



UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

Gordon Institute of Business Science

University of Pretoria

Flexible Replication as a Model of International Expansion

Velile Memela

02627787

A research project submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfilment of the requirements for the degree of Master of Business Administration.

11 November 2013

© University of Pretoria

ABSTRACT

There is increasing interest by businesses worldwide to expand their operations into emerging markets. Several African businesses are also determined to have their share of the growing market opportunities in Africa currently targeted by foreign multinationals. This increasing interest in international expansion invites analysis of business models that allow businesses to thrive in spite of the known challenges of doing business in a foreign market. Against this backdrop, the research aimed to establish why internationalising firms should achieve high degrees of similarity of business operations, whilst taking advantage of benefits of local adaption, and how these firms can achieve this replication-adaptation balance.

The research was undertaken as a comparative two case-study, with the aim of understanding the benefits of adopting flexible replication as a model for international expansion, the optimal mix of fixed and variable elements of a business model of an internationalising firm, and the circumstances and the timing of adopting the model. A qualitative research approach was adopted, comprising documentary research, eight semi-structured interviews with senior managers of the companies in the banking and retail sectors, and observations. The different sources of data were used to triangulate the findings.

The study found that internationalising firms that achieve high degrees of similarity of business operation, whilst taking advantage of benefits of local adaptation realise higher performance. Furthermore, the research showed that internationalising firms can achieve an optimal flexible replication by fixing the elements of the business model that are affected by integration pressures and allowing the elements that are affected by the responsiveness pressures to vary. The study recommended that, internationalising firms should consider transactional completeness pressures, when configuring their business models. The study also confirmed that internationalising firms having clarity of their winning attributes design a flexible replication model prior to operating in a foreign market. A model that encapsulates the key findings of this study was also developed.

Keywords: Flexible Replication; Business Model; International Expansion; Banking; Retail

DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

.....
Velile H. Memela

.....
Date

ACKNOWLEDGEMENTS

Firstly, I would like to thank God, who enabled and gave me strength to embark on this two year journey.

To Emmanuel Kodzi, my supervisor, thank you for the support, advice, criticism and encouragement that you offered me over the last year. Your wisdom, passion and commitment encouraged me to be committed and do my best in conducting my research.

To FirstRand, my employer, and to all my colleagues, I am grateful for all the support that you offered me during the last two years. To my colleagues who participated in the interviews and provided comments to my report, thank you for sparing some time to assist me in completing this study.

To Mr Price, thank you for granting me access to your data and thank you to the Company Secretary and the three executives of the organisation, for giving generously of their time in participating in the interviews.

To my classmates, in particular the “Colombians”, thank you for the support and for making this two-year journey exciting and memorable.

Finally, thank you to my family and friends for the support, encouragement, and patient understanding during the last two years.

TABLE OF CONTENTS

ABSTRACT	i
DECLARATION	ii
ACKNOWLEDGEMENTS	iii
TABLE OF CONTENTS.....	iv
TABLE OF FIGURES	vii
TABLE OF TABLES	viii
CHAPTER 1: INTRODUCTION TO THE RESEARCH PROBLEM	1
1.1 Introduction	1
1.2 Background of the Problem	1
1.3 Research Objectives and Motivation	4
1.4 The Research Scope.....	5
1.5 Overview of the Research Report	6
CHAPTER 2: LITERATURE REVIEW	7
2.1 Introduction	7
2.2 Internationalisation Process Model.....	7
2.3 Integration – Response Framework.....	8
2.4 Firm-Specific Advantages / Country-Specific Advantages	10
2.5 Replication	12
2.5.1 Fixed Replication.....	12
2.5.2 Business Model Innovation	13
2.5.3 Flexible Replication	14
2.6 Business Models	17
2.7 Performance Measurement.....	20
2.8 Conclusion	21
CHAPTER 3: RESEARCH QUESTIONS AND PROPOSITIONS.....	24
CHAPTER 4: RESEARCH METHODOLOGY.....	26
4.1 Introduction	26
4.2 Research Method.....	26
4.3 Unit of Analysis	28
4.4 Case Selection.....	29
4.5 Data Collection.....	30
4.6 Data Analysis	32
4.7 Research Limitations and Assumptions.....	32
CHAPTER 5: RESULTS	34
5.1 Introduction	34

5.2	Summary of Findings	35
5.3	Mr Price.....	36
5.3.1	Benefits of Flexible Replication	37
5.3.1.1	Financial Perspective.....	37
5.3.1.2	Customer Perspective	39
5.3.1.3	Internal Business Perspective.....	40
5.3.1.4	Learning and Growth Perspective.....	40
5.3.2	Optimal Mix of Fixed and Variable Elements of a Business Model	41
5.3.2.1	Product Pillar	41
5.3.2.2	Customer Element Pillar	43
5.3.2.3	Infrastructure Management Pillar	45
5.3.2.4	Financial Aspect Pillar	48
5.3.3	Circumstances and Timing of Adoption of Flexible Replication.....	49
5.4	FirstRand	51
5.4.1	Benefits of Flexible Replication	51
5.4.1.1	Financial Perspective.....	52
5.4.1.2	Customer Perspective	53
5.4.1.3	Internal Business Perspective.....	54
5.4.1.4	Learning and Growth Perspective.....	54
5.4.2	Optimal Mix of Fixed and Variable Elements of a Business Model	56
5.4.2.1	Product Pillar	56
5.4.2.2	Customer Interface Pillar	57
5.4.2.3	Infrastructure Management Pillar	60
5.4.2.4	Financial Aspect Pillar	63
5.4.3	Circumstances and Timing of Adoption of Flexible Replication.....	65
5.5	Conclusion	66
CHAPTER 6: DISCUSSION OF RESULTS	68
6.1	Introduction	68
6.2	Research Question 1.....	68
6.2.1	Proposition 1	68
6.2.1.1	Financial Perspective.....	69
6.2.1.2	Customer Perspective	70
6.2.1.3	Internal Business Perspective.....	71
6.2.1.4	Learning and Growth Perspective.....	72
6.2.2	Summary for Research Question 1	75
6.3	Research Question 2.....	75
6.3.1	Proposition 2	75

6.3.1.1	Product Value Proposition	76
6.3.1.2	Target Customer.....	77
6.3.1.3	Distribution Channels.....	79
6.3.1.4	Relationships	80
6.3.1.5	Value configuration.....	82
6.3.1.6	Core Competency.....	85
6.3.1.7	Partner Network.....	86
6.3.1.8	Cost Structure.....	87
6.3.1.9	Revenue Model	88
6.3.2	Summary for Proposition 2	88
6.3.3	Proposition 3	89
6.3.4	Summary of Proposition 3	92
6.4	Conclusion	93
CHAPTER 7: CONCLUSION.....		94
7.1	Introduction	94
7.2	Major Findings.....	94
7.3	Recommendations for Business Leaders	97
7.4	Recommendations for Expatriate Employees	97
7.5	Recommendations for Investors	98
7.6	Recommendations for Future Research.....	98
7.7	Conclusion	99
REFERENCES.....		100
Appendix A: Protocol.....		107
Appendix B: Interview Guide.....		110
Appendix C: Consistency Matrix.....		115

TABLE OF FIGURES

Figure 1: Flexible Replication as a Model of International Expansion and Gaps in the Literature.....	23
Figure 2: Sales Figures of Mr Price Operations Outside of South Africa.....	38
Figure 3: Key Financial Ratio for FNB-SA and FNB Africa.....	52
Figure 4: A Model for International Expansion Through Flexible Replication.....	96

TABLE OF TABLES

Table 1: Integration and Responsiveness Pressures.....	9
Table 2: Integration, Responsiveness and Completeness Pressures.....	10
Table 3: Firm-Specific and Country-Specific Advantages.....	12
Table 4: Business Model Elements.....	18
Table 5: List of Interviewees.....	31
Table 6: Product Pillar (1).....	42
Table 7: Customer Interface Pillar (1).....	43
Table 8: Infrastructure Management Pillar (1).....	45
Table 9: Financial Aspect Pillar (1).....	48
Table 10: Product Pillar (2).....	56
Table 11: Customer Interface Pillar (2).....	57
Table 12: Infrastructure Management Pillar (2).....	60
Table 13: Financial Aspect Pillar (2).....	63
Table 14: Fixed and Variable Elements of a Business Model.....	89

CHAPTER 1: INTRODUCTION TO THE RESEARCH PROBLEM

1.1 Introduction

As emerging market economies continue to grow faster than those of the developed world, businesses worldwide are increasingly recognising such emerging markets as destinations for business expansion (Kearney, 2012). Retail and banking sectors in African markets are growing two to three times faster than those in countries belonging to the Organisation for Economic Co-operation and Development (OECD) (Roxburgh, Dörr, Leke, Tazi-Riffi, van Wamelen, Lund, Chironga, Alatovik, Atkins, Terfous & Zeino-Mahmalat, 2010). Several businesses such as Procter and Gamble and Kentucky Fried Chicken (from the developed countries) are intensifying efforts of expanding or growing their business operations in the emerging markets (Moorad, 2013a). A number of firms from such emerging markets have also recognised the potential benefits of international expansion and as such are entering global markets and are striving for global leadership (Klein & Wöcke, 2007). The size of the South African economy and development of the country's infrastructure relative to the rest of Africa has enabled South African companies to play a leading role in investing in other parts of Africa (Sulaiman, 2013).

This increasing interest in international expansion of businesses invites the analysis of business models that allow these businesses to thrive in spite of the known challenges of doing business in a foreign culture or market (which include language and cultural barriers) (Kodzi, 2013). Such analyses are important because current models of international expansion pose several challenges and have stimulated debates amongst practitioners (and researchers alike) because of the range of phenomena that limit their precise formalisation (Devinney, Midgley & Venaik, 2000).

Against the backdrop of current debates around internationalisation of businesses and a continually changing business environment, it is particularly interesting for internationalising firms to establish why and how they can achieve high degrees of similarity of business operations, whilst taking advantage of benefits of local adaptation.

1.2 Background of the Problem

Replication is a model presented as a deliberate strategic activity that creates value for an organisation that is expanding its business, by applying existing formats in new contexts (Winter and Szulanski, 2001; Friesl & Larty, 2013). It involves reproducing a successful practice in a new location (Guttel, Konlecher, Muller, Trede & Lehrer, 2012). This model

requires an organisation to learn about and refine its business model by choosing the necessary components to replicate in suitable geographic locations, developing capabilities to routinize knowledge transfer, and replicating and maintaining the model in operation once it has been developed (Winter & Szulanski, 2001; Jensen & Szulanski, 2004; Aspara, Heitanen & Tikkanen, 2010; Jonsson & Foss, 2011; Guttel *et al.*, 2012; Friesl & Larty, 2013). The benefits associated with the replication model include economies of scale and brand recognition which creates a relatively quick competitive advantage for an organisation in a new environment (Winter & Szulanski, 2001; Jonsson & Foss, 2011).

The literature has also recognised that these replication benefits often need to be traded off against the rewards of local adaptation (Prahalad & Doz, 1987; Bartlett & Ghoshal, 1998; Devinney, Midgley & Venaik, 2000; Winter & Szulanski, 2001; Jonsson & Foss, 2011). According to Deng (2009) this trade off motivates firms to seek legitimacy or approval for their actions, particularly from those constituents on whom the firms depend for critical resources. Furthermore, Bartlett and Ghoshal's (1998) question of how firms solve local-global tensions highlights the need for balancing replication and local adaptation. Therefore, the main challenge confronting organisations seeking to expand into foreign countries through replication is how to strike an optimal balance between replicating and adaptation of the elements of their business models.

There is no clarity in the literature on the most successful method of international expansion through replication. Winter, Szulanski, Ringov and Jensen (2007) are of the view that the exploitation of a proven template for doing business will be more successful when that template is copied precisely. There is also a school of thought that views a business model innovation as a potential aspect of an organisation's innovative corporate culture or capability (Hamel, 1998; Aspara, Heitanen & Tikkanen, 2010). This school optimistically assumes that business model innovation leads to higher performance (Hamel, 1998; Aspara, Heitanen & Tikkanen, 2010). Aspara, Heitanen and Tikkanen (2010) propose a strategic balance between an emphasis on replication and an emphasis on business model innovation, rather than expansion at the extremes of fixed replication and pioneering adaptation. Jonsson and Foss (2011) support Aspara, Heitanen and Tikkanen's (2010) balanced approach by suggesting that replication should be treated as a business expansion format with a hierarchy of features that are flexible to varying degrees, a practice they refer to as *flexible replication*. The main focus of this research was on international expansion through flexible replication.

Kentucky Fried Chicken's (KFC) General Manager (GM) of new African markets acknowledges that "taking a blanket approach to conducting business in Africa does not

work" as there are different challenges in each market (Moorad, 2013a, p. 14). As such, KFC is focusing on building a steady platform in Africa which would enable fast growth in five or six years' time (Hedley, 2013). First National Bank's (FNB) Chief Executive Officer (CEO) stated in 2013 that "the plan this year is to replicate the success achieved in South Africa in other African countries" (Ndzamela, 2013, p.11). The vice-president of Proctor & Gamble's Southern and East Africa operation said "there are opportunities in South Africa as we are seeing big shopping centres being built and there is still scope to develop store formats that cater to lower income consumers close to the townships" (Moorad, 2013b, p.13). Some South African retailers have identified opportunities in the lower income consumer brackets close to the townships and are developing models to cater for those consumers, and such models can be extended to other parts of the continent (Moorad, 2013b). These insights from business people who are growing or expanding their businesses by internationalisation, together with the literature review, indicate that this study will be of relevance to any organisation that seeks to expand through internationalisation, and is especially pertinent to South African companies that are or intend to grow or expand their businesses to other parts of Africa. These insights also confirm Roxburgh *et al.*'s (2010) study which indicated that the current level of international business expansion activity within Africa is high in the banking and retail industries, and therefore, the focus of this study was on these two sectors.

Although replication as a growth strategy has been the focus of extensive investigations (Winter & Szulanski, 2001; Jensen & Szulanski, 2004; Winter, Szulanski, Ringov & Jensen, 2007), the literature that deals explicitly with replication concentrates on national firms (Morris, Wright, Trevor, Stiles, Stahl, Snell, Paauwe & Farndale, 2009; Jonsson & Foss, 2011). Furthermore, there has been limited interest in the literature on businesses that balance replication and adaptation in their international expansion, as the focus has been on replication of a fixed format which does not take the benefits of local adaptation into account (Jonsson & Foss, 2011). This means that we possess relatively little theoretically informed knowledge about, *inter alia*, which features of a business model are replicated by an internationalising firm in new environments and which features they adapt to allow for local variation (Guttel *et al.*, 2012; Jonsson & Foss, 2011).

Furthermore, "there is a dearth of research literature in international management that explicitly addresses international replicators in terms of how they build a format for replication, adapt it to local circumstances, transfer new learnings from such adaptation, and otherwise manage the process of expanding by means of replication" (Jonsson & Foss, 2011, p. 1080). Other studies underscore the need for further research into the process of developing and managing a successful business model that can be used in a foreign market

(e.g. Jensen & Szulanski, 2004; Morris *et al.*, 2009; Deng, 2009; Aspara, Heitanen & Tikkanen, 2010; Jonsson & Foss, 2011; Lambert & Davidson, 2012; Guttel *et al.*, 2012; Friesl & Larty, 2013). According to Morris *et al.* (2009) such research might help us better understand why and how an internationalising firm can simultaneously achieve high degrees of similarity of business operations and capitalise on the benefits of local market adaptation.

1.3 Research Objectives and Motivation

The objectives of this study were firstly, to identify the benefits of internationalising through flexible replication; secondly to explore the optimal mix of fixed and variable elements of business models of internationalising firms; and lastly, to investigate the timing of the adoption of the flexible replication model and the circumstances that lead to the adoption of the model in the retail and banking sectors. Therefore, the attainment of the objectives of this study will contribute to the debate on how firms organise and configure their value-adding activities internationally (Devinney, Midgley & Venaik, 2000).

Furthermore, this research will confirm or oppose theories relating to internationalisation of business, replication, and the related frameworks and will explain the relationship between these theories and frameworks, rather than document new aspects of these theories and frameworks. However, within a broader context, this research is important for the following reasons:

- For **business leaders**, it will assist them in identifying appropriate markets and circumstances that are suitable for the implementation of flexible replication as a model for international expansion. The outcomes of this study will indicate whether the flexible replication approach can be designed prior to operating in a foreign country or after the operations have commenced (Jonsson & Foss, 2011; Kodzi, 2013). This will enable the business leaders to design an approach for a foreign market, at an appropriate time during the internationalisation process. The research will also assist business leaders in designing business models that can simultaneously provide the integration of the suitable elements and adaptation of the appropriate elements (Morris *et al.*, 2009; Jonsson & Foss, 2011).
- For **expatriate employees**, it will demonstrate the importance of understanding their organisations' strategies and business models. It also will highlight the importance of developing the skills that are required by the organisations as well as the importance of grasping, *inter alia*, the manuals, value and the culture of their organisations. The expectations by an internationalising firm on an expatriate employee will also be

illustrated in this study and this will assist such employees to execute their organisations' strategies and business models effectively and efficiently.

- For **investors**, it will inform them on how the business models adopted by internationalising firms that they have invested in, or intend to invest in, are configured. It will also provide them with additional tools for evaluating whether the international opportunities pursued by the organisations of interest to them, are likely to deliver higher performance.

1.4 The Research Scope

This study aimed to investigate flexible replication as a model of international expansion. The specific context of the study is intra-Africa business expansion, as a result of the increased foreign direct investment by African companies in other parts of Africa (Sulaiman, 2013). According to Klein and Wöcke (2007) strategies of multi-national enterprises (MNE) may vary according to their country of origin, due to home country factors. As such, a study that focuses on a single country provides some control for country differences and allows for focus on the most relevant common factors (Klein & Wöcke, 2007). Therefore, in line with Klein and Wöcke's (2007) proposal, the focus of this study was on South African organisations that were expanding their businesses into other parts of Africa through flexible replication, as according to Sulaiman (2013) these organisations are playing a leading role in investing in other parts of the African continent.

This study also focused on the banking and retail industries, based on the current high level of activity in these sectors (Roxburgh *et al.*, 2010). According to Roxburgh *et al.* (2010), by 2020 consumer-facing industries in Africa such as retail and banking will be worth US\$2.6 trillion in annual revenue and the key sources of this growth are urbanisation, an expanding labour force and the rise of the middle-class African consumer. This growth will create more consumer markets large enough to be attractive to multinational companies operating in the customer facing sectors, as the current rate of return on foreign direct investment in African markets is higher than in other developing countries (Roxburgh *et al.*, 2010).

Mr Price Group Limited ("Mr Price") and FirstRand Limited ("FirstRand") are the organisations that were investigated in this research. These two companies operate in the customer facing sectors that present the largest opportunity for growth in Africa, being retail and banking, as a result of anticipated growth in household spending (Roxburgh *et al.*, 2010). Both these organisations have adopted flexible replication strategies in expanding their businesses into other parts of Africa. Furthermore, these organisations have received

international recognition for the way they operate in their sectors. Mr Price was, *inter alia*, the finalist of the World Retail Award 2012 in the emerging market retailer of the year category (Mr Price Group Limited, 2012). This accolade is awarded to a retailer that is a world class performer across every aspect of its business, including having a distinctive brand personality and providing value added services to its customers (Mr Price Group Limited, 2012). FNB, a division of FirstRand was, *inter alia*, voted the most innovative bank in the world in 2012 (FirstRand Limited, 2012). This award is presented to a bank that has developed breakthrough innovations that positively impact such a bank and its customers (FirstRand Limited, 2012). The international recognition of both organisations through the accolades that are aligned with some of the best practices in the retail and banking sectors, indicate that these two organisations represent a good foundation on which to examine flexible replication as a model of international expansion.

According to Mr Price Group Limited (2012), the international expansion is preceded by up to three years of background research on the intended destination. FirstRand Limited's first attempt at expanding its operations outside of the Southern African Development Community (SADC) economic region began in 2010 (FirstRand Limited, 2010) and Mr Price's first corporate store outside of the SADC region was launched in 2012. Therefore, the period under review in this study was from 2007 to 2013 as this period captured the benefits of adopting flexible replication as a model for international expansion by Mr Price and FirstRand. This period under review also provided valuable insights on the fixed and variable elements of the business models of the two organisations and the circumstances and the timing of adopting the flexible replication model. Furthermore, the use of secondary data from both companies, dating back to 2007, contributed in making this study longitudinal.

1.5 Overview of the Research Report

The research report is structured into seven chapters. This chapter introduces the research problem, gives some background to the problem, and sets out objectives, the motivation and the scope of the study. Chapter two provides a theoretical base for understanding internationalisation, replication, business models and the related frameworks. The research questions and proposals are set out in chapter three. The research methodology used to undertake the study is documented in chapter four. Chapter five presents the results of the investigation and the findings are discussed in chapter six. Chapter seven highlights the major findings of the study and gives recommendations to various stakeholders based on the findings.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter provides a theoretical base for understanding the benefits of implementing the flexible replication model in a foreign market, the optimal mix of fixed and variable elements of a business model of an internationalising firm and the circumstance and timing of configuring a business model that achieves the replication-adaptation balance. The literature review begins with the context within which business models are configured by internationalising firms through discussing the internationalisation process model (IPM), the integration–responsiveness framework (IRF), and the country-specific and firm-specific advantages. Thereafter, the concepts which include replication, business models as well as some of the tools used to measure the performance of an organisation are explored in great detail. This chapter concludes by summarising the literature review, identifying the gaps in the literature and outlining the need for this research.

2.2 Internationalisation Process Model

According to Johanson and Vahlne (1977) the international process model (IPM) is an incremental process of building commitment in a host country. This model involves gradual acquisition, integration and use of knowledge about the host-country context in order to reduce market uncertainty, resulting in a pattern of incremental market commitment (Johanson & Vahlne, 1977). Furthermore, in terms of the IPM, firms expand first to countries closer and similar to their home country, before going to dissimilar countries and countries that are further away from home (Johanson & Vahlne, 1977; Ramamurti, 2012).

This model is supported by Meyer and Thaijongrak (2013) by arguing that the IPM suggests that an investing firm initially make a commitment to a position in a network, more specifically, a business network in a foreign market. Further, this cross-border commitment enables a firm to gain experiential knowledge about foreign business environments which include knowledge about the customers, competitors, and regulatory authorities (Meyer & Thaijongrak, 2013). Therefore, according to Meyer and Thaijongrak (2013), local knowledge strengthens the firm's ability to assess and to evaluate its current business activities, the extent of its existing market commitment, and the opportunities for further investment. As a result of the IPM an organisation is able to gradually develop the required level of local capability and market knowledge to become an effective performer in that local context (Meyer & Thaijongrak, 2013). In relation to internationalising through flexible replication, the IPM is in line with Jonsson and Foss' (2011) proposal that "organisations that internationalise through replication adopt a flexible replication approach only after substantial

experience with either one of the alternatives of highly explorative or highly exploitative internationalisation, or both". However, Kodzi (2013) contradicted this notion by proposing that "international replicators having clarity on their winning attributes design *a priori* a flexible replication approach to operating in heterogeneous environments".

Malhotra and Hinings' (2010) study also contradicted Johanson and Vahlne (1977), Jonsson and Foss (2011), and Meyer and Thajongrak's (2013) arguments, as it showed mixed empirical support for the incremental approach advocated by the IPM. According to Malhotra and Hinings (2010), some studies confirm the incremental processes, whereas others suggest alternatives to incremental behaviour. These authors were therefore of the view that "whether the process is incremental or not is no longer a theoretically fruitful debate, rather we need to steer the debate toward a different question: why do we observe different processes of internationalisation and, consequently, different approaches to resource commitment in the foreign market over time" (Malhotra & Hinings, 2010, p. 331). Furthermore, Malhotra and Hinings (2010) argued that different types of organisations follow different processes of internationalisation. Ramamurti (2012) confirmed this argument by stating that the models of internationalisation process seem to be in need of refinement and extension to incorporate the case of multinational enterprises from emerging markets.

Despite the challenges to the IPM, it still provides some context in which a business model is designed or configured. This provides a good start for analysing the circumstances that lead internationalising firms to expand through flexible replication. Further, as the business environment changes rapidly, the IPM plays a useful role in designing a process that can be followed by an organisation when pursuing international opportunity.

2.3 Integration – Response Framework

According to Devinney, Midgley and Venaik (2000), the key elements of global strategy are considered to be standardisation, delivering value to customers worldwide, managing cash flows and achieving strategic flexibility. Therefore, "notwithstanding the opportunities existing in the global business environment, the key to securing opportunities and gaining competitive advantage lies in a multinational firm having the organisational systems, skills, and capabilities to coordinate strategies and activities throughout its complex multinational operation" (Devinney, Midgley & Venaik, 2000, p. 677).

Prahalad and Doz (1987) argued that the managerial demand in a diversified multinational business fall into three categories, which are: the need for global integration of on-going activities, the need for global coordination of firm strategy and the need for local

responsiveness. Furthermore, these scholars were of the view that the needs for integration and strategic coordination are often related, and as such, they recognise two essential demands, namely, global integration (GI), and local responsiveness (LR), and assumed that the extent of strategic coordination is related to the need for integration (Prahalad & Doz, 1987). Devinney, Midgley and Venaik (2000) argued that integration pressures include the importance of multinational customers, the presence of multinational competitors, investment intensity, technology intensity, pressures for cost reduction, universal needs and access to raw material and energy. Local responsiveness on the other hand includes differences in customer needs, differences in distribution channels, availability of substitutes and the need to adapt, market structure, and host government demands (Devinney, Midgley & Venaik, 2000). Table 1 shows integration and responsiveness pressures, which can influence the configuration of a business model of an internationalising firm.

Table 1 - Integration and Responsiveness Pressures

Integration Pressures	Responsiveness Pressures
• Multinational Customers	• Customer Needs
• Investment Intensity	• Distribution Channels
• Technology Intensity	• Market Structure
• Cost Reduction	• Host Government Demands

Note: Adapted from Devinney, Midgley & Venaik (2000)

In addition to global integration and local responsiveness demand, Devinney, Midgley and Venaik (2000) argued that transactional completeness pressures play a crucial role in the configuration of a business model of an internationalising firm. Transactional completeness pressures are “all those pressures in the environment impacting on the firm’s configuration of its value chain and its choice on an appropriate mix of control mechanisms with which to run its international operations” (Devinney, Midgley & Venaik, 2000, p.679). These pressures include price, hierarchy, and socialization (Devinney, Midgley & Venaik, 2000). Furthermore, according to Devinney, Midgley and Venaik (2000) transactional completeness represents the competitive pressures in the market for intermediate products and the organisational configurations that are necessary to procure and combine these intermediate products in an effective manner. Therefore, without accounting for the transactional completeness dimension, there is nothing to connect interunit linkages and economies of scale and scope with international orientation. Accordingly, “global integration represents truly market

spanning pressures, local responsiveness delineates pressures that differ from country to country and transactional completeness represent pressures that traverse the countries and locations involved in the firm's value chain and the efficiency in the transfer of intermediate products and services" (Devinney, Midgley & Venaik, 2000, p. 683). Devinney, Midgley and Venaik's (2000) arguments appeal for the extension of the integration responsiveness framework to the integration-responsiveness-completeness framework. Table 2 shows the elements of the integration-responsiveness-completeness framework, which can influence the configuration of a business model of an internationalising firm.

Table 2 - Integration, Responsiveness and Completeness Pressures

Integration Pressures	Responsiveness Pressures	Completeness Pressures
• Multinational Customers	• Customer Needs	• Price
• Investment Intensity	• Distribution Channels	• Hierarchy
• Technology Intensity	• Market Structure	• Socialisation
• Cost Reduction	• Host Government Demands	

Note: Adapted from Devinney, Midgley & Venaik (2000)

Based on the above discussion and the elements set out in Table 1 and Table 2, the extended integration-responsiveness-completeness can be used as a guide for configuring or designing a business model for an internationalising firm. By considering the elements of a business model that require integration, elements that require adaptation and taking into account completeness pressures, an optimal mix of fixed and variable elements of a business model can be designed by an internationalising firm.

2.4 Firm-Specific Advantages / Country-Specific Advantages

According to Dunning (1980, 1995), in order to justify investing in a foreign country, a firm must satisfy the following three conditions:

- it must own firm-specific assets - typically intangible assets such as brand name, marketing know-how, and other forms of intellectual property that provide competitive advantage to the multinational firm against domestic firms and other foreign multinationals;
- it should be more advantageous to exploit these assets in combination with other

- immobile factors of production located outside the home country; and
- the advantage accruing to the firm by exploiting the firm-specific assets internally should exceed those available by leasing, licensing or selling the firm-specific assets.

Thus the configuration of a business model is a key decision for any globalising firm. According to Ramamurti (2012) this notion that firms must have ownership advantages before they can engage in market-seeking internationalisation holds even for multinational enterprises from emerging markets. Takeuchi and Porter's (1986) approach to internationalisation which emphasises the structure and organisation of the value chain activities is developed directly from Dunning's (1980) prior work. In terms of Takeuchi and Porter's (1986) approach, the three key issues in international strategy are: (1) the configuration of activities, where the activities are performed either centrally at the corporate or regional level headquarters, or dispersed locally in the country subsidiaries, (2) the coordination of activities among country subsidiaries, considering whether the activities should be standardised across all countries or adapted in each country and (3) the linkage of activities across firm functions, such as research and development, marketing, and manufacturing.

Dunning (1980, 1995) and Takeuchi and Porter's (1986) arguments are further supported by Rugman and Li (2007), by proposing that multinational enterprises (MNEs) invest in foreign countries to further expand on their firm-specific advantages (FSAs). These FSAs are unique capabilities which are proprietary to the firm, and they may be built upon product or process technology, marketing or distribution skills or they can reflect managerial skills (Rugman & Verbeke, 2003). Furthermore, firm-specific advantages bestow a firm with competitive advantage as they comprise of *inter alia* reputation, buyer-supplier relationships, tacit knowledge, research and development capability, brand name, knowledge, and proprietary technologies (Deng, 2009; Guillén & García-Canal, 2009).

MNEs also consider country factors when expanding their businesses internationally (Rugman & Li, 2007). These factors are unique to the businesses in each country and can lead to country specific advantages (CSAs) (Rugman & Li, 2007; Klein & Wöcke, 2007). These country-specific advantages can be based on natural resource endowments or on the labour force and/or associated cultural factors (Rugman & Li, 2007; Klein & Wöcke, 2007). Table 3 sets out some of the firm-specific advantages and country-specific advantages that can be considered by internationalising firms when configuring their business models.

Table 3 - Firm-Specific and Country-Specific Advantages

Firm-Specific Advantages	Country-Specific Advantages
• Buyer-Supplier Relationship	• Labour Force
• Brand Name / Reputation	• Regulations
• Proprietary Technology	• Associated Cultural Factors

Note: Adapted from Rugman & Li (2007)

Rugman and Li (2007) argued that “managers of most MNEs use strategies that build upon the interactions of CSAs and FSAs” (p.334). This indicates that MNEs expand internationally based upon a complex interaction between FSAs and CSAs. Further, successful MNEs in general expand their businesses internationally in order to exploit firm-specific advantages which they have developed in their home markets, whilst also taking into consideration country specific advantages (Rugman & Li, 2007; Guillén & García-Canal, 2009). Therefore, internationalising firms should also consider the factors set out in Table 3 when configuring their business models for the purposes of international expansion.

2.5 Replication

The debate about the expansion of businesses through replicating the business models precisely or through balancing the benefits associated with the standardisation and local adaptation continues to be an important topic in international business literature (Dunning, 1980; Prahalad & Doz, 1987; Takeuchi & Porter, 1986; Bartlett & Ghoshal, 1998; Devinney, Midgley & Venaik, 2000; Winter & Szulanski, 2001; Winter, Szulanski, Ringov & Jensen, 2007; Morris *et al.*, 2009; Aspara, Heitanen & Tikkanen, 2010; Jonsson & Foss, 2011; Guttel *et al.*, 2012; Kodzi, 2013). Replication is a deliberate strategic activity that promises to create value for an organisation by applying existing formats in new contexts (Winter & Szulanski, 2001). In simpler terms, replication is defined as the reproduction of a successful practice in a new location (Guttel *et al.*, 2012; Morris *et al.*, 2009). There are three schools of thought in relation to international expansion through business model replication, namely fixed replication, business model innovation and flexible replication.

2.5.1 Fixed Replication

According to Winter and Szulanski (2001) the successful template-based replication efforts depend on two distinct steps, the first step being exploration, where organisations discover the most important aspects of the business model that creates value for the customer (Arrow

Core). The Arrow Core includes all the information that accounts for the value-creating potential of the business model and such information is acquired through experiential learning (Winter & Szulanski, 2001). Therefore, the intent of the first step is to uncover the Arrow Core, as this is associated with a successful exploration (Winter & Szulanski, 2001). The second step is exploitation, which is when an organisation uses its dynamic capabilities to clone itself (Guttel *et al.*, 2012). This happens when an organisation has experimented with different templates, discovered the Arrow Core and frozen the design (Winter & Szulanski, 2001). The frozen design then becomes the format that the business uses when it expands to new environments.

However, Jonsson and Foss (2011) argued that “the Arrow Core is an ideal that a replicating firm cannot reach because of ignorance about the various features of the Arrow Core” (p. 1081). These authors further argued that it is not clear from Winter and Szulanski’s (2001) arguments where the exploration ends and the template is frozen to allow for exploitative replication. Therefore, Jonsson and Foss (2011) conclude that Winter and Szulanski’s optimal strategy involves freezing an imperfect template.

Winter and Szulanski (2001) argued that “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” (p.737). Therefore replicating organisations should expand on the basis of an entirely fixed format, and learning cannot be allowed to influence the format (Winter & Szulanski, 2001). However, Wæhrens, Cheng and Madsen (2012) were of the view that copying the template precisely increases local resistance and decreases transfer effectiveness by inhibiting local adaptation. Further, the problem with the fixed replication is that it also assumes that once the template has been developed, the business environment remains fixed (Jonsson & Foss, 2011). This assumption is less tenable in an international context (Jonsson & Foss, 2011). Friesl and Larty (2013) supported this argument by stating that the benefits of local modification and adjustments may outweigh perfect replication depending on the context. Ruuska and Brady (2011) also argued that perfect replication through a template can never be expected because of existing knowledge gaps.

2.5.2 Business Model Innovation

In recent years, there has been growing academic interest in how firms innovate their business models (Aspara, Heitanen & Tikkanen, 2010). According to Hamel (1998) this practice is called business model innovation and can be defined as the “capacity to reconceive the existing industry model in ways that create new value for customers, wrong-foot competitors, and produce new wealth for all stakeholders” (p. 8). The literature review

showed that arguments have been made for the superiority of strategies that create novelty into markets and networks through business model innovation (Aspara, Heitanen & Tikkanen, 2010; Bock, Opsahl, George & Gann, 2012). Aspara, Heitanen and Tikkanen (2010) also noted that many popular pieces of literature on strategic management and innovation have argued that business model innovation *inter alia* reshapes existing market structures, addresses latent customer needs, produces discontinuous leaps in customer value, designs unique business systems, develops new channels and/or fundamentally changes the rules of the competitive game. As such, the school of thought that supports business model innovation believes that this model is more superior to preservation or exploration of the firm's existing business resources and ways of doing things (Hamel, 1998; Aspara, Heitanen & Tikkanen, 2010). This school also implies that an organisation can choose to adopt business model innovation as a continuous systematic strategic orientation (Aspara, Heitanen & Tikkanen, 2010; Bock, Opsahl, George & Gann, 2012).

Despite the arguments made in the literature supporting the superiority of the business model innovation, Aspara, Heitanen and Tikkanen (2010) argued that the implied performance implications of the business model innovation are not always realised due to the downside of this orientation. The downside of business model innovation includes the difficulty of realising first mover advantages as innovative projects are risky and often fail, and competitors reap the profits of the firm's innovative efforts through second mover and follower advantages (Aspara, Heitanen & Tikkanen, 2010). Further, the study conducted by Aspara, Heitanen and Tikkanen's (2010) revealed that "firms which have high strategic emphasis on business model innovation but low on replication, have lower average financial performance in terms of profitable growth than firms which have low strategic emphasis on business model innovation" (Aspara, Heitanen & Tikkanen, 2010, p. 51). This study contradicted the notion which implies that business model innovation (on its own) would lead to superior performance outcomes and indicated that flexible replication may be a superior model (Aspara, Heitanen & Tikkanen, 2010).

As a result of their study, Aspara, Heitanen and Tikkanen (2010) proposed that a better strategy for international business expansion through replication is a strategic balance between an emphasis on replication and an emphasis on business model innovation rather than expansion at the extremes of fixed replication and innovative adaptation.

2.5.3 **Flexible Replication**

Organisations are expected to determine the attributes of their business models that are non-negotiable, prior to the exploitation of such attributes (Winter & Szulanski, 2001; Kodzi,

2013). Further, as a result of the awareness of cultural differences in different markets, organisations are expected to determine the variable attributes of their business model when they internationalise their business operations (Prahalad & Doz, 1987; Bartlett & Ghoshal, 1998; Devinney, Midgley & Venaik, 2000; Winter & Szulanski, 2001; Jonsson & Foss, 2011; Kodzi, 2013).

According to Jonsson and Foss (2011) the recognition in literature that benefits associated with replication of the fixed format need to be balanced with the benefits of local adaptation, raises a question of how and to what extent international replicators combine replication and adaptation, and what explains these choices. These authors proposed that international replicators will realise a higher performance when they internationalise through flexible replication. An organisation that adopts the flexible replication model allows the lower-level features of the business model to vary across the organisation's business in response to market-based learning, while it replicates higher-level features of the business model in a uniform manner across businesses (Jonsson & Foss, 2011). This definition of flexible replication is in line with Aspara, Heitanen and Tikkanen's (2010) proposal of viewing international business expansion through replication as a balance between replication and business model innovation. This approach to replication was supported by Kodzi (2013) who stated that due to awareness of cultural differences, international replicators should determine elements of their business models that are non-negotiable and the elements that would be adjustable to allow for local variation prior to expanding to foreign markets. Furthermore, the flexible replication strategy was supported by Doz and Kosonen (2010), by arguing that business models function as a subjective representation of the organisation's operating mechanisms, delineating how the management believes the organisation relates to its environment.

Replication of a business model can be implemented either through a template or through principles. According to Morris *et al.* (2009) a template focuses on formal systems and processes that can be managed to show people exactly how to replicate a practice, whereas principles focus on people to motivate or explain why a practice should be replicated in the first place. Wæhrens, Cheng and Madsen (2012) supported Morris *et al*'s (2009) argument by stating that templates are useful for unskilled operatives in order to transfer codified knowledge with the help of other means such as peer-to-peer training. On the other hand, principles are more appropriate for transferring tacit knowledge related to problem solving and building a learning environment, supplemented by concrete examples, models, hints and sketches (Bade-Fuller & Winter, 2005; Dunford, Palmer & Benveniste, 2010; Wæhrens, Cheng & Madsen, 2012). Furthermore, according to Wæhrens, Cheng and Madsen (2012)

principles work more efficiently when each potential recipient context differs so much that templates fail to capture the relevant information effectively.

International business scholars were of the view that adhering too closely to a template decreases transfer effectiveness by inhibiting local adaptation (Prahalad & Doz, 1987; Bartlett & Ghoshal, 1998; Devinney, Midgley & Venaik, 2000; Wæhrens, Cheng & Madsen, 2012) and increasing local resistance (Wæhrens, Cheng & Madsen, 2012). An argument has been made by various authors for seeing replication through a template and principles as complementary rather than being presented as competing models (Bade-Fuller & Winter, 2005; Morris *et al.*, 2009; Dunford, Palmer & Benveniste, 2010; Wæhrens, Cheng & Madsen, 2012). This argument is in line with the flexible replication approach, as this approach allows for both formal systems and processes that can be codified through a template, and practices that cannot be captured effectively by a template, to be replicated through principles (Wæhrens, Cheng & Madsen, 2012). Therefore, treating replication through a template and principles as complementary is appropriate where the flexible replication model has been adopted. This research acknowledged the importance of a positive reinforcing interplay between templates and principles, and thus does not see them as competing models, as proposed by Bade-Fuller and Winter (2005), Morris *et al.* (2009), Dunford, Palmer and Benveniste (2010) and Wæhrens, Cheng and Madsen (2012).

Jonsson and Foss (2011) concluded their arguments on internationalising business operations through flexible replication by detailing four proposals for guiding further research. The proposals were:

1. “international replicators will realise a higher performance when they adopt a hierarchical approach to replication rather than a “copy exactly” approach;
2. the proportion of fixed to flexible features in a format for replication depends negatively on the heterogeneity and dynamism of the target market. Thus replicators that target very heterogeneous and dynamic markets will have relatively many flexible features in their formats for replication; and replicators that target very homogeneous and static markets will have relatively few such features;
3. international replicators that deploy organisational mechanisms for lateral and reverse knowledge flows will be better able to identify, harvest, and transfer local learning that is useful for the purpose of revising the format for replication; and

4. international replicators adopt a flexible replication approach only after substantial experience with either one of the alternatives of highly explorative or high exploitative internationalisation, or both" (Jonsson & Foss, 2011, p. 1095-6).

The study conducted by Winter, Szulanski, Ringov and Jensen (2007) found evidence confirming that exploitation of a proven template for doing business by large-scale replication will be more successful when the template is copied precisely. Jonsson and Foss' (2011) first proposal contradicted Winter, Szulanski, Ringov and Jensen's (2007) study. Furthermore, the study conducted by Aspara, Heitanen and Tikkanen (2010) found that firms that combine a high strategic emphasis on business model innovation with a high strategic emphasis on replication have superior average performance. Therefore, Aspara, Heitanen and Tikkanen's (2010) study contradicted Winter, Szulanski, Ringov and Jensen's (2007) study, and supported Jonsson and Foss' (2011) first proposal.

Kodzi (2013) questioned the development of Jonsson and Foss' (2011) fourth proposal and argued that "an organisation in the process of internationalisation needs to clarify which of its resource configurations will increase its chances of success in a foreign market and then determine the approach for contextualising these competencies in that market". Kodzi (2013) then proposed that "international replicators having clarity on their winning attributes design *a priori* a flexible replication approach to operating in a heterogeneous environment". Kodzi's (2013) proposal deviated from Jonsson and Foss' fourth proposition, as it encourages organisations that seek to expand through flexible replication, to learn from the best practices (or otherwise) demonstrated by the companies that have adopted the flexible replication strategy and to connect key principles within their own contexts instead of learning only by experience. Furthermore, Kodzi (2013) argued that a firm can consider adopting flexible replication at the onset of its internationalisation effort as opposed to adopting this approach only after substantial experience. Kodzi's (2013) argument was based on the expectation that organisations determine the attributes of their business models that would be fixed and aspects of their business models that would be adjustable in each new environment. Furthermore, Kodzi's (2013) proposal also reflected that the adoption of flexible replication is an approach to foreign market operation rather than a state of being for the organisation. As such, he argued that "an approach" in itself can be determined *a priori* and then fine-tuned with more information" (Kodzi, 2013).

2.6 Business Models

As one of the objectives of this study was to explore the optimal mix of fixed and variable elements of business models of internationalising firms, it was important to critically review

literature on business models. The literature review of business models assisted in identifying the features of the business model that should be fixed and the features that must be allowed to vary in order for an organisation to simultaneously achieve high degrees of similarity of business operations and to capitalise on the benefits of local adaptation.

Ostenwalder, Pigneur and Tacci (2005) defined a business model as “a conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm” (p.17). Furthermore, according to Ostenwalder, Pigneur and Tacci (2005) a business model is a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams. Doz and Kosonen (2010) described business models as sets of structured and interdependent operational relationships between a firm and its customers, suppliers, partners and other stakeholders, and among its internal units and departments.

Table 4 shows the building blocks of the business model.

Table 4 - Business Model Elements

	Pillar	Business Model Building Blocks	Description
What?	Product	Product Value Proposition	Gives an overall view of a company's bundle of products and services. A brand is an offering from a known source and it carries many associations in people's minds that make up the image (Kotler & Keller, 2012)
Who?	Customer Interface	Target customer	Describes the segments of customers a company wants to offer value to.
		Distribution channel	Describes the various means of the company to get in touch with its customers.
		Relationships	Explains the kind of links a company establishes between itself and its different customer segments.
How?	Infrastructure Management	Value Configuration	Describes the arrangement of activities and resources.
		Core Competency	Outlines the competencies necessary to execute the company's Infrastructure business model.
		Partner Network	Portrays the network of cooperative agreements with other companies necessary to efficiently offer and commercialize value.
	Financial Aspect	Cost Structure	Sums up the monetary consequences of the means employed in the business model.
		Revenue Model	Describes the way a company makes money through a variety of revenue flows.

Note: Adapted from Osterwalder, Pigneur & Tacci (2005)

Winter and Szulanski (2001) stated that organisations can select the elements that they believe are replicable from their business models. The scholars that support business model innovation argued that organisations can replicate all the elements of their business models depending on the context (Aspara, Heitanen & Tikkanen, 2010). Therefore, the context may determine that certain elements be replicated or that all critical elements be replicated. These arguments are aligned with Jonsson and Foss' (2011) second proposal that the proportion of fixed to flexible features in a format for replication depends negatively on the heterogeneity and dynamism of the target market. As such, "replicators that target very heterogeneous and dynamic markets will have relatively many flexible features in their formats for replication; and replicators that target very homogeneous and static market will have relatively few such features" (Jonsson & Foss, 2011, p.1095). Therefore, replicators that are expanding to heterogeneous and dynamic markets are more likely to rely more on replication through principles as according to Wæhrens, Cheng and Madsen (2012) principles work more efficiently when each potential recipient context differs so much that templates fail to capture the relevant information effectively.

The study conducted by Thongpapanl, De Clercq, and Dimov (2012) found that high autonomy between organisational units can undermine organisational alignment and efficiency in areas such as technology and marketing-oriented activities, and yet support the performance of radically new activities on the other hand. As such, Thongpapanl, De Clercq, and Dimov (2012) proposed that to increase firm performance, autonomy should be limited for organisational units in activities that require efficiency and coherence (retaining higher-level features), but encouraged when the units must implement novel or radical ideas (varying lower-level features). Furthermore, Guillén and García-Canal (2009) were of the view that multinational corporations from emerging markets enjoy more freedom to implement organisational innovations to adapt to the requirements of globalisation because they do not face the constraints typical of developed markets multinational corporations. These constraints include deeply ingrained values, culture, and organisational structure (Guillén & García-Canal, 2009).

Thongpapanl, De Clercq, and Dimov's (2012) study was supported by Rugman and Verbeke's (2003) argument that the greatest paradox of the globalising business system in many industries is on the one hand the increasing complexity of internal governance of multinational enterprises requiring sophisticated organisational tools to achieve internal scope economies that allow resources to aid the development of autonomous initiatives. On the other hand there is an increased demand from external financial markets to receive a

clear message from corporate headquarters, with detailed business plans and profitability forecast, as well as the precise contribution for each division, product line, market segment or subsidiary to the bottom line (Rugman & Verbeke, 2003). These arguments indicate a push for internationalising business to combine replication and adaptation. Thongpapanl, De Clercq, and Dimov's (2012) and Rugman and Verbeke's (2003) arguments raises the question of why and how internationalising businesses can combine replication and adaptation.

Osterwalder (2004) also argued that there are interrelations between the different elements of the business model. The elements are connected through either dependency or relations to one another (Osterwalder, 2004). Byhlin and Holme (2012) demonstrated Osterwalder's (2004) argument using target customer and distribution channel elements as an example and argued that distribution channels are related but not dependent on target customers. This means that distribution channels can exist without target customers and *vice versa*, but it is through the channels that the company reaches its target customer and the distribution channels must be suitable for the target customers (Byhlin and Holme, 2012). These arguments are aligned to Winter, Szulanski, Ringov and Jensen's (2007) argument that a business model is typically a complex set of interdependent activities. Therefore, according to Winter, Szulanski, Ringov and Jensen (2007) reproducing such a "recipe" means recreating the knowledge underpinning a web of complex imperfectly understood productive processes at new sites. Hence, these authors concluded that "a proven template of doing business by large-scale replication will be more successful when that template is copied precisely" (Winter & Szulanski, 2001, p. 737). However, Jonsson and Foss (2011) pointed out that Winter and Szulanski's (2001) 'replication-as-strategy framework' has mainly, if not exclusively, been developed with reference to national firms. Therefore, copying the template precisely by an organisation that seeks to expand by internationalisation may not be as successful as when the copying is done by a national firm (Jonsson & Foss, 2011).

2.7 Performance Measurement

Performance measurement is a process used to quantify the effectiveness and efficiency of an action (Sharahi & Abedian, 2009). Effectiveness relates to the extent to which customer requirements are met, whereas efficiency measures how economically the resources of an organisation are utilised when providing a pre-specified level of customer satisfaction (Sharahi & Abedian, 2009). According to Shepherd and Günter (2006) performance measurement systems are the overall set of metrics used to quantify both the effectiveness and the efficiency of an action. Performance measures contribute to the success of an organisation as they reflect a balance between financial and non-financial measures that

affect the strategic, tactical and operational levels of decision making and control and performance evaluation (Sharabi & Abedian, 2009).

According to Drury (2009) the balanced scorecard is the performance measurement system that integrates both financial and non-financial measures and incorporates performance measurement within the strategic management process. Drury (2009) is of the view that this performance measurement system creates strategic focus as it translates strategy into operational objectives and measures for the four perspectives which are the:

- Financial perspective (how does a business look to shareholders);
- Customer perspective (how do customers see the business);
- Internal business perspective (what must the business excel at); and
- Learning and growth perspective (can the business continue to improve and create value).

According to Kaplan and Norton (2001) the financial perspective provides objectives and associated measures relating to the financial outcomes of past actions. The customer perspective allows for objectives and performance measures which track the business' ability to create satisfied and loyal customers in the targeted segments, to be developed (Kaplan & Norton, 2001; Drury, 2009). The internal business perspective provides objectives and measures which the business must excel in implementing its strategy, the focus of which is on internal processes that have the greatest impact on customer satisfaction and achieving the company's financial objectives (Kaplan & Norton, 2001; Drury, 2009). The learning and growing perspective identifies the infrastructure required by the business to create long-term growth and improvement (Kaplan & Norton, 2001; Drury, 2009). The categories falling within this learning and growth perspective are: employee capabilities; information system capabilities; and motivation, empowerment and alignment (Kaplan & Norton, 2001; Drury, 2009).

2.8 Conclusion

The literature review indicated that the internationalisation process model is a process of incremental resource commitments driven by increasing experiential knowledge. Although this process is still relevant, it needs to be refined as recent studies have shown mixed empirical support for it (Johanson & Vahlne, 1977; Malhotra & Hinings, 2010; Jonsson & Foss, 2011; Ramamurti, 2012; Meyer & Thaijongrak, 2013). The literature review also revealed that understanding integration, response and transactional completeness factors, as well as the firm-specific advantages and country-specific advantages is critical for an

internationalising firm, as this ensures that an organisation configures a business model that creates sustainable value (Prahalad & Doz, 1987; Devinney, Midgley & Venaik, 2000; Rugman & Li, 2007; Klein & Wöcke, 2007).

The theories relating to replication and business models provided valuable insights on the elements and the factors that organisations should consider when configuring business models for the purposes of international expansion. The understanding of these theories provided a solid base for exploring the optimal mix of fixed and variable elements of business models of internationalising firms. The literature on performance measurement provided the basis for exploring the benefits of adopting the flexible replication model by an internationalising firm. However, it is not clear from previous studies why and how internationalising firms can achieve an optimal mix of fixed and variable elements of their business models.

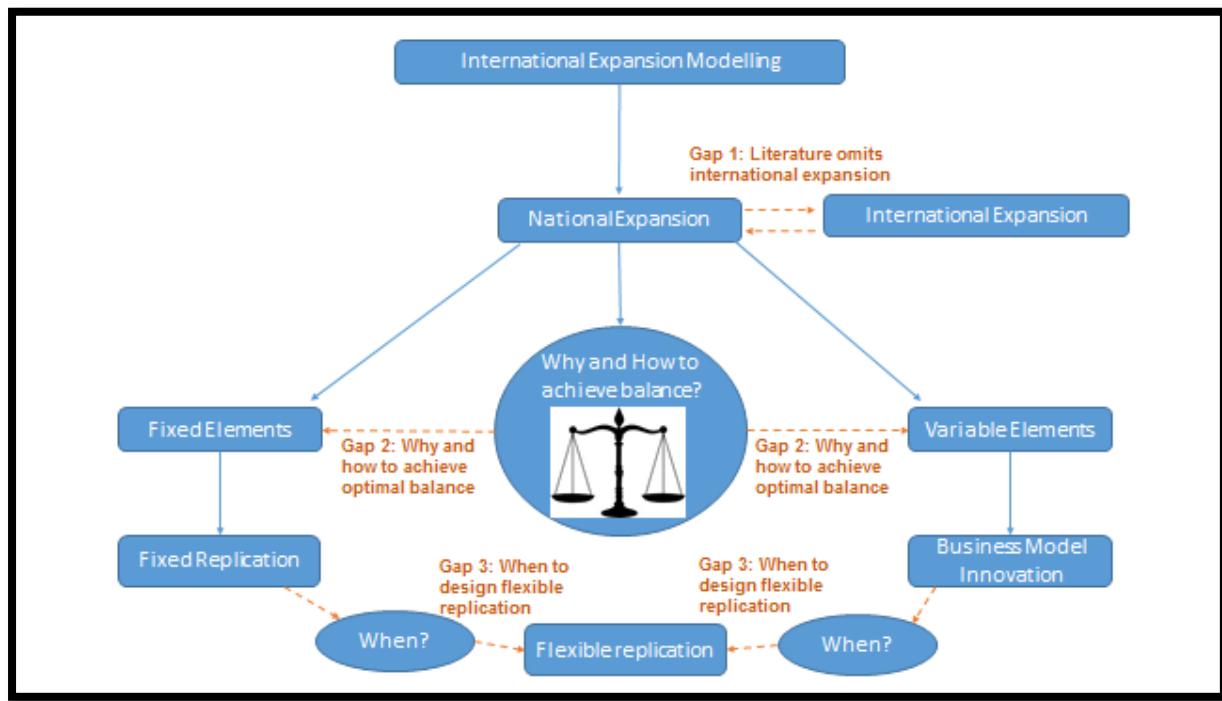
Furthermore, the literature on replication has primarily focused on national business and replication through a fixed format (Jonsson & Foss, 2011). Therefore, the international business literature has not dealt with internationalising firms, beyond case studies such as Jonsson and Foss (2011). The literature review also highlighted three conflicting schools of thought in relation to international expansion through business model replication, which are fixed replication, business model innovation and flexible replication (Hamel, 1998; Winter & Szulanski, 2001; Aspara, Heitanen & Tikkanen, 2010; Jonsson & Foss, 2011). There are also conflicting views from the literature in relation to the circumstances and the timing of the adopting the flexible replication model. Some researchers are of the view that the flexible replication model should be adopted after substantial experience in the foreign market whereas other researchers are of the view that the model may be adopted prior to operating in the foreign market (Jonsson & Foss, 2011; Kodzi, 2013).

Morris *et al.* (2009) recommended that research be conducted on the configuration of business models in order to better understand why and how an organisation can simultaneously replicate its business model in new environments while capitalising on the benefits offered by the local market adaptation. Other studies have also highlighted the need for further research into the process of developing and managing a successful business model replication in a foreign culture or market (e.g. Jensen & Szulanski, 2004; Morris *et al.*, 2009; Aspara, Heitanen & Tikkanen, 2010; Jonsson & Foss, 2011; Lambert & Davidson, 2012; Friesl & Larty, 2013)

This study aims to fill the gaps identified in the literature thus far and briefly described in the preceding paragraphs. Firstly, this research will establish the benefits of internationalising

through flexible replication. Secondly, this research will establish the optimal mix of fixed and variable elements of business models of internationalising firms. Lastly, this study will establish the appropriate time for adopting the flexible replication model and the circumstances that lead internationalising firms to adopt the flexible replication model. Figure 1 demonstrates the gaps that were identified in the literature.

Figure 1 – Flexible Replication as a Model of International Expansion and Gaps in the Literature



CHAPTER 3: RESEARCH QUESTIONS AND PROPOSITIONS

The literature review revealed that there are conflicting schools of thought relating to international expansion through replication, namely fixed replication, business model innovation and flexible replication. The adoption of flexible replication as a model for international expansion finds more support from existing theories relating to international business, compared to the adoption of the fixed replication or the business model innovation (Jonsson & Foss, 2011). However, based on the literature review, a study establishing and/or explaining the benefits derived by an internationalising firm through achieving an optimal balance between replication and adaptation has not been done (Aspara, Heitanen & Tikkanen, 2010; Jonsson & Foss, 2011). This gap in the literature led to the research question 1 stated below:

Research Question 1:

Why should internationalising firms achieve high degrees of similarity of business operations, whilst taking advantage of benefits of local adaptation?

The literature review suggested that the motivation for organisations to expand their businesses through internationalisation include the spreading of risk and following a home country customer to a foreign market (Guillén & García-Canal, 2009). This business expansion premised on *inter alia* risk management and following the customer can enhance the performance of an organisation (Guillén & García-Canal, 2009). Further, according to Jonsson and Foss (2011) making the relevant elements of the business model non-negotiable and allowing certain elements of the business model to vary in response to new learning in a new market allows for simultaneous realising of scale economies and learning economies and lead to higher performance. These arguments led to the proposition 1 below and the testing of this proposition will assist in responding to research question 1:

Proposition 1:

Internationalising firms will realise higher performance when they achieve an optimal balance between the fixed and variable elements of their business models (Jonsson & Foss, 2011).

The literature review also provided insights on replication as a strategy for business growth (Winter & Szulanski, 2001; Jensen & Szulanski, 2004; Guttel *et al.*, 2012; Friesl & Larty, 2013). Furthermore, the literature review has provided insights on flexible replication as a possible model for international expansion (Aspara, Heitanen & Tikkanen, 2010; Jonsson &

Foss, 2011; Kodzi, 2013). However, the literature review has revealed that a study establishing how to achieve an optimal mix of fixed and variable elements of a business model for the purposes of internationalisation has not been done (Morris *et al.*, 2009; Jonsson & Foss, 2011; Lambert & Davidson, 2012; Guttel *et al.*, 2012; Friesl & Larty, 2013). This gap in the literature formed the basis of research question 2, stated below:

Research Question 2:

How can internationalising firms achieve high degrees of similarity of business operations, whilst taking advantage of benefits of local adaptation?

The literature review showed that integration pressures and local responsiveness pressures are important in determining how organisations configure and replicate their business models in order to derive value from international operations (Prahalad & Doz, 1987; Devinney, Midgley & Venaik, 2000). The Integration – Response Framework formed the basis of the following proposition 2 and the testing of proposition 2 will assist in responding to research question 2:

Proposition 2:

Internationalising firms that fix the element of their business models that are affected by the integration pressures and vary elements that are affected by responsiveness pressures, achieve an optimal flexible replication.

Furthermore, the literature review showed conflicting arguments in relation to the timing of the adoption of the flexible replication model. This study adopted Kodzi's (2013) argument which states that the flexible replication model can be determined prior to the commencement of business operations in a new environment and can be fine-tuned with more information (Kodzi, 2013). This argument led to the following proposition 3 and the testing of this proposition will also assist in responding to research question 2 and in moving the debate on the timing of the flexible replication model forward:

Proposition 3:

Internationalising firms having clarity of their winning attributes design a flexible replication approach prior to operating in a foreign environment (Kodzi, 2013).

CHAPTER 4: RESEARCH METHODOLOGY

4.1 Introduction

Osterwalder, Pigneur and Tucci (2005) identified the elements that constitute a business model. As previously mentioned, some of these elements may either be fixed or adapted when an organisation is expanding internationally (Aspara, Heitanen & Tikkainen, 2010; Jonsson & Foss, 2011; Kodzi, 2013). However, the literature revealed that we possess relatively little theoretically informed knowledge on why internationalising firms should achieve an optimal mix of fixed and variable elements in their business models and how to achieve this balance (Guttel *et al.*, 2012; Jonsson & Foss, 2011). The limited knowledge in the literature relating to the configuration of business models of internationalising firms compelled that this research be conducted in a case study format. Several studies in the literature focusing on international business have recommended that more qualitative research relating to the internationalising of business be conducted (e.g. Jonsson & Foss, 2011; Wæhrens, Cheng & Madsen, 2012; Guttel *et al.*, 2012). This study was conducted following a qualitative approach in response to recommendations made in the literature and aimed to contribute to the body of knowledge by identifying the benefits of internationalising through the flexible replication model. Furthermore, the qualitative approach was adopted with the aim of establishing the optimal mix of fixed and variable elements of a business model of an internationalising firm, as well as the timing and the circumstances that lead these firms to expand through flexible replication.

4.2 Research Method

The research questions, propositions, objectives and data collected were the most important determinants of research philosophy of this study and therefore, a pragmatic position suggested by Saunders and Lewis (2012) was taken in conducting this study. A qualitative research method was adopted for the purposes of collecting and analysing data. The research questions, propositions and the analytical framework based on the literature review in chapter two were developed at the start of the research in order to guide the data-collection process as proposed by Miles and Huberman (1994). The data collected was analysed on the basis of the questions and propositions derived from prior literature, and theories relating to internationalisation of businesses were either confirmed or opposed. This approach is in line with Saunders and Lewis' (2012) definition of a deductive study which states that deduction is "a research approach which involves the testing of a theoretical proposition by using a research strategy specifically designed for the purpose of its testing" (p.108). According to Klein and Wöcke (2009) this deductive approach enables a high

degree of generalisation if the findings hold true in one setting and also hold true in a comparable setting.

The main focus of this research was exploring why internationalising firms should achieve an optimal mix of fixed and variable elements of their business models and how can they achieve this balance. This exploratory process led to an investigation into the performance of the firms that have adopted the flexible replication model for the purposes of international expansion. The fixed and the variable elements of business models of internationalising firms, the circumstances and the timing of adopting the model were investigated. Thus the research was exploratory, as in line with Yin's (2009) approach to exploratory studies, it sought new insights in relation to internationalisation through business model replication.

The limited knowledge in literature on the international expansion of companies through replication necessitated for the research questions of this study to focus on the "why" and the "how", as suggested by Yin (2009). Furthermore, in line with Yin (2009) and Jonsson and Foss' (2011) proposal, the research questions led to a case study being adopted as the strategy to conduct this research. The literature review revealed that the context, in which flexible replication, as a model for international expansion is designed and adopted, is not clearly defined. Therefore, this study was aligned with Yin's (2003) definition of a case study. According to Yin (2003) a case study is "an empirical inquiry that investigates a contemporary phenomenon within a real-life context, especially when the boundaries between the phenomenon and the context are not clearly defined" (Yin, 2003, p. 13). The adoption of a flexible replication model by organisations that seek to expand by internationalisation is a contemporary phenomenon which was investigated within its real life context.

The use of the case study approach in this research was suitable as one of the objectives of this study was to enable the researcher to get a detailed understanding of the context of the research and the activity taking place within that context, as proposed by Saunders and Lewis (2012). The analytic goal of the investigation was to relate a narrow range of the flexible replication phenomena to a broader context covered by a more macro-level theory of internationalisation of businesses and replication, in line with Guttel's *et al.* (2012) suggestion. The propositions of this study were developed using prior theory on replication as a strategy and knowledge based literature on internationalisation of multinational corporations. Therefore, this research benefited from the prior development of theoretical propositions to guide data collection and analysis, as proposed by Yin (2003).

A comparative two-case-study design was selected for this study as the cases involved more

than one unit of analysis. According Yin (2009), the evidence from a comparative two-case-study design is considered more compelling, and leads to the overall study being regarded as more robust. This design is a method of deductive reasoning where a range of similar or contrasting cases are studied to enable a high degree of generalisation (Klein & Wöcke, 2009). As proposed by Yin (2009), the comparative two case-study design ensured that the test of external validity of this was met.

According to Miles and Huberman (1994) a qualitative research approach enhances theory and improves understanding of business processes and structures through contextual analyses that connects processes and strategies to developments in the business environment. This research approach allows for an understanding of a particular phenomenon and contextual conditions rather than uncovering causal relationships (Yin, 2009). Further, in a qualitative research approach, the phenomenon can be described in depth and provide detail that otherwise would be overlooked if another approach was employed. Therefore, a qualitative approach was appropriate, as it ensured that the study provides insights on flexible replication as a model for international expansion. The qualitative approach also assisted in improving our understanding of internationalisation of organisations through flexible replication. A quantitative approach would not have been able to cover all the aspects of the flexible replication model, as according to Jonsson and Foss (2011), there is limited theoretically informed knowledge in relation to this model. Therefore, the evidence was drawn from the integrated annual reports, observations and semi-structured interviews. As previously stated, the adoption of the qualitative approach was in response to calls by different scholars for this kind of research (e.g. Wæhrens, Cheng & Madsen, 2012; Jonsson & Foss, 2011; Guttel *et al.*, 2012).

This study also had a longitudinal dimension as it covered the topic over a period of six years. This longitudinal dimension was introduced by using available secondary data sources of Mr Price and FirstRand, including annual reports, presentations to stakeholders and the companies' websites.

4.3 Unit of Analysis

According to Yin (2003) a unit of analysis defines what the "case" is and therefore, it is the "what" or "who" that is being studied. Based on Yin's (2009) definition, the units of analysis for this study were the two organisations that were investigated, namely Mr Price and FirstRand.

4.4 Case Selection

The purpose of this study was to develop a rich theoretical framework, which will be the vehicle for generalising or replicating to new cases and in order to achieve this goal, the case study strategy was adopted, as proposed by Yin (2009). According to Yin (2009), case studies are generalizable to theoretical propositions and not to populations or universes and as such they do not represent a “sample”. Therefore, the choice of cases in line with Klein and Wöcke’s (2007) proposal was made based on conceptual grounds rather than representation. As such, replication logic was applicable to the cases studied and not the sampling logic and sample size. Furthermore, the concept of the universe did not apply. The replication logic provided through the use of the comparative two case-study strategy provided external validity to this research, as proposed by Yin (2009) and Klein and Wöcke (2007).

This study aimed to identify the benefits of internationalising through flexible replication, explore the optimal mix of fixed and variable elements of business models of internationalising firms and investigate the timing and the circumstances that lead to the adoption of the flexible replication model by internationalising firms. The specific context of this research was on intra-Africa business expansion. Due to the large size of its economy and companies relative to other African countries and their leading role in investing on the African continent, South African companies were selected for this study (Sulaiman, 2013). As proposed by Klein and Wöcke (2007) this single country focus provided some control for country differences and allowed for focus on the most common factors.

The two companies selected for this study were Mr Price and FirstRand. These organisations operate in the retail and banking sectors, respectively, and according to Roxburgh *et al.* (2010) these sectors are currently experiencing high levels of activity. The researcher’s judgement was used to select the two companies as access to conduct this study was granted by senior management of these organisations. Furthermore, the selected companies have their head offices in South Africa and have business operations in South Africa and in other parts of Africa. The international expansion of these companies was through flexible replication. As such, these two companies presented a good foundation for examining why and how internationalising firms can achieve an optimal mix of fixed and variable elements in their business model. The cases for this study were chosen on the basis that the sectors in which the two organisations operate differed to some extent. Therefore in line with Yin’s (2003) proposal, some of the common conclusions arrived at from the investigation of both cases, under these varied circumstances, assisted in expanding the external generalizability of the findings compared to those from a single case

alone. As this was theoretical building research, the selected cases, based on Eisenhardt and Graebner's (2007) arguments were suitable for illuminating and extending the proposed conceptual model.

4.5 Data Collection

Data were gathered using multiple sources, such as company documents, semi-structured interviews and observations. As proposed by Mason (2002) the multiple sources of data allowed information to be verified by triangulation and this increased the reliability of this study.

The data collection followed a four step approach. Firstly, following Wæhrens, Cheng and Madsen's (2012) suggestion, secondary sources including annual reports, presentations to stakeholders and press releases were reviewed to get *inter alia* the general understanding of business models of the companies, their performance and internationalisation strategies.

Secondly, to provide in-depth insight as proposed by Yin (2009), eight semi-structured interviews were conducted. Table 5 below shows the list of the senior managers that were interviewed from the two companies that were investigated for the purpose of this study. In order to increase the reliability of this study, a protocol, attached to this report as Appendix A, based on the literature review was developed prior to the interviews, as suggested by Yin (2009). The protocol included an overview of the research project, field procedures, interview schedule and a guide for a case study report.

The research instrument used in collecting data from the semi-structured interviews was the interview guide containing the questions attached to this report as Appendix B. The research instrument also indicated the literature which informed the formulation of the questions. The interview guide included a section for taking notes during the interview, an introductory note explaining the flexible replication concept and a consent letter that all interviewees were required to sign. The open ended questions in the interview guide explored the key concepts covered in the literature review. The open ended questions assisted in evaluating the performance of the organisations that were investigated. These questions were also used to determine the features of the business model that are replicated and the features that are adapted by internationalising organisations that have adopted the flexible replication model. Furthermore, the circumstances that lead to the adoption of the flexible replication model and the timing of the adoption the model by internationalising firms were determined through the open ended questions.

As proposed by Mason (2002), the interview guide was structured in a way that encouraged a conversation focusing on the main themes covered in the literature review. In order to ensure reliability of the study, the interview guide was standardised as far as possible with minor intentional wording differences to accommodate the target audience and their frame of reference, as proposed by Lamb and Sutherland's (2010). Based on Wæhrens, Cheng and Madsen's (2012) suggestion, the interview guide was sent to the interviewees in advance to ensure that they were properly prepared.

The researcher conducted semi-structured face-to-face interviews with the relevant senior managers of Mr Price and FirstRand as indicated in Table 5. Personal visits were made to conduct the first interviews with all interviewees and then three follow up interviews were conducted by telephone. According to Welman, Kruger and Mitchell (2005), conducting interviews face to face and by telephone offers a versatile way to collect data and allows the researcher to ask probing questions and to seek clarity from the participants. Each interview lasted approximately one hour and all interviews were digitally audio-recorded and transcribed afterwards for the purposes of data checking, coding and analysis. During the initial interviews, the researcher noted the clarifying questions asked by the interviewees and revised some of the questions in the interview guide in order to make them clearer in the subsequent interviews.

Table 5 – List of Interviewees

Company	Title
Mr Price Group	Group Supply Chain Director and Alternate Board member
Mr Price Group	Business Development Director for International Operations
Mr Price Group	e-Commerce Director
FirstRand Group	Chief Investment Officer
FirstRand Group	Expansion Programme Manager
FirstRand Group	Head of IT Governance
FNB Africa	Head of Risk
FNB Africa	Head of Integration & Operations
Total	8

Thirdly, some of the business operations of Mr Price and FirstRand in South Africa and Mozambique were visited in order to observe and to verify some of the data collected from interviews and secondary sources. Finally, after reviewing documents, data transcriptions, notes taken during interviews and direct observations, the author wrote the case report and sent it to the companies for verification, as proposed by Wæhrens, Cheng and Madsen (2012). According to Deng (2009) this four step approach ensures that the reliability and accuracy of explanations in this study is increased.

4.6 Data Analysis

The general strategy that was used to analyse the data in this study was that of relying on theoretical propositions, as according to Yin (2003), this strategy assists in focusing attention on the relevant data and ignoring data which was not useful to the study. Furthermore, Yin (2003) argues that the propositions help to organise the entire case study and to define alternative explanations to be examined. The audio recording of each interview was transcribed and each transcript together with the notes was reviewed to ensure that all key points relating to the propositions were captured. As mentioned previously, in three instances follow up questions were formulated and follow up telephonic interviews were conducted.

Pattern-matching was the analytical technique used to analyse the data. According to Yin (2003) the pattern-matching technique compares an empirically based pattern with a predicted one. If the patterns coincide, the results help the study to strengthen its internal validity (Yin, 2009). In order to ensure high quality of the analysis, all the relevant evidence was analysed, as proposed by Yin (2009). Further, the material aspects of the study were addressed using the available data. According to Yin (2009), this analytical technique demonstrates the researcher awareness of current thinking and discourse about the topic of this study.

4.7 Research Limitations and Assumptions

The limitation of this study was the fact that only FirstRand's and Mr Price's operations were investigated. Therefore several business sectors beyond retail and banking were not investigated. Furthermore, the period of review for the study was six years and therefore certain aspects of internationalisation through flexible replication model may not have emerged yet during this period. These limitations will have to be borne in mind when interpreting the findings. However, as the flexible replication phenomenon has received little attention from literature, this study will increase our understanding of adopting the flexible replication as a model of international expansion. Furthermore, the use of the comparative two case-study strategy provided external validity to this research, as proposed by Yin (2009) and Klein and Wöcke (2007).

As a result of adopting the case study strategy in conducting this research, the results of the study are not representative of all multinational corporations that have adopted flexible replication as a model for international expansion. However, in line with Yin's (2003)

argument, this study is generalizable to theoretical propositions and the theoretical framework developed in this research can be generalised to new cases.

The direct involvement and presence of the interviewer in the semi-structured interviews may have also introduced error in the form of interviewer bias, leading respondents to give modified or untrue answers, as proposed by Zikmund (2003). Furthermore, the results of this study are mainly dependent on the quality of the information provided by the interviewees during the in-depth interviews. An assumption was made that all the data collected were true, correct and accurate in all material respects. However, in order to increase the reliability of data collected through interviews, the responses to the questions in the semi-structured interviews were carefully cross-checked with the other data that were collected. Furthermore, secondary data, follow up questions and interviews, and observations were used to collect more data until the researcher was no longer receiving new information. Therefore, data were collected until a point of data saturation was reached.

CHAPTER 5: RESULTS

5.1 Introduction

The purpose of this chapter is to present the evidence collected and to analyse such evidence following the methodology outlined in chapter four. The evidence is set out with the aim of establishing the benefits of adopting flexible replication as a model of international expansion, an optimal mix of fixed and variable elements of a business model of an internationalising firm and the circumstance and timing of the adoption of the flexible replication model. The findings from the first organisation that was investigated, Mr Price, are presented first and thereafter FirstRand's findings are presented. The chapