comparison. Information on the Adecco's structure comes



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from Beccarini – D'Andrea (Accrescere il business: template o principi? Evidenze empiriche da settori dei servizi e del retail in Italia, 2008).

Store Managers: Outlet level manager in Adecco is the office manager, who, just like the store managers indicated in the study, has to overview the activity of his/her office, ensure day to day effectiveness, implement new policies at local level and provide guidance for local staff. All under rather tight constraints from the headquarter and upper managers.

District Managers: right up from store managers are district managers, who are responsible for ensuring correct implementation of policies and consistency in the outlets operations. They visit the outlets and talk to the office manager to spot problems, verify correctness of procedures and find solutions when needed.

Regional VPs: this layer inside Adecco is represented by the Area Manager. Area Managers in fact are supposed to overview the activity of a pretty large area or number of outlets, and are responsible for knowing the market, focus on value creation opportunities, solve systemic issues. Their responsibilities overlap with those of the district manager as both have to supervise outlets activity and solve problems at local level. More than the district manager however, they communicate goals and objectives, and also help in channeling information from the field to the headquarter. Their role is fundamental in easing the relationships of outlets with the headquarter. The HBR study also noted as the “translator” aspect of the Regional VP job (or Area Managers in this case) is of much relevance for ensuring communication effectiveness.

Divisional Head: DOP stands for Operational Division inside Adecco, and it is the higher layer of field management. DOP heads, which are thus comparable to divisional heads, report to the general director and are responsible, like Area Managers, for implementing policies coming from the headquarter and overview compliance and results at macro-level. Their function is also to bring up potential systemic issues in the field



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operations to central management, propose solutions and in general represent outlets' interest to the higher general management.

We have thus demonstrated how the field structure of Adecco is very much alike with the multiunit enterprise field structure depicted in the HBR study. Accordingly, we want to verify if the 5 design recommendations given by the study are also respected.

- 1) Roles and responsibilities inside Adecco indeed overlap. District managers and Area managers both have responsibility for ensuring implementation of policies at local level, and both have to take care of local problems arising the offices. The district manager also shares with the office manager the responsibility to overview the flow of daily activities at outlet level. Area managers and DOP heads share the burden of having to effectively communicate goals and initiatives to lower levels and at the same time be effective in communicating local problems to central management.
- 2) Integrators are used at all levels. In fact, inside Adecco the reporting system, the key performance indicators, the training mechanisms, are all the same for each layer and each region, so to ensure standardization and uniformity.
- 3) Information funnels and filters are present in the work of Area managers and DOP heads in particular, who are responsible for filtering the information coming from the field and bring it up to general management in manageable form.
- 4) Field managers in Adecco are also supposed to be effective “translators” of instructions coming from the HQ to the outlets. The study indicates the ability to pass information down the chain effectively as a critical ability for multiunit enterprises.
- 5) The last design recommendation is to share responsibility for talent development. This is achieved inside the company because each field manager is trained to develop talent at lower levels through centrally defined practices. Office and district managers also are responsible for training the staff of new offices, which means that talent development done by field managers is part of the strategy implemented by Adecco.



The above analysis proves how the Multiunit framework effectively applies to the Adecco company. Looking at the successful trajectory of the company in Italy, it is easy to argue that a replication strategy guided by: a working template followed carefully; a division in two phases of expansion (exploration and exploitation); an efficient center that ensures uniformity through communication systems; and a Multiunit type of field management structure, have all been relevant factors for achieving strong presence in the country, opening large number of outlets, successfully reaching the 1 billion turnover mark and a leader position in the market.

The last section of this chapter is dedicated to adding some information about the team composition and the replication process at outlet level. This will serve for comparison with the main case, the Umana company, which will be tackled in the following chapter.

Teams inside outlets, as we have said, are composed by the key figures of Office Manager, Administrative Manager and HR and selection Manager. These are all responsible for running the office and achieving the established KPIs. Once the targets are reached, they are also responsible for training those that will run the “clone” outlet to be opened. This training happens in parallel with the training sessions managed at the central level. In this way, newcomers are trained “on-the-job” so to get to know the local situation and general functioning of the office, and are also trained about corporate guidelines and procedures to be implemented in every outlet. This approach guarantees a correct level of balance between customization and standardization, which is a relevant topic tackled by the HBR study as well.

The replication process, the creation of a “clone” outlet, starts with the training, both on the job and in specific sessions, of newcomers. Through training, knowledge about the working template is transmitted to newcomers so that the clone outlet can develop and work accordingly. The knowledge to be transmitted comes from the original office managers and from the routines and processes taught in training



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modules offered by the HQ. People and tasks appear to be the knowledge repositories in this case. The replication process thus seems to be guided by two principal forces: the office managers and the HQ's training activity. This suggests that the two are responsible for transmitting distinct knowledge, at least in part. In fact, it appears that training from office managers is devoted to passing knowledge about day to day activities, local market and running of the office, while HQ's training helps newcomers understand general guidelines, the company's principles and business objectives. The first one is operational knowledge, sensitive to some local conditions and that deals with practical daily activities. This type of knowledge is hard to codify because it might vary with the region and because it comprises a larger number of processes. People are better at transmitting this type of knowledge because they can adapt it to local conditions and deal with the various peculiar aspects of running an office, like balancing different activities and dealing with the local market. On the other side, knowledge about principles, rules of conduct, official procedures and performance evaluation is much easier to codify as it is insensitive to local conditions and applies to all. Thus, it can be transmitted through formal "classroom" modules defined by the HQ, which is the prime holder and shaper of that type of knowledge inside the company. The coexistence and complementarity of these two forces drive the replication process so that the resulting replica outlet will contain both types of knowledge and will be as similar as possible to the original ones. Knowledge about the working template comes from both sources, and the replication process unfolds as both forces act simultaneously: while training on the job with office staff in fact, newcomers regularly attend training sessions at the HQ and receive visits from upper managers. Then, once they are ready, the HQ provides for support in choosing the new office, note that real estate personnel comes from the HQ so to overview the activity. When the office opens the new personnel keeps being followed and helped by the original office, and training sessions continue over time, at progressively reduced frequency, to ensure compliance. The replication process implemented by Adecco is thus driven by two "forces", each



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dealing with separate aspects of the knowledge about the working template to be transmitted. This cooperation also ensures that nothing gets left behind, uniformity is naturally spread in the company and new staff gets into it right from the beginning.

What is kind of peculiar in this approach is that the figure of the “replicating agent” is somewhat split in two, the HQ and the Office staff. Thus in this situation there is not a team of replicating agents who carry the knowledge to be replicated and move around to create the replicas. Rather, local staff impersonates part of the replicating agent’s scope and this makes it possible to replicate simultaneously in different places. Centrally-defined training personnel covers the other half of the replicating agent function. This is an interesting evolution from the more classical approach followed by companies like Xerox for example, where there was a team specifically designed to know how to replicate and this team would follow each new replication “in loco”, providing direction and guidance directly from the HQ. The advantages of this model are mainly: 1) possibility to replicate simultaneously in different locations, thus making exploitation faster; 2) outlets are more sensitive to local conditions, therefore issues of compatibility between tasks, routines and the environment should be prevented; 3) two sources of knowledge, if effectively structured, ensure completeness of training and provide the recipients with omni-comprehensive information about the working template.

Below we provide a resuming scheme for the Adecco case study, which includes the main characteristic of its replication process and of the field structure, moreover it lists the relevant aspects to keep in mind for comparison with the other cases analyzed.



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Adecco's replication framework:

2 main phases:

1) Exploration. Opening a series of outlets in key areas → aggressive expansion or “strawberry approach”:

- Establish presence in key geographical areas
- Create the working example of the template

2) Exploitation. Each outlet duplicates in a clone → distributive cloning approach:

- Fast and simultaneous replication in all areas
- Each office is ready to create a replica
- Outlets are all uniform and standardized

Structure framework

4 layer of management in the field organization → MULTI-UNIT Enterprise:

- Office managers
- District managers
- Area managers
- DOP heads.

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3.4: General considerations

The two cases analyzed so far provide for a better understanding of how replication strategies actually unfold in real contexts. We want to move on with the analysis of the third and main case, Umana S.p.A., having in mind some of the elements highlighted in this chapter. Mainly, the aim is to identify the common and relevant elements of the replication strategies applied by Adecco and Autogrill so that the same patterns can be looked for in the Umana's case. The existence of similarities can help us in interpreting the case and aid in the formulation of a coherent strategy later on.

Adecco and Autogrill have both been demonstrated to apply a replication strategy for expanding in the Italian market. These strategies share some aspects but differ in others. In both cases we could identify two phases of the replication process, exploration and exploitation, which also overlap in time. Autogrill's exploration of the template is made possible by the 18 template stores, while Adecco's one by the first offices that were opened in key areas, i.e. the aggressive expansion phase. Note however how the two settings are different somewhat. In fact, Autogrill's stores were officially designated as "school stores" and had the official function of experimenting on the template before passing knowledge to new replicators. In the case of Adecco instead, the first offices were not invested with this official function of "working templates" and were not given the role of "models" to be followed and improved all along the process. Rather, they had the function of establishing presence and then each of them would replicate through distributive cloning, thus they were not intended to be an official "training" about the template. Surely, these offices passed their knowledge to the newcomers, but only to those intended to replicate that one office, not to all replicators of a certain area. Each Adecco's office had to replicate itself "autonomously". These two approaches are different but are intended to favor the same things: speeding up the replication process, as both allow for simultaneous replications to go on, and have "working" examples of the template, with all the advantages that brings. The Autogrill's way appears



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to be more structured for accurate replication, with the designation of official templates, while Adecco's strategy seems more focused on fast exploitation, thanks to the aggressive expansion and "cloning" processes. In the first case, the "delegation" of the replicating agents function to template managers was more marked, while in the second this function for office managers was limited to training the people that would duplicate their only office. It was not an official "guide" role given by the HQ. Also, the office managers in Adecco basically lacked the possibility to experiment modification of the template, which was instead much easier for Autogrill's template managers, as they worked daily on it. With respect to this, it can be argued that the latter is a case where the HQ moved knowledge down the chain to template managers, thus empowering them to be the carriers of the knowledge in the template, while in the former case office managers had to follow stricter guidelines, could not experiment much and even if they did it would be confined to local level as the offices lacked the function of being models for all. This difference causes the exploitation phase to happen in different ways also. While Adecco's one in fact is a cloning model, where each office generates a new one nearby, Autogrill's template serve as small "centers" for a number of outlets in the area.

Apart from these differences, the two approaches bear some great similarities and base on similar broad concepts to implement replication. Also, we find these similarities to be more relevant than the differences, which are in fact almost always just different approaches to reach the same aims. The importance of having a number of working templates is well evident in both cases. Both companies rely on various real outlets as examples of what has to be replicated rather than having a team of replicating agents that goes around and implements the strategy, like in the Intel's "copy exact" situation. As we have said, that speeds up the process because multiple replications happen at the same time, and it also provides for having multiple "labs" where to experiment and refine the template, improving accuracy. This brings up the first main consideration we can draw about replication strategies:



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- **Replicating companies set up multiple working templates, which then replicate themselves to create other outlets. This improves speed and accuracy of replication.**

Note that this is made easier by the fact that we are talking about service companies. Doing the same with production plants would probably be kind of infeasible due to much higher costs and complexity. Nonetheless, in the service sector this favors speed and accuracy, so it's a relevant managerial implication for replicating companies.

Another common path we can find is in how the knowledge transfer happens when a new outlet has to be created. Leaving aside the “official” nature of Autogrill's templates in fact, in both cases the people working in the template are responsible for transmitting knowledge to newcomers. Moreover, in both cases it also appears that these template (or office) managers are responsible for transmitting operational knowledge through “learning by doing”, while the center devotes to codifying and spreading detailed knowledge about routines and standard operating procedures. Knowledge about the template is thus kind of split in two areas: codified knowledge of rules, and operational know-how of office activities. The first one is defined and spread by the center, that so ensures control over the template and can check adherence to it. The latter instead is embedded in the template itself, its more complex in terms of interdependences among its elements and its more operational, thus its transfer is left to agents that actually experience it practically, the template and office managers. We have seen how the knowledge of a business formula cannot be reduced to main well-specified concepts, because the interdependencies between the elements give origin to complementary effects or barriers to transfer, and it appears that the “division” of knowledge found in the two cases is an empirical answer to this problem. The second main deduction about replication strategy stems from this reasoning:



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- **Replicating companies achieve knowledge transfer by dividing the knowledge in two main areas, each of which has its replicating agent: codified “rules” knowledge is developed and spread by the center, operational knowledge about activities of the outlets is improved and spread by template managers through learning-by doing.**

This distinction reflects the fact that knowledge of the replicable and beneficial aspects of the template is complex and made up of different parts. A formal, and more technical one, that can be codified into manuals and codes of conduct, and a second one harder to codify, that comprises interdependencies among elements, more operational in nature, that has to be transferred mainly by people and through on-the-job training. It's harder for the center to have that knowledge complete, therefore its transferring is left to the people that actually work with it every day. Putting that in perspective of the knowledge reservoirs framework previously explained, it appears that the first part of knowledge is one that resides in tasks and tools, while the latter is embedded in people. It was indicated in that model how people are better at transferring complex causal knowledge because of their ability to adapt it to the environment and understand the interdependencies existing in it. Empirical cases presented in this paper support this position and show how it causes the transferring agents to be different according to where the knowledge is embedded and consequently its “type”. Accordingly, the two companies use similar means to transfer the knowledge, as both provide “modules” of learning “in class” structured by the HQ that parallel the learning by doing that goes on at template level.

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CHAPTER 4: Umana Case study

4.1 Firm size and market

Umana S.p.A. was founded in 1997 in Venice by the entrepreneur and now mayor of Venice Luigi Brugnaro. It is a recruiting and temporary staffing agency, which today counts about 700 employees, operates 130 offices around Italy plus 5 in Brazil. It ranks 6th in the country by sales volume at roughly 360 million of euros in 2014, behind multinational firms like Adecco (FRA), Manpower (US), Randstad (NL) and GiGroup (ITA). The sector as a whole is growing at about 3 to 5% y-o-y for the same data, while Umana S.p.A. has registered a 10+ percentage for the last 3 years.

A better grasp of the sector is given by the CIETT (International Confederation of Private Employment Agencies), an international organ that monitors the sector and issues Economic Reports. The 2014 Edition states that “in Europe, the monthly Agency Work Business Indicator, showing the year on year growth in the number of hours worked in a range of European countries, shows an upward trend. In October 2013 the first positive growth since December 2011 was recorded at 0.6%; in November it accelerated to 1.4% growth.” The graph below shows the trend for different countries in recent years:

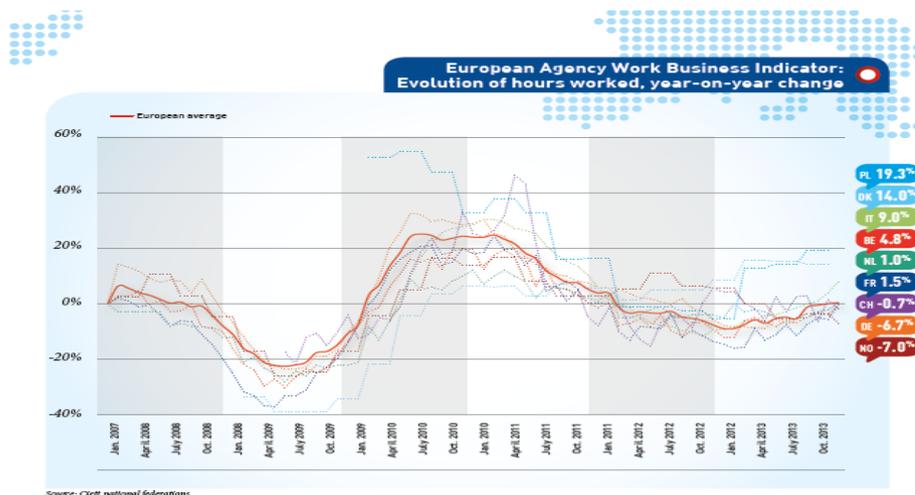


Figure 3: European Agency Work business indicator, CIETT.

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Other major economies like US and Japan are shown to be enjoying even slightly higher rates, as of today.

In Italy, the total number of individuals employed in 2013 was 470.000, and each day the average number of agency workers was about 270.000. Considering the entire workforce of Italy, the penetration rate of agency work in the country is about 0.9%. The same value also holds for Nordic Countries, while Germany, France, Netherlands, United Kingdom, Belgium show rates around 2%. Spain, Greece and East European countries have lower rates, inside the 0.5 margin.

It is worth specifying that agency work is a regulated sector, meaning that in each country the law might be different for what concerns the possible nature of the agency work, its duration and in general the permissions and duties of companies. In Italy, for example, the law authorizing agency work was approved in 1996, later than most developed countries, has been kind of strict in the beginning and has caused disagreement among national politicians and relevant parties. Today the law is in line with other developed countries for what concerns the aspects of agency work, the rights of workers, and the requirements to be a legit agency.

The entire market in Italy is made up of 97 authorized agencies, who operate a total of 2.669 branches and internally employ 11.000 people. All data are from CIETT report and refer to the year 2013. Compared to other European countries like France, Germany and UK, the Italian one is a pretty small market, and this is due to the fact that the law is recent and that the requirements to operate this type of agency are kind of strict, meaning that financial requirements are hard to meet for small companies therefore multinationals are favored and acquisitions have over time reduced the number of competitors. Of the 97 agencies, about 70% have less than 50 employees, and only a handful of them has more than 500. The clients of such agencies, which are the companies using agency work services, are mainly from two industries: manufacturing and services. These two account for about 75% of total agency work



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utilization. The rest is split between agriculture, public administration, construction and other minor areas. It is pretty common around Europe that manufacturing and service firms be those most in need of agency work, yet in Italy the manufacturing sector holds a large majority while in other countries the service sector stands first. This is mainly due to the fact that in Italy there are a lot of manufacturing SME and not a lot of service firms, therefore they end up being the main clients for agencies. The reasons for contracting temporary workers through an agency in Italy can be classified into two main classes: 1) a temporary need that does not justify permanent hiring, like a peak of orders or seasonal jobs, and 2) hiring young workers for a first “trial” period through the agency and then if the profile is valuable to the company internalizing it through direct permanent hiring.

The situation of Italy is somewhat peculiar because of the particular nature of the hiring contracts panorama. The country in fact shows a multitude of possible hiring formats, some of which have been misused during the years by firms wanting to hire without incurring in the costs of a permanent hiring and thus abusing of formats like “call contract”, independent agent contract, internships. Obviously not only Italy has this kind of problems, and in general inside the European Union there is the need for harmonization of labor matters among countries. The European Union has recently released a directive (Communitarian Directive 104/2008) aimed at promoting correct utilization of agency work and spreading its use versus other less “protected” forms of hiring that are present in some states. The Directive has come to approval after a long journey of negotiation rounds, it is the first step toward harmonization of hiring rules in European countries. Central European government declares itself in favor of agency work as only alternative to permanent hiring and advocates how well-behaving agencies are in fact an optimal solution for all those jobs that don't require permanent hiring and for those people that are left out, or want to be out, of permanent employment. The CIETT report shows in fact how agency work is not a substitute for permanent hiring for 74% of the companies surveyed at a



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global level, which demonstrates that agencies are meant to supply labor only when permanent hiring is not feasible, in line with what said in the previously cited EU Directive.

Apart from the data, it is important for our scope to have a better understanding of the Italian market from a competitive perspective. Having directly experienced the environment, it appears that competition is largely based on price, with only some companies, like Umana S.p.A., truly trying to differentiate themselves on the basis of quality of service and thus selling at slightly higher markup rates. By better quality of service are intended practices like better selection of candidates, faster research, close after sale follow up, better and/or clearer payment process and conditions and in general a better handling of the process by agency internal staff both during selection as well as responsiveness in case of problems.

Considering that basically every type of firm can use agency services, agencies tend to massively market themselves to companies using mainly emails and sales reps, and is common practice for agencies to be sponsors at events or for sports team in order to gain visibility. Companies like Manpower and Adecco regularly sponsor A series soccer teams, while smaller companies like Umana and Open Job are usually sponsors for basketball teams. Agencies thus try to increase the number of sales through massive contacting, pretty much disregarding the sector and characteristics of the recipient, because as said above every type of firm is a possible client. This basically divides competition for regional areas. In every city especially in central and northern Italy, branches of big companies are present together with smaller local players and all compete to sell their service to the firms located in and around the city itself. Geographical presence is fundamental also because it helps pooling the labor force to be then supplied in the area. The major agencies also have national agreements with big firms that transcend the local level, and probably some of them bet on this type of deals to outrun competition, yet it has to be kept in mind that a physical presence in the



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client's area remains fundamental for the execution of the job after the contract has been sold.

4.2 Structure and replication strategy

The brief analysis of the market is supposed to help the reader better understand the strategical and structural features of the Umana company and give an idea of the market where it is competing. At the moment of its opening, in accordance with the law requirement, Umana had a central HQ and 4 offices around Italy. Since the beginning, the general management of the company gave much importance to the development of a standardized format for new offices and the handling of such offices. Given the relevance of geographical location, it is clear that for the company to grow, the number of offices has to grow. This holds for competitors too, and that is why offices of multinational companies are spread around the country. Obviously companies maintain their logo for every office, so to take advantage of the fact that the brand is highly advertised from the center, and mandate over the management of such offices. The level of control and management over such offices however in general for competitors is limited to the establishment of results objectives and general requirements and there always is a person responsible for such results to happen and guidelines be respected. Therefore, the local Director has to overview the activity of the whole office, make sales happen and is held responsible by the central management. This causes every outlet to develop slightly different procedures and way-of-doing things from one another, depending on the type of management and skills of its Director. For example, one Director might be keener towards sales and therefore spend much time on the field closing contracts, while another one might be better at internal management therefore ends up delegating sales to somebody else and taking care of the internal functioning more. As long as the results come, this kind of "personalization" is widely accepted by central management of the main multinational companies. As said above, Umana's management since its first days has been developing a much more standardized format for managing its outlets. Instead of giving each

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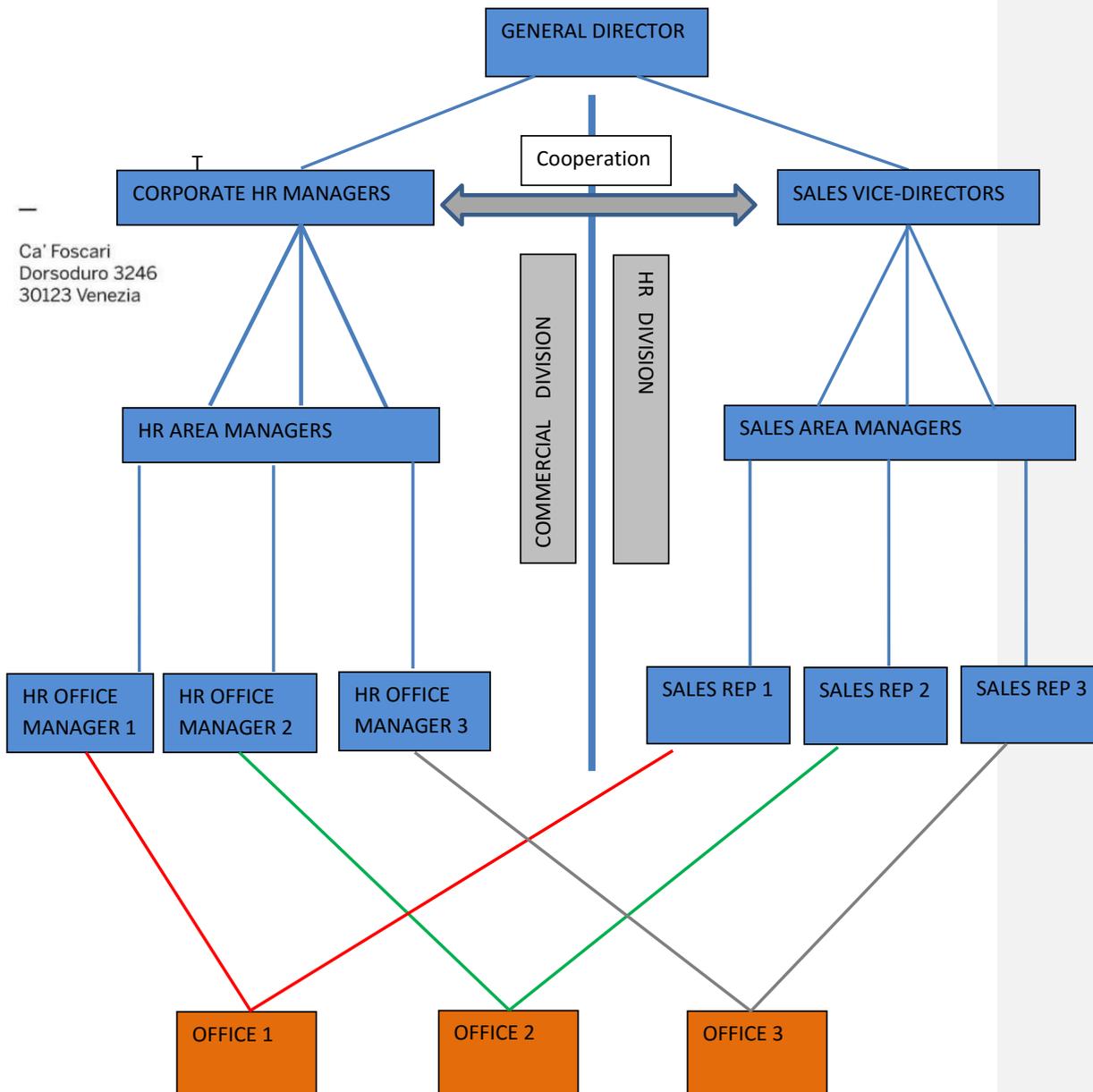
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outlet that possibility to differentiate itself according to manager's view and local conditions, Umana has established that every outlet has to work in the same way and there is not a single person, like a Director, that is held responsible for results. This is possible because Umana has decided to create two separate functions for what concerns the outlets: a commercial one and a HR one, which are both present in every outlet. This changes the configuration of the team inside the office with respect to the competitors' format. In every Umana's office therefore there are usually 2 or 3 people responsible for the "HR side" which take care of selection processes and handle the contracts from an administrative point of view, and 1 or 2 people that are entirely devoted to sales, the sales reps. The two functions inside the office are not in a hierarchical relationship between each other, rather each function responds to upper management of that same function, and the two are supposed to cooperate and equally contribute to the results of the office. The sales reps of a certain office for example, respond to their sales area manager which in turn responds to one of the sales vice directors of the company, who then reports to the general director. In such a framework thus every office has a cooperative team whose sides respond to a general corporate structure equal for all, rather than a team with an office Director that decides for the running of "his/her" office. To make it even clearer, let's analyze a basic process, like the pricing and structure of an offer. Among competitors usually the Director of the office has control over what mark-up has to be applied to every offer and the structure of it because of his/her role of responsible for that office. The offer itself is usually constructed by the team following general guidelines. Inside Umana, when a sales rep makes an offer, has very little control over the applied mark-up, and to change it approval of the area manager is required. Moreover, the sales rep does not write nor has freedom to structure the offer because such offer comes from the HQ in a standard format and layout. Before analyzing the advantages and disadvantages of this format, it is important to analyze its implications on the general structure of the company. The format in fact implies the existence of two well-defined and separate hierarchical chains, one for the commercial



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function and one for the HR function, each of which takes care of managing its processes according to central management's view. The following diagram gives a graphical idea of this division and clarifies the various levels that make up each of the two "chains".



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Figure 3: Umana's field structure



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As the diagram shows, the two divisions are obviously supposed to collaborate when needed and take decisions jointly, especially at higher levels. Office managers and sales reps too are supposed to cooperate and act in the best interest of the office itself and to achieve higher results by coordinating their work.

In coherence with the structure, even work objectives follow partly separate ways. In fact, the HR division has its objectives to attain, while sales people have their own quotas to reach. As both divisions need each other to reach their targets, this serves as an incentive to cooperate and work correctly together in every office. Differently, usually competitors establish a target that has to be reached by the office as a whole, and then the people inside the office manage to work under the director's control to reach it.

This structure allows the company to replicate its format much easier than competitors. Leaving aside the logo/brand and the most general guidelines, that everybody replicates, competitors have a harder time in fully replicating the functioning of an office, due to the fact that it is subject to variables not controllable by central management, like the personality of the director, the internal procedures that every team creates and the decisions they take to achieve the objectives. Basically, every office with time ends up developing internal habits that are peculiar of that office. On the other side, Umana's structure allows for replication of procedures and uniform decision making among offices, due to the fact that every person in an office's team follows its divisional guidelines that come directly from top management rather than from the office Director. The office team therefore does not have the possibility to create procedures or processes different from those of other offices because that would not be authorized by the respective superior divisional managers and would fall out of traditional processes and rules.

To further favor better replication, Umana's management has developed other central structures that contribute to maintain and spread uniform way-of-doing. One of such structures is the central sales office, which



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helps area managers in overseeing the activity of sales reps and takes special care of newly hired ones by centrally planning their job, scheduling training days and also updating the respective area manager on results. This office basically ensures that since the beginning, all sales reps receive equal and centrally managed training, therefore they will work according to standardized guidelines. For example, the central sales office organizes training days for all sales rep of a certain region, applies the same reporting schemes for everybody and gives out objectives (in accordance with the area managers) that are centrally decided and equal for all. The people in this office also regularly go out to offices with newly hired reps and explain in detail what the company expects of them especially in terms of rules, procedures and processes to be followed. This also enhances the HQ and makes its presence felt in every office, which further helps in spreading the standard model. Among competitors it's very rare for somebody from the HQ to periodically go out and visit an office, usually it's the Director that goes to the HQ and reports on its activity, therefore the team does not "feel" the HQ's presence in the same way.

Another factor that favors exact and full replication is the way that offers, contracts and documents are handled inside Umana. As said above, sales rep have little power of modifying an offer, and in the same way HR people cannot modify documents and contracts. This is due to the fact that every offer, contract and document in general comes directly from the Headquarter. There are in fact various offices inside the HQ that are specialized in dealing with the different aspects: a general proposal office, a contracts office, an operational management office and so on. In this way for example, when a sales rep needs an offer has to make a request through the system directly to the central office, which then returns an already compiled offer of which only the mark-up is slightly modifiable by the rep in accordance with his/her feel of the negotiation. Same holds for how the contracts are handled: when there is a problem that falls out of the normal scope of the job, HR people make contact with



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the central operational management office which then guides them to the solution.

It also has to be cited that Umana's top management has developed a network of relationships with key partners that helps the replication by strengthening its brand effect. As said previously, all companies in the market use partnerships and sponsor contracts to improve visibility, but Umana has focused much attention on developing partnerships with the local chambers of commerce, which is something that other big companies have not always pursued with the same insistence. Chambers of Commerce group entrepreneurs and managers of an area and, since these are supposed to be decision makers, improving the company perception boosts sales. Today the company is an affiliate in many regional Chambers and even sponsors events for them. Such institutional leverage has for sure favored replication by making the company known to relevant players in the market.

Having analyzed the field structure of the company, it is important to put it in comparison with the other frameworks seen in this paper. First in first, being Umana a company that pursues replication, we expect it to exhibit a Multi-unit type of structure. Simple analysis of the organigram presented previously will show that the field structure is slightly different from the one suggested by the HBR study in chapter 3. In fact, it appears that there are only 3 levels of hierarchy instead of 4, and the office/store manager level is missing. This is probably due to the different team configuration scheme at office level. While the Multi-unit structure accounts for an office manager, and companies like Adecco and Autogrill actually follow this path, Umana does not include this role, thus eliminating a level of hierarchy. Apart from the absence of this role, there is another big difference in the Umana structure compared to standard Multi-unit. Namely, the chains of hierarchies that overview the offices' activity appear to be two separate ones, instead of only 1. As said above, office staff of HR area report to their upper managers, while office sales rep report to upper sales management. Thus, there is no office manager, and offices' people respond to two different chains. It is notably different



from the situation of an office manager that responds to a single hierarchical chain. This might have influences on the effectiveness and implementation of the replication strategy, thus we will dig into analysis of this subject in the last chapter which is about strategy formulation and managerial implications of replication. For now, it is important to keep this difference in mind.

4.3 Arrow Core Assumption

In the initial chapters was explained, according to the main scholars of the subject, what exact replication is and how the different types of replication are classified. The aim of this section is to classify Umana's strategy and that of competitors according to such theoretical pillars. In particular, it is relevant for our scope first of all the difference between broad scope replication and narrow scope replication (Formal definition in chapter 1). What appears from the analysis of the company's structure is that Umana applies broad scope replication. Some elements above all prove this fact: 1) Umana tries to replicate so called higher-order capabilities in all offices; 2) Umana spreads a model and processes in all outlets; 3) Umana actively moves knowledge out of the center and to the outlets thanks to the activity of central offices, while for example competitors spread objectives rather than pure knowledge. The physical movement of people from the HQ to the outlets reinforces the fact.

Assuming that the company under analysis is actually applying broad scope replication, and since this process has been going on since 1996, replication theory also suggests that this should have had implications on the company itself, its structure, and, most importantly, its effectiveness. To verify this, Umana's situation is now benched against the main implications of applying a replication strategy to see if the two match.

The first fact of replication strategy is that it is supposed to take "building" time. 18 years are not a very long life time for a company, yet in this case they are probably significant if we consider that 130 outlets have been opened, the company is successful now and it is going through



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internationalization. It's not always been so bright, therefore there must have been some "building time" along the way.

Replication theory also assumes that during this time, multiple trials and errors should have happened, due to the fact that true replication also entails recreation of not replicable aspects. In the history of the company many outlets have not delivered as expected, some still do not. Although it's not our aim to analyze such cases now, it's a fact that trials and errors have happened and continue to do so.

The third major area that is influenced by a replication strategy is knowledge. In particular, the center undergoes a process of learning while replicating, as it acquires the knowledge about what is worth replicating and what is not, its costs, and in general it gains experiential knowledge about the process as a whole. To measure a supposed increased in knowledge, and assuming part of it should be tacit in this case as it's much more than technical knowledge, theory suggests that the best way to assess the gain is by measuring a change in performances. Doing so is complicated because it's not easy to isolate an eventual gain from the influence of other factors that might have favored it, things like good economic conditions, talent of management, disruptive innovation are examples. Therefore, to avoid such influence, what can be done is look if the company has developed some characteristics or structures with time that help its performances and must be consequence of replication experience. A good example of this kind is the central sales office analyzed previously. The office was established in 2008, with one person operating it, and now is a team of 5. Considering that the company went for 11 years without such structure, it is obvious that at some point the sales top management developed the need for it and thought it could help, which means that while the company was already replicating, it learnt that such structure was useful and could improve the performances of the outlets. Moreover, because the number of people in the team keeps increasing, it means the office is achieving better performances.



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The above case is thus a clear example of increase in knowledge thanks to the replication process. Winter and Szulansky in their seminar papers about replication stated that the two broad main elements that characterize replication are broad transfer of knowledge and the role of the central organization. The analysis made above proves that both are present in our case study, which further reinforces the conclusion that a replication strategy is truly being implemented.

The Arrow Core is identified by the same two scholars as the information set containing “the knowledge of which attributes are replicable and worth replicating, together with the knowledge of how these attributes are created”. Such information set should be present somewhere inside the Umana company, in various repositories maybe, but it certainly has developed over time. It is obviously not possible to have the top management of the company to simply give out the recipe for its success, therefore what follows are considerations drawn from first-hand experience rather than from an interview. The aim is to locate the information set first of all, then deduct at least some of the fundamental information contained, and thus verify if the present Arrow Core has the characteristics it should have according to theory.

Umana's top management has been the same since the beginning, all the people that occupy the most relevant positions in the company have been there for a long time now. It is then reasonable to assume that the Arrow Core is entirely located inside the top management. This facilitates the analysis because the people have stayed the same through time, therefore it must be them to have developed it.

The second step is to extrapolate some concepts that can give a grasp to the information contained in the core. There were some general concepts that were often highlighted when a replicated outlet did not perform well: 1) the level of cooperation inside the office was not sufficient; 2) the “brand effect” was not strong enough, meaning that the company was not known in the area; 3) there was a misfit between the office employees and the internal rules and procedures, or the rules and procedures had



not been transferred correctly. These are the problems that were most commonly the cause for problems at the outlets. We can then deduce that they represent some fundamental knowledge that should be part of the Arrow Core and compose its “heart”, along with some other factors that helped replication to happen smoothly.

The Arrow Core assumptions can be summed up as follows:

- 1) It's very important that the team inside the office collaborates fully, as the roles are interdependent and a missing part might cause the whole process to not function well.
- 2) Brand effect is relevant as it lowers the barriers to entry in a certain area, therefore investments in that area favor results.
- 3) Every outlet must be provided with precise and specific knowledge about the rules and procedures to be followed, otherwise having to relate with the HQ becomes a burden, communications do not flow effectively and employees end up looking for alternative way to do things.
- 4) Efficient HQ central offices, like operational or sales back offices, greatly help replication as they provide newcomers with the knowledge of the template
- 5) A well-functioning field structure is important to manage the net of outlets, and it has to have a Multiunit kind of model behind it. Not necessarily the levels of hierarchy must be the same, but the general considerations like overlapping of responsibilities and nurturing talent instead are to be respected.

These are the main concepts contained in the Arrow Core that the Umana's top management developed over time, and are in fact the main guidelines applied today when opening a new outlet.

It is reasonable to assume at this point that the top management in the case being analyzed should be taking advantage of the complementarities that application of a replication strategy carries with it. Scholars in fact, predict that a successful replicator over time is advantaged compared to competitors as commitment to the strategy



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brings up complementary effects between the various elements. One of such elements is the experiential knowledge gained, because being so difficult to imitate gives its “owner” additional advantage over competitors. Directly related to this is the fact that such knowledge allows the replicator to make specialized investments that favor replication, as he/she already knows from experience what works and what does not. An example of these complementarities inside Umana is the continuous investments that the company makes to improve its visibility and brand effect with Chambers of Commerce. Having already established a good network that benefits the company, it is easier to carry it on and improve it and every improvement further favors replication. The effect of improving such network is thus complementary to the increase in number of outlets replicated, as the two mutually reinforce themselves. Commitment to the strategy also brings cumulative complementary effects to the replicator, because commitment causes the replicator to be better informed about the strategy and the company as a whole, and such information is non-rivalrous in use and keeps on building, which helps in facilitating each new replication.

Follows from what deduced in this chapter that the Umana company is committed to replication as a corporate level strategy and in fact the aspects related to such strategy respect what theory predicts about the subject, like the presence of an Arrow Core, knowledge-related gains and cumulative complementary effects. It is important to underline that so far such a strategy has been applied in Italy and it has given large success to the company, as its sales volume has been increasing steadily in the last years, the number of outlets also increased, and the company as a whole keeps on growing. The aim of the next chapters is to analyze a process of internationalization made by Umana, precisely we will analyze the first internationalization process undertaken by the company in recent years, how the strategy was influenced by it and what influences the different landscape had on results. Possibly, we want to see what eventually could cause problems in this type of process, isolate such aspects and build a strategy that avoids them.



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CHAPTER 5: UMANA BRASIL

5.1: Brazilian market

The first foreign office has been opened in 2007 in Recife, Brazil, and its aim was initially to find medical and nursing personnel to work in Italy, as at that time our country was scarce of this type of workers. In Recife there are some very good schools for these professions, and the possibility to work in Italy was a good incentive for people. Some years later that need had been satisfied, therefore it was decided that that office would become the HQ of a fully functioning company under the Brazilian law, offering the same services offered in Italy: temporary work, recruitment and outsourcing. Umana Brazil had been founded, the objective was to develop in the country following the same replication strategy applied in Italy.

Before entering into details of the company and the strategy, it is necessary to give the reader a picture of what is the market for these services there.

First of all, the law authorizing temporary work in Brazil was approved in 1974, way earlier than in Italy, which already makes the competitive landscape different from the home one. The market is much older, therefore companies that operate there, both national or other multinationals are mostly well established by now. Moreover, Brazil has seen a period of high growth from the late 90s until recent years, has entered the group of the BRICS and its market in general has greatly evolved in this short period of time. Around the beginning of the 2000s decade in particular, the country has benefited from foreign investments made by companies that were seeking to exploit the new developing market. Among these companies were mostly all the multinationals operating in our sector, the same ones that also operate in Italy, plus some others like KELLY Services (US) that has a very little market share in Italy but it's one of the biggest in the US and other European countries.



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Apart from the “age” of the market, the fact that Brazil is a developing country also causes some main differences with Italy. For example, on average the knowledge and skills at the lower levels of employment are considerably lower than in Italy. Alphabetization is still an issue for some categories of workers, and degree level positions by contrast are rare and over paid compared to Italy. The spectrum of the salaries is much larger in Brazil, which is typical of a developing country, where base salaries tend to be lower than in developed countries and higher level ones are instead better compensated because of the scarcity of skilled workers available. To get an idea of numbers, the minimum salary for 2015 in Brazil was around 850 R\$ per month, which at today’s exchange rate means around 250 Euros. Obviously the cost of living is also lower, but not that much and in fact in some major cities like Sao Paulo the median cost of owning a house and growing a family is comparable with Italian levels. Like in many developing countries, in Brazil the difference in earnings and lifestyle between the upper sectors of the population and the lower ones is huge, the distribution of wealth is highly unequal and the percentage of wealth owned by the top 5% of the population is much higher than the same data for Italy. The salaries at managerial and upper levels are higher, and a management position at a multinational company is paid usually between 10.000 and 30.000 R\$ per month, which means between 3.000 and 10.000 Euros.

These are all general considerations about the country, the focus now will shift to the sector that interests us and its main numbers are laid out below. Note how most of them are the same type of data used to explain the Italian mirror market. Comparison of the markets is necessary and has to be kept in mind as it might be a factor of influence on the strategy and its yields. For reference, Brazil has 200 million citizens, which is over three times more than Italy.

The CIETT report already used for analyzing the Italian market states that the Brazilian one is the second market in the world by size, and the total number of individuals employed is about 7 million. This data refers to 2013, and the report also claims that this number has decreased of



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about 40% since 2011, which indicates a sharp decline for the sector as a whole. The number for Italy was 470.000. Simple calculation will show that in comparison to the total number of individuals in the country, in Italy the total number of individuals employed through agency is 0.78 %, while in Brazil it's about 3.5%. This means that the market is proportionally bigger, agency work is more used than in Italy. The fact that agency work has been possible for longer time might be one of the reasons, signaling a market more mature. Further proof of this is given by looking at the total number of companies operating in the sector. In Brazil there are about 1400 private employment services companies, against the 97 of Italy. In Italy the total number of active workers is about 25 million (ISTAT RAPPORTO ANNUALE 2013) while in Brazil it is about 44 million (Pesquisa Setorial 2012/2013 SINDEPRESTEM). Again simple calculation shows that while in Italy there is a company every 258000 workers more or less, in Brazil there is one every 31000 workers. Working population is the pool from where employment agencies draw the labor force that is then supplied to clients, therefore workers could be defined as the input for agencies. It is thus reasonable to assume that in Brazil competition to find and retain workers is stronger as there are less workers available for every agency on average, which means that the input "material" for agencies is scarce, thus it costs more. This might have implications on the performances of an outlet there. A good insight into the Brazilian market is given by SINDEPRESTEM reports. SINDEPRESTEM is the body that associates companies of the sector and issues periodical reports about the market situation. (SINDEPRESTEM stands for: Sindicato das Empresas de Prestação de Serviços a Terceiros, Colocação e Administração de Mão de Obra e de Trabalho Temporário no Estado de São Paulo). The 2012-2013 edition reports that the annual revenue for the sector as whole was of 81.22 billions of Reais, which at the current exchange rate means around 20 billions of Euros in 2012. It's important to highlight here that this number refers to temporary service plus outsourcing service. In Italy the market is much more separated, and our interest for comparison of the two markets is temporary work services only. In Brazil the revenues coming



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from temporary work were 16 billions, which means about 5 billions of euros. Thanks to CIETT documents this data can be seen in perspective with other countries. The Brazilian market in fact contributes to total global sales revenue of the sector for 1.8%. By comparison, Italy contributes for 1.9%. This implies that the two sectors generate about the same amount of total revenues. This data has one relevant implications: being the market much smaller in Italy but its contribution in percentage about the same, it must be that on average Italian companies have higher sales revenues. Consequently, on average in Brazil the revenues agencies gain should be lower. Moreover, the sector in Italy employs about 11.000 people, while in Brazil about 35.000. Being revenues about the same, in proportion the costs incurred by agencies to maintain internal staff should be higher. Previously it was also stated that “raw materials”, the workers an agency “lends” to companies, also might be more costly due to less availability of workers for each agency. The two factors combined suggest that on average Brazilian companies incur higher costs, which in turn probably reduce average profits.

Following is a recap scheme of these comparison factors and the implied conclusions:

1) Percentage contribution to sector's global market:

ITALY: 1.9 % BRAZIL: 1.8%

Which implies total sales revenue must be about the same (around 5 billions of Euros), but:

2) Number of agencies operating (temporary work agencies):

ITALY: 97 BRAZIL: 1400

Italian market is smaller, less competitive, on average a single agency has higher sales revenues.

Now that the market has been briefly analyzed from a quantitative point of view, it is important to highlight which are the differences in the service



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is se and how it is regulated, as this too might have an influence on the structures and the processes companies implement.

As said previously, the main users of agency services in Italy are companies in the industrial and manufacturing sector. In Brazil instead, over 50% of the agency workers is employed in the service sector. Manufacturing firms employ less than 20% of the total agency workers, as opposed to over 60% in Italy. In particular, inside the services macro sector, the commercial one stands as first consumer of agencies service in Brazil with about 39% of contribution to the total 50%. Being the recipients of the service on average from different sectors than those in the Italian market, the type of workers needed is much different too, and probably the reasons why the service is used also are.

In Italy Umana and its competitors are mainly focused on temporary work, which is by far the first source of revenue. Other services like recruitment and permanent staffing come respectively in second and third place, with the difference usually being substantial. This is due to the fact that rule of law about temporary work is more permissive in Italy than what it is in Brazil. In fact, while in Italy the time a person can be temporary employed can basically go from 1 day to over 3 years, in Brazil that time cannot in any case go over 9 months, and for the large majority of cases 6 months is the allowed period. This causes contracts to be much shorter in Brazil, which means less long-time guaranteed revenues for companies. To have an idea of the difference, it's sufficient to think that the average length of temporary contracts made by Umana is 6 months.

Furthermore, the Brazilian law restricts applicability of temporary contracts to a few cases: seasonal peak, unexpected increases of the workload and substitution of ill personnel. It is explicitly forbidden to use temporary contracts as "experience" periods. In Italy, since contracts have been allowed to be without a specific clause specifying the reason of use, without a doubt many companies hired for limited period of times to see if the person would be a good fit and in case it was not let them go at the end of the contract. This is a relevant chunk of the market for Umana itself, and having the possibility to "try out" the worker without



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incurring in the costs and implications of permanent hiring is indeed a good sales talk among reps. In Brazil the triggers to sell such contracts are different and this means that the switches sales reps have to push on are different too. Keeping in mind the competitive landscape pictured in this analysis, in the next section we'll see how Umana has entered the market and the effectiveness of its strategy.

5.2 Replication strategy in Brasil

As said at the beginning of the chapter, the first office located in Recife started operating in 2010, mainly with local clients. The office developed as the HQ for the Brazilian market and in 2014 4 new offices were opened in other cities: Sao Paulo, Campinas, Porto Alegre, Caxias do Sul. The aim of the management was to recreate, duplicate actually, the value chain that was giving good results in the home market. In Recife would be located the HQ with the centralized offices that would have served the 4 newly opened ones as well as itself. Control over strategical decisions for the company remained totally in the hands of Italian management, with the Director of the Brazilian company being Italian and the top management very present when making decisions. Local management did not get much involvement in top level decision making processes. Apart from the Director, an Italian controller was sent to Recife, and I was located in Sao Paulo to help manage the outlets. This position allowed me to see the replication strategy in action first-hand. As done for the Italian offices, sales reps and HR people were hired, so that teams would have the same structure. The HQ too was developing to create the central offices to support such teams as it happened in Italy. Top management since the beginning wanted to replicate, although it also declared itself flexible to some kind of adaptation to the local market, as long as it would not have been too disruptive with respect to the known formula. In this section the aim is to find out how this strategy adapted to the market, what continued working and what didn't, and eventually the changes made.



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Starting with the internal structure, we have said that the composition of the teams inside the offices was maintained of the same type, sales reps and HR personnel. This already in the beginning generated some confusion, as in Brazil basically every other competitor had a Director for every office. People thus were not used to not having a leader locally directing their work. Being a team of two separate functions without one individual in charge present on site demands much more self-started activity and diligence to workers. In Brazil, where people are usually not asked to have self-initiative in low management positions, that generated some detachment in some cases. Brazilians moreover, tend to be not very flexible when it comes to working roles, they usually tend to care about their specific tasks and not “invading” someone else’s domain. Clarity of responsibilities and separation of roles is important from a cultural point of view. This is different from Italy, where people usually enjoy autonomy, having the possibility to do various activities and innovate by themselves. This cultural difference thus had an influence of one aspect of the strategy, namely the composition of teams. In the beginning some case happened of people working in the offices that did not have a clear idea of whom to report to and what to do in particular situations, which in turn caused some problems: episodes of bad behavior, like not showing up at work; uncertainty about the general mission and objectives of the company; over usage of HQ resources that slowed down response times and caused discontent among both sides. The management of the company constantly worked to improve these issues. In a couple of cases it also happened that office and HQ ended up being one against the other, with each side blaming the other. Obviously that cannot but harm effectiveness and thus results. To solve this problem we worked to build and implement a series of standardized procedures in the relationship with the HQ. Simple processes like hiring a person, requesting an offer, delivering a contract had to be structured to cancel uncertainty and define how things had to be done and who was accountable for what. It is important to underline how in this case the strategy was not flexible, the template team type had to be respected. The composition of outlets teams is a relevant part of the strategy and



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thus top management did not want to change it. However, considering that it was clashing with a cultural aspect of the local market, therefore rooted in people's minds, it should have been foreseeable that going over it was not going to be easy. In fact, since the opening of the offices, turnover especially among reps has been very high. Not all of it is accountable to this specific fact, yet some people that quit or were demitted clearly indicated lack of clarity of roles or objectives and difficult relationships with the HQ as a main reason. Being dedicated in particular to supervising sales reps, I observed how in 3 of 4 offices the reps changed more than once in a 12 months span. To give an example, in Sao Paulo during the past 12 months we hired a total of 10 reps, only 2 of which are working today and they were not among the first ones hired. Only at the Porto Alegre office the sales rep that started the office is still there. The cultural aspect is not even the only reason why the structure might not be suitable for the market. The making of offers and contracts in fact in Brazil is much more complicated than in Italy, due to the fact that there are huge differences in the laws and rules between the different areas of the country and therefore people from the HQ do not have the information that people from the offices need. While in Italy the labor law is national, in Brazil (a confederation of 25 states) some parts of it, like levels of retributions and regulating bodies instead differ among states. These differences have caused misunderstandings between the two sides and many errors in the processes. Some reps due to this situation have lost motivation and not achieved targets, resulting in quitting. The composition of the teams implies the relationships with the HQ, therefore the two structural aspects are interdependent, and in this case we saw how one reinforces the other. If the roles and objectives are not clear the team does not know what to do without the HQ's guidance, and at the same time if the HQ is not structured with efficient central offices this might further increase the sense of uncertainty. Due to local specific conditions like the cultural approach and habit of the people and the existing difference of the law systems in various areas, this is exactly what was happening. It appears then that two aspects of the replication strategy that were part of the "template" developed in Italy were not



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compatible with the new market. This is a huge finding and has implications on the strategy itself. Scholars suggests that following the template closely is usually better, but they also specify that it should remain flexible. In the case we are analyzing here, the template was not flexible, and today the teams still have the same composition. What has been worked on is the relationship with the HQ. Many procedures were implemented to clarify processes and duties and include the regional differences. In particular, the central offices appear to not have developed enough and cannot deliver at the desired levels. Response times tend to be high on average, and the many exceptions of the law system make it harder as they require people to research information that is difficult to find. Top management should have probably been a little more flexible especially in the beginning, while the HQ was still structuring itself properly. A local responsible manager in fact could have been a reference go-to point for people in the outlets when problems arose, and assuming it was an experienced person, he/she would have also helped the HQ to understand differences. Parallel to this, a faster development of the HQ offices could also help obviously. The replication process in Italy is driven by a number of teams that take care of the various aspects. There is a real estate specialist for what concerns the office location and structural functioning, the operational office that transmits and structures procedures and routines for the HR-side members of the offices, and the sales back office that is responsible for training new reps, with the help of the local area manager. The existence of these teams ensures that all relevant aspects of knowledge to be transferred are taken care of, so that new members of the outlet will be able to carry out tasks and generate revenues. This structure is still absent in the Brazilian company, and supervision of the new members of the 4 first offices was in part covered by me for what concerns sales reps, while the other aspects were tackled in a non-structured, contingency-based way by HQ managers. For instance, through skype calls HR people were trained on their general duties when they entered the company, but there were very few visits to the HQ and vice-versa from the HQ to the outlets. This made it hard for people to understand



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clearly what the company expected from them, which generated resistance on the recipient side, a barrier to transfer as previously demonstrated. Moreover, while in Italy the HQ plans multiple “learning” days for newcomers in which the various aspects and difficulties of the job are explained by experienced managers, in Brazil this type of explanation was basically given when the problem actually occurred rather than preventively. This makes the learning process much longer and most importantly causes divergences between the outlet’s view and the HQ’s view. Take for example an outlet that had to deal with a typical problem, a worker that was furnished to a client but was then found to not be performing well enough, thus the client complained. In one case where this happened, the local outlet HR manager resolved to call in the worker, hear the explanations of what was not going as planned on his side and then convince him/her to be more productive or to put more effort on the job. As a result, some weeks later the problem represented itself as the client started complaining again. The HR manager did the same thing but this time the worker rejected the client’s point of view, claiming that work was being done at good levels but his/her supervisor at client’s plant was asking too much from him. At this point, disagreement between the parties had already been exposed, the HR manager did not where the truth was but did believe the client was right, and final result was that the worker quit and we had to look for another one to replace him, which is a cost and damages our image to the client obviously. In Italy, this type of problems is always tackled in the same way: the HR manager does talk to workers to hear their point of view, but then together with the sales rep they meet with the client and try to figure out if the claim has grounds or not. In case it does not, they try to recalibrate client’s expectations or evaluation method of the agency worker. Leaving aside cases of evident bad behavior from a worker, most of the times this type of problems is solved by adjusting the relationship between the company and the client. Often in fact the problem is caused by misunderstandings about the worker’s tasks and responsibilities, incompatibility between the worker and its direct supervisor, or cultural clashes. Talking with a client’s manager in charge helps in identifying



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what is the problem and eventually what has to be changed to solve it, on both sides. By contrast, in the example made above about a Brazilian outlet, the sales rep was not even aware of the problem. The HR manager did not know that she had to go with him to the client once the problem arose, and simply acted on the apparent cause, the worker's poor performances. As the problem did represent itself later, that was not a good solution. Had the HR and the sales rep received adequate training about what to do in that situation, they might have solved the problem and avoided having the worker quitting and them looking for a new one, which also caused the HQ to be unhappy. Afterwards, myself and the central HR manager explained to them what had to be done in that case, but the sales rep disagreed, saying that the client usually expects to be right and that we did not know if that was a solution, thus we had to act on worker only. This view obviously makes it harder that the HQ directive will be applied next time, which means that the office might depart from template's procedures. Had the way of doing been taught and "imposed" on office members beforehand, non-compliance would have been easy spotted, probably avoided, and a formula that works in Italy might have been found to work in Brazil too. That not happening left space open for disagreements on both sides, another factor that increases barriers to transfer in the replication process.

The considerations made in this section demonstrate how the replication process implemented for the Brazilian outlets was missing some of the aspects that were deemed as relevant for the replication process to happen effectively in Italy. Specifically, we saw how the absence of some elements like efficient HQ offices, constant training to ensure effective knowledge transfer and a field structure to manage the outlets, appear to be causes that make the process slower and far less effective. In the next section we analyze these problems in terms of Arrow core assumptions and knowledge transfer theory, with the aim of building a basis for formulation of a better strategy and understand the managerial implications of it, topics of the last chapter of this paper.



5.3 Arrow Core analysis

The Arrow Core developed for Italian outlets is the same that then had to “exported” in Brazil. Therefore, the top management had to figure out which aspects of it could be beneficial in the new context and which could not. This section is dedicated to taking the Arrow Core assumptions for Italy and putting them into the Brazilian reality to see if they match, which are beneficial and which are not, what can be exported and what cannot. We state here below each assumption made in chapter 4 and analysis of it in the new context.

— 1) *It's very important that the team inside the office collaborates fully, as the roles are interdependent and a missing part might cause the whole process to not function well.*

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As we have seen, this aspect was somewhat more complicated in the Brazilian outlets because of some cultural differences. While in Italy not having an office manager was not a problem, in Brazil that generated some confusion, people were less keen in taking initiative and working unsupervised. That's why some cases of bad behavior by employees also happened. Moreover, in some cases the teams did not know what to do for a certain problem, and that resulted in poor collaboration, even though it was not their fault to not have that knowledge. This first aspect of the Arrow Core was thus hardly replicable because of cultural differences and incomplete knowledge of how to realize such collaboration. The two combined generate resistance to transfer by the recipients.

2) *Brand effect is relevant as it lowers the barriers to entry in a certain area, therefore investments in that area favor results. Brand marketing has a cumulative complementary effect with each new replication, as the two favor each other.*

The brand effect was totally absent in the new market, as the company was completely unknown. Being unknown, thus not a multinational like Adecco, and foreign has two effects on sales, which are probably



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complementary between each other. First, not being a known multinational means you lack the expertise on a global level, second, being foreign by itself is a factor of resistance on the local level, as people usually lean toward domestic companies when possible. The situation the company found itself in is thus one of a player that was perceived to be lacking knowledge on a global level and it was also foreign. Plus, arrival on the market was late compared to other competitors, which also was indication of lack of experience on a global level. These factors combined basically caused the brand effect to actually have a negative impact on performances. Furthermore, investments to improve visibility of the brand, make it known as a global player not only a foreign one, were very little during the first year. Top management opinion is that before the company needs to grow a little, gain a client's base and reach break-even and then investments to favor the brand effect would be made. The opinion of who writes this paper is that it should work the other way around: since you are a late comer, and do not have a known brand, heavy investments have to be made right in the beginning, to provide for some important customers that make for reference for others, and then as the outlets develop the brand effect develops with them, reducing the need for further investments. The reasoning is simple. Assuming that investments for the brand marketing are to be made anyway, better before than later, so that at least there is not the risk to waste time and money on efforts that cannot yield results, and the time to reach operational break-even is likely shortened. The problem is that making those investment early on requires a risk-taking behavior by top management, and that was not the case for the company being analyzed.

- 3) *Every outlet must be provided with precise and specific knowledge about the rules and procedures to be followed, e.g. the template's rules, otherwise having to relate with the HQ becomes a burden, communications do not flow effectively and employees end up looking for alternative way to do things.*



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We have seen in the previous section how this was kind of hard in the Brazilian outlets, due to absence of formal training programs. Not having an established structure to provide newcomers with the knowledge of the working template, on both HR and sales, made it hard for them to understand what was expected of them. In turn this generates resistance to transfer on the recipient side again, which causes the outlets to underperform, not follow the template's guidelines and eventually the people to quit for dissatisfaction. Other companies analyzed, and Umana itself in Italy, all paid much attention that the newcomers in a replica office had the knowledge to implement the template. This was achieved through formal training modules, visits to the HQ and from the HQ's managers, manuals, and learning by doing thanks to on the job training by office managers. UmanaBrasil was lacking in almost all these aspects. The only formal training module given was one in the beginning, during the first week of work of a newcomer, then there were no other planned moments dedicated to classroom training. Visits to and from the HQ were very rare as we have said, limiting the possibilities for outlets' members to learn by looking at what was done at the HQ, and in general for the two sides to get to know each other. Manuals were not present, except for a sales manual that gave general instructions about the job. Learning by doing was rare too, as there were only 2 people with knowledge of the template that would go around offices to physically "teach" the job, one for sales and one for HR, and the frequency with which that could happen was limited due to huge distances not only between Brazil and Italy, but also between outlets inside Brazil. Enough to think that from Recife, the HQ, to the 2 outlets in the southern part of Brazil it was a 5 to 6 hours plane ride, and a costly one too. In short, it appears that outlets in Brazil were not provided with sufficient knowledge of the rules to be followed and of how to perform basic routines and tasks. The reason for this is probably to be found in the inherent difficulty and costs of establishing such a knowledge transfer mechanism in a faraway market having only partial knowledge of it.



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4) *Efficient HQ central offices, like operational or sales back offices, greatly help replication as they provide newcomers with the knowledge of the template*

Offices like the HR central office, the operational management office, the sales office, all do a great deal of help for the Italian outlets when it comes to transferring knowledge and dealing with uncertain situations. They provide guidance, detailed instructions about norms, processes, procedures, and general operational know-how, a precious resource for outlet members facing every kind of problem. The Brazilian HQ had a hard time structuring itself to serve this function. Part of it is due to inherent difficulties of the market, like the labor norms problem explained in the first section of chapter 5, while the rest is also due to inability of the top management to structure it. Even though the HQ did have the teams in fact, apparently communication and cooperation among them was not at the desired level thus they ended up being a burden rather than a relief. Various times it happened that an outlet and a central office would disagree and argue over something because the central office mandated to do in a certain way, and the people in the outlet claimed that was wrong to do that way because of “local differences”. Especially in offer formulation and administrative functions like bills, payments, salaries and so on, it was often very hard to find a common point between the HQ office and the outlet’s members. It also has to be considered that it might be possible that the office members were having a hard time because they had not received adequate training about how things worked in the “Umana” template, thus it was impossible for them to transfer it effectively. More efficient offices, better informed about local differences, that did fewer mistakes, and that were better trained, might help in reducing internal stickiness and favor adherence to the template.

5) *A well-functioning field structure is important to manage the net of outlets, and it has to have a Multiunit kind of model behind it. Not necessarily the levels of hierarchy must be the same, but the general*



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considerations like overlapping of responsibilities and nurturing talent instead are to be respected.

Structuring an efficient field organization to manage outlets is not an easy task, and it usually requires some time. However, considering that there are only 4 outlets and the HQ in Brazil for now, the structure does not need to be much complicated yet. The Italian version of the field organization was explained in chapter 4, where it was indicated how it does actually follow a multiunit type scheme, except it does not comprise the store/office manager role, due to the particular division of roles and hierarchies inside Umana. Nonetheless, the 3 other levels of hierarchy are respected, and the type of jobs those managers do and how they do it is also in line with the general guidelines suggested by the HBR study. In Brazil instead this structure is still in its forming stage. There is only one coordinator for the 10 sales reps that work in the 4 outlets, and one coordinator for the HR members of the same offices. With time, the aim is to find valuable sales reps that can take on higher roles, perhaps supervising two offices as a start. Top management believes the key to building such a field structure is to develop talent at reps level so that they will be able to take on better roles and train new reps. For now, the one sales coordinator and the one HR coordinator manage the information coming from the outlets and filter it for the HQ, and vice-versa. Careful selection of new sales reps will allow the development of the structure in the near future.

With this chapter we provided a representation of what is being done to develop the Brazilian outlets, and the underlying strategy implemented by top management. In the next and concluding chapter the aim is to propose some changes to the strategy to improve chances of successful replication and draw out the relevant managerial implications



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CHAPTER 6 Conclusions

6.1 The replication process in a new perspective

The analysis made in this paper brings up some interesting considerations concerning how a replication process actually unfolds in reality. According to theory, there is template that is being created and then replicated in different locations. However, all three cases explained here show a slightly more complex scenario. The template, in fact, is usually composed of multiple “working example” outlets, not only one. It's as if the template was made up of different “hubs” each contributing to its development. The companies set up a number of offices that altogether constitute the template, rather than having a single template store that serves as unique model for new replications. The exploration phase thus goes on in the various hubs at the same time. This aspect of the process is not cited in the literature, however it appears to be a practical response to some of issues of the replication process. Namely, we have seen how replication has to happen fast to close in on potential competitors. Having multiple hubs to experiment the template seems favoring quick discovery of the template itself, thus allowing for quicker formation of the Arrow Core and thus exploitation. Multiple hubs also help solve in part the standardization vs adaptation dilemma, as each hub develops characteristics that are sensitive to its region, thus favoring adaptation where needed. This is an important finding, as it helps in mitigating the potentially negative effects of too much standardization or too much adaptation. Each hub at the same time implements the template formula and necessarily adapts to the region specific conditions. The result of this is a template that comprises the aspects mandated by the center as well as a number of adaptations made by the different hubs. This resulting template is principled but at the same time flexible to some local conditions. This solution, multiple hubs constituting the template, thus has the advantages of speeding up the exploration process and allowing adaptation where needed. Basically it is a process of concurrent testing, where multiple hubs are experimented at the same time to see how results differ from one place to another, and then the



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center approves only the modifications that prove to be beneficial, whichever hub they might come from.

Apart from the multiple hubs aspect, there is another main difference between what described in theory and the reality we observed, and it is about the knowledge transfer process. We have in fact demonstrated how the knowledge transfer process unfolds in two different “channels”, the HQ and the template offices, according to the type of knowledge. This process happens continuously during both phases of exploration and exploitation. We argue that the reason for this splitting is to be found in the multiple hubs aspect. In fact, multiple hubs have the advantage of experimenting the template closely and at the same time creating adaptation when needed. This implies that there will be knowledge that stays unchanged and knowledge that will be modified according to specific conditions. For this reason, the HQ codifies the knowledge that is not sensitive to local conditions in manuals and SOPs to spread it to all outlets, but lets operational and region-specific knowledge development and spreading to the hubs. Being this type of knowledge better transmitted by people, and being it developed at local level, the hubs can do a better job in structuring and teaching it. In this way, as the exploration phase goes on, the center keeps on codifying and diffusing the knowledge that can be, and the hubs continuously experiment the template and create locally sensitive knowledge that is then passed, together with codes and rules, to new replicators. Note how, if we had only one store impersonating the template, the company could not have the same faceted and locally accurate perspective on what works and what does not in the template, thus every new outlet would be subject to the trial and error process described by theory. With the multiple hubs instead, exploration is faster and responsive to local conditions, thus it highlights the aspects of the template that are more or less worth being replicated in a protected environment. When a new outlet is created it is assumed to already encapsulate this knowledge, and this limits the insurgence of complications due to specific conditions of the region. Not surprisingly, replica outlets are born close by existing hubs, because the



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template is already adapted to that region. Autogrill for example distributed the 18 template stores in key regions of Italy, so that nearby replicators could favor. Even more evident of this, the fact that Adecco's offices only are born nearby an office that already reached satisfactory performances and thus it gets "cloned".

We have thus seen how the replication process implemented by the companies analyzed in this paper differs somewhat from the traditional model suggested by theory. We argue that the main reasons for this difference is to be found in the advantages it entails. These are: 1) Using multiple hubs, replication can be faster; 2) having the center transmit codified knowledge facilitates control and compliance; 3) the brand effect helps because a faster increase in the number of outlets favors brand awareness and presence.

The beneficial effects of a replication process characterized by the two aspects named above are evident in the results of the companies that implemented them. For Autogrill for example, the financial data show that "although the negative macroeconomic scenario of Italy, the consolidated financial statements show a positive trend, sustained by a strong presence all over the world, especially in emerging countries" ("Growing as a net in the tourism sector", Montserrat Castells Brull, 2013). Comparatively, the Adecco company in Italy is the first player in the sector, with total turnover of around 1 billion euros and 500 outlets operating in the country. Together with Manpower, the two represent the most successful companies operating in this sector in Italy, the ones with higher total revenues and net profits. (http://archivistorico.corriere.it/2010/agosto/20/Adecco_Manpower_guer-ra_dei_ricavi_mo_0_100820056.shtml).

It is important to highlight at this point that the strategy implemented by Umana in Italy follows the path described for the two others, with the exception that the designation of the "hubs" is not official, like in Autogrill, and that the outlets are not "cloned" like in Adecco. The oldest outlets in the larger cities do the job of hubs inside Umana, providing working



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examples and references for the new ones. However, it appears that this function is more “shaded” than in the other companies, not as structured at least. The official working templates of Autogrill on one side, and the “clonation” phase of Adecco on the other, both are internally recognized as having the function of examples of the business model. Differently, Umana does not present such working examples so “officially”, yet indeed there are “role models” outlets that serve as targets for the others and de facto define the standards. We are not sure whether this implies a more center-leaning approach to replication or it’s just due to the fact that Umana is a much smaller company than the other two.

The analysis of empirical cases also provides for another interesting implication on the template’s composition. We have seen in fact how some aspects of the Arrow Core developed by Umana in Italy did not fit with the new environment. The team composition clashed with some cultural aspects, for example. Or some functions of the HQ that were made harder by the different law system of the new market. These cases of “unfit” of parts of the template with the environment suggest that the template must be composed of aspects that are subject to change when the environment changes, and others that instead are not sensitive to a different context. It is reasonable to assume that the more “superficial” and region specific aspects of the template will adapt to the new context, while the “core” will stay unchanged. We can thus imagine the template as divided in “layers”, more external ones subject to adaptation, and more internal ones that do not adapt. These internal layers should obviously encompass the founding characteristics of the template, while the external ones include more “contextual” information and are thus subject to adaptation if they do not fit. This finding can be interpreted using Thompson’s point of view in his book “Organizations in action”, 1967. There in fact the author explained how the external levels of an organization are those that interact more with the environment, and are thus more subject to pressures and change. The more internal levels instead are not influenced by context and tend to remain equal.



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(Organizations in action, J.D. Thompson, 1967). This approach can help in picturing the template as an “onion”, whose external layers are subject to adaptation pressures by the environment, while the more internal ones are not. We therefore see the template not only as a set of equally relevant information, but rather as a “concentric” division of information that, when introduced in a new environment, will be subject to external pressures to adapt. In the case of Autogrill for example, there is a set of norms and routines, embedded in the manual, that is equal for all outlets, like the steps described to prepare a coffee. (Replicanti di successo. Il caso Autogrill, Cappetta R. Giorgi S., 2003, *Economia & Management*, n. 4). This kind of information is not sensitive to the context, thus it can be codified and transmitted equal. Conversely, operational and region-specific knowledge is developed in the hubs and adapted to the contingencies that might emerge. Transmission of this kind of information is accordingly left to the hubs themselves. Inside the Adecco company we can see the same phenomenon. Rules of conduct and norms are transmitted by the center in formal training classes, because that information will be equally valuable no matter the outlet where it will end. Parallel to this, newcomers have to do on-the-job training with managers of an existing office to absorb the knowledge that is region-specific and was developed by those managers directly. For what concerns Umana, we have already stated above how some aspects of the template did not fit with a new market thus causing the template to be adapted. Below is a graphical representation of the perspective we see the template in.



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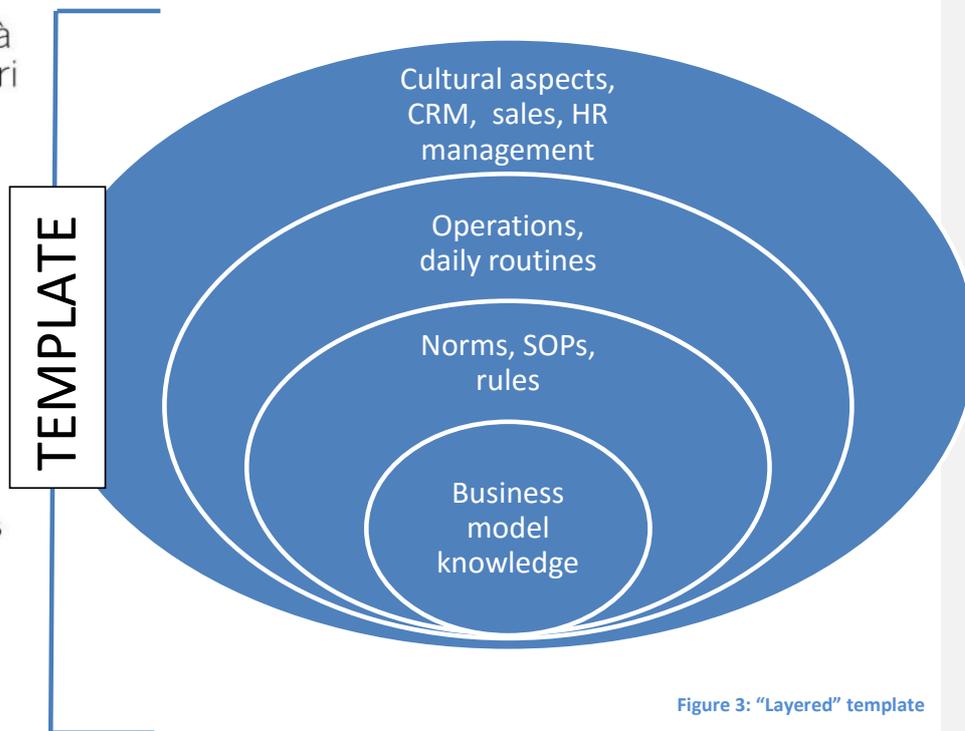


Figure 3: "Layered" template

Cultural aspects, CRM, sales approach and HR management stay on the outer layer because are all sensible to context pressures. The case of UmanaBrasil showed how cultural habits can clash with template characteristics. Moreover, if we think about the ways to gain customers and to manage them (sales and CRM) it is evident that different contexts might demand slightly different approaches: the way the Adecco's outlet in Milan approaches companies to offer its services must be different from that of a small city outlet, simply because the people you are relating with are different. Sales procedures stay the same, but the commercial approach is different. Similarly, Umana's sales reps in Italy have a different approach from that of Brazilian reps, because the type of companies, the market and the way to relate with customers is different. These are the aspects more subject to adaptation pressures and that can be modified without disrupting the core of the business formula that constitutes the template.



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Operations and daily routines, which are the daily activities performed inside an outlet, are also subject to change, but in a “softer” manner. Take for example the UmanaBrasil case again, and the routine to fill out activities’ reports. The Italian company developed its internal reporting system obviously, and then the same rationale was applied to the Brazilian ones. However, being the service a little different due to differences in the law systems, the Italian way of reporting did not show some relevant aspects. In particular, while in Italy the temporary jobs contracts make up a very large majority of all contracts signed and thus receive major attention in reports, in Brazil the outsourcing contracts are also a lot, and they were not included in the original Italian reports. The routine of filling out these reports, and the reports themselves, were changed to account for a difference entirely due to the context, namely a different national law system. We defined the pressure on this layer “softer” because these are already aspects that deal with internal functioning, which means that they are less subject to the environment, although it happens as the example shows.

Descending toward more internal layers, we find norms, SOPs and rules. These define the behavior of employees, the processes to carry out the fundamental tasks and the procedures that define general internal functioning of the outlets, including the relationship with the HQ. Factors like these are pretty insensitive to the environment, as they deal with company’s internal structure and are very rarely affected by regional differences. The procedure to request an offer inside Umana for example is the same in Italy and Brazil: there is a form to be filled out with the client’s information and requirements, sent to the commercial office at the HQ, which then sends back a compiled and ready-to-show official offer. Similarly, the manual of Autogrill defines the processes that stay equal for all outlets, like the already cited “coffee preparation” one. The type of information contained in this layer regards the internal functioning of the company, its structure, therefore changes here might have relevant consequences on all the model and for this reason they are usually avoided.



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At the core of the template is what we called business model knowledge. With this term we mean the causal knowledge about the business model in general that usually resides in the top management of companies. Ultimately what makes a model successful, the interdependencies among its components, along with complex technical knowledge, are held by the top management that in the first place decided to implement a replication strategy. Note how the information in this layer is also the most sensible from a competitor's point of view. The bases of the recipe, or the technical knowledge to produce a certain output are in fact the aspects that competitors want to imitate. Being in the internal layers, thus not evident makes it harder to copy them. Furthermore, knowledge about them resides with top management which makes spillovers harder to happen as only few people have it. We have demonstrated in chapter 4 how the top management of Umana shaped and defined the Arrow Core and it is them to hold this knowledge, safe from external eyes. The business model knowledge is mostly insensitive to local conditions and it is made evident by the fact that replicating companies achieve success with a same business formula applied in the most diverse contexts. The Autogrill company finds success in offering meal services to travelers, be it on the motorway, at airports or at stations, in Italy or other countries, the essence stays the same and the service is useful regardless of its location.

This interpretation of the template justifies a knowledge transfer process similar to that explained before, divided between the center and the template/hubs. It is in fact reasonable to assume that the hubs develop and transmit knowledge present in the external layers of the template, while the center, who holds internal knowledge, spreads norms and rules. The composition of the template demands for two different channels to transfer knowledge, according to who is the holder of such knowledge. The illustration below exemplifies this concept.

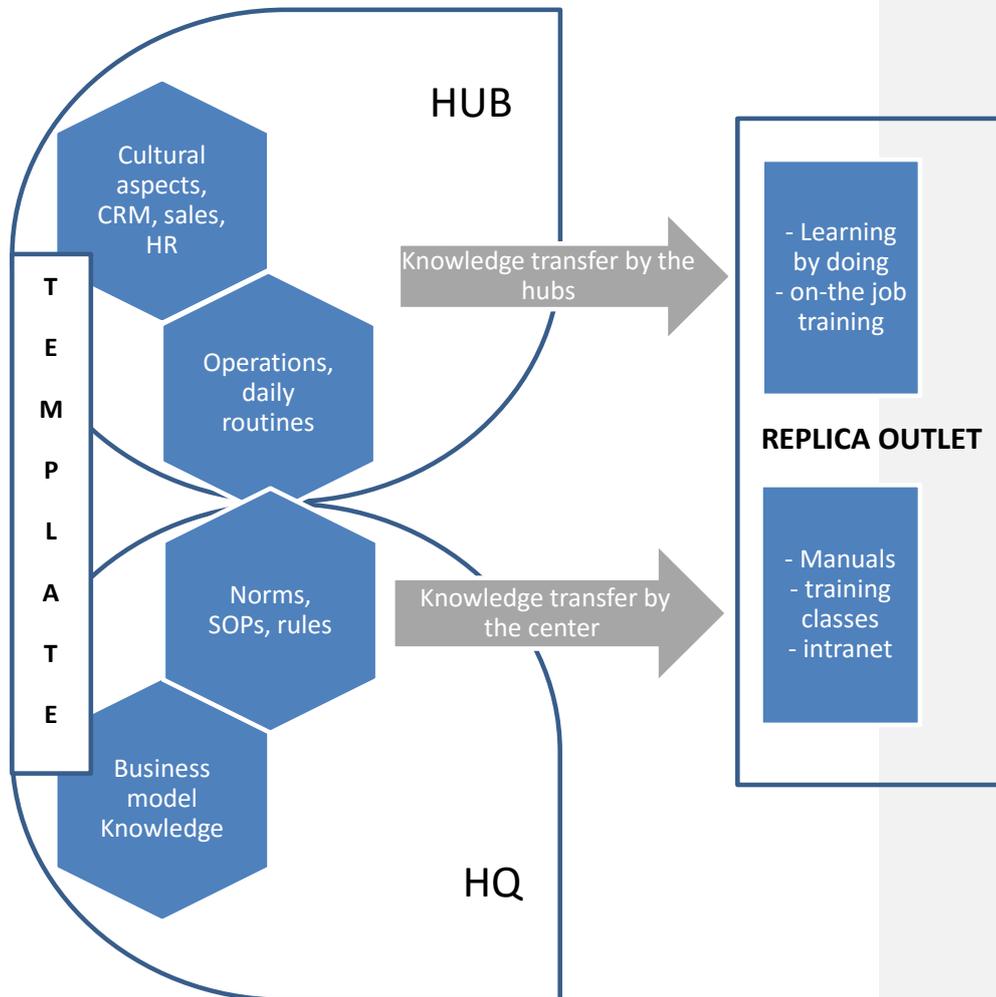


Figure 4: Knowledge transfer in the "layered" template

From analysis of what said in the literature and its comparison with the empirical cases, we draw the conclusion that the replication and knowledge transfer processes follow the path described in this chapter. This view of such processes implies some managerial implications that we do want to highlight as a conclusion of the paper.



6.2 Managerial implications

Managers in replicating organizations face a series of difficulties in implementing the strategy, mainly due to the inherent complexity of the knowledge transfer process and the difficulty to effectively implement the template. Assuming that the processes unfold in the way we described, it appears there are two main areas where management can intervene to ensure success. These are: the field organization management and the center-to-outlets knowledge transmission process.

The field organization and structures are of fundamental importance because they are those that take care of the hubs, thus their action has a direct influence on how the hubs actually implement and develop the template. If the field managers do not work properly, exploration of the template in one or more hubs might not be effective, which in turn might cause the template to be a sub-optimal version of itself. For this reason, an effective field management empowers the hubs and makes exploration more accurate, which results in a more accurate template. The Multiunit structure depicted in the HBR study cited in chapter 3 appears to be the best answer. It is important that field managers do follow the general guidelines of the multiunit scheme in order to reduce the risk of issues. The 5 recommendations explained in pages 40 and 41 of this paper gain here much relevance as we consider them to be the boundaries to be respected for hubs' effective management. Allowing overlapping of responsibilities in the first place guarantees that problems will not go unnoticed. This is important because it prevents erroneous considerations about the template made by a certain hub to be mistaken for correct ones. We add on this that the overlapping of responsibilities also allows for the knowledge to be transferred by the hubs to be "checked" by multiple agents, which should make it more solid. Overlapping of roles and responsibilities thus must be ensured by replicating agents for field managers. The second recommendation was about integrators, that have to be used at all levels. Integrators allow the hubs to be in constant touch with upper management and the HQ, in this way the exploration phase never gets "out of hand" and the hubs stay on



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track with what mandated by the HQ. Without effective integrators the hubs risk to be strategically far from the HQ and this might cause again misconceptions about the template. Consequently, setting up information funnels and filters, which was the 3rd recommendation, do the same job of ensuring that the hubs' activity is constantly monitored and vice-versa that the information originating in the hubs is filtered and arrives at the HQ comprehensive of every hub, not just a single one. The field managers thus also have to analyze the information coming from each hub under their responsibility and translate it into general considerations about the template as the sum of all the hubs. Conversely, it is important that directives from the HQ, that are general in content, are translated into operational directives for hubs, which was the 4th recommendation. This also is field managers responsibility, they have to take the general information coming from the HQ and make it useful for the hubs. The last recommendation was about talent development. It is easy to see how successful talent development allows the hubs and the field structure itself to continue operating effectively over time, thus its importance is obvious.

In general, the field organization appears to have a relevant role in ensuring correct functioning of the hubs. This implies that when implementing a replication strategy, a company has to set up a field structure since the beginning, so that exploration of the template will be more accurate, and discovery of the Arrow Core more precise.

Another main managerial implication for replicating companies emerges from analysis of the role of the center. We have demonstrated how the center guarantees that the hubs and the replica outlets are equipped with the standardized knowledge and relative "tools" about the template. But, if the center were not able to carry out this function, the hubs and the replicas would find themselves short of the bases of the business model they are implementing, which again would cause departure from the model and probably mistakes in the routines, apart from the fact that not having precise information about norms and SOPs by itself is a problem already. Therefore, the center must be structured to guarantee the



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transfer of knowledge, and this goes through having well written manuals and SOPs, organizing official training days and having a useful intranet system that allows notions to be at easy reach for hubs' and replicas' staff. When a company decides to implement a replication strategy, managers must ensure that the center is able to do its part of the process. The center must be structured in this way before the replication starts, because the "standardized knowledge" layer of the template is also of use in the exploration phase, as hubs do need to have that knowledge to build a template over and basing on it.

We come to the conclusion that field organization management and ability of the center to transfer knowledge are the two main aspects managers have to worry about when implementing a replication strategy. If one or both of these two aspects is not taken care of properly, the process described in figure 2 cannot happen effectively. Either the hubs are not linked to the strategy and thus do not provide useful exploration outcomes, or the center does not do a good job in transmitting standardized knowledge, in both cases the processes would present missing parts, thus making the exploration phase incomplete and the exploitation one based on wrong template's assumptions. These two elements in fact appear to be equally necessary, although not sufficient, for a replication process to happen in the way we described it.

Going into more detail of the Umana case, it's easy to see at this point that the company in Italy is equipped with both these features. On the other side, the company in Brasil appears to be lacking of both. We have in fact showed how the center still cannot provide the hubs with all the knowledge they need, causing difficulties in their daily operations, and the field structure is still partially absent, which makes it harder to control compliance by the center, and at the same time also makes it harder for the hubs to give appropriate feedback to the center about which aspects of the template work and which instead need to be adapted. The lack of these two features might be what is holding the company from reaching performances as successful as those of the home market. The guidelines



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here would be to plant the first seeds of a field structure above the hubs, between them and the center, and at the same time provide the center with some more tools to transfer standardized knowledge. The first aim can be achieved by introducing a first level of hierarchy, like area managers, right away, so that they can share the burden of exploration with the hubs and provide the center with a more comprehensive view of the situation. As the number of outlets grows, the levels of hierarchy will also grow accordingly, until the structures resembles the multiunit scheme. The second instead can be worked on by improving the teams that work in the center, or increasing them, and by building an effective intranet system. This last part seems to be particularly relevant in this case as the huge distances between the outlets and the HQ make it harder for the center to be physically present, thus an intranet system would help in mitigating the distance and make information available to all.

This paper was aimed at finding out what it takes for a service company to successfully replicate in a different market. Analysis of the literature and of empirical cases have brought us to conclude firstly that the template composition and the process of replication in reality are somewhat different and more complex than what theory suggests, and secondly that there are two main aspects that make the process possible and successful: effective field structure and effective transfer of standardized knowledge. This conclusion stems directly from the considerations made about the processes, and in fact the two aspects are so relevant because they are about the two “agents” that must ensure knowledge transfer, the hubs on one side and the center on the other, just like depicted in figure 2.



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6.3 Conclusions

To conclude, we argue that in a replication process, because of the characteristics of the template, e.g. the “layers”, the knowledge transfer process is split between the hubs and the center. The first ones dealing with operational and region-specific aspects of knowledge, the second dealing with standardized knowledge transfer. The structure of the template and of the knowledge transfer process as described here favor mitigation one of the most controversial aspects of replication, the adaptation vs standardization dichotomy, by allowing the template to be a balance between the two forces and comprehensive of the relevant aspects of both sides. The existence of multiple hubs that altogether constitute a template is also a response to this problem, as they provide for various local feedbacks that contribute in enriching the template and improving its fit with environment.

Furthermore, being the process structured in this way, replicating agents, if they are to build a structure that favors the replication process, they must primarily: structure the center with efficient offices and a useful intranet system; and at the same time create a field organization to manage the hubs. These appear to be the main managerial implications derived from the model we have built. One of these two aspects missing, the process might not go on correctly and thus replication be ultimately harmed.

Please note that this paper has the limitation of not including a higher number of empirical cases to prove that our findings do apply to other companies. Nonetheless, we think that it gives an interesting insight into the unfolding of the replication process in real life situations, and it indicates a literature gap for what concerns the modelling of replication processes, as the reality presented here is considerably more complex than the process described by theory. Further research should focus in proving these claims on a larger number of cases so to verify their relevance on a statistical bases, and then schematize the process in a



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general form that highlights its phases, advantages and potential drawbacks.

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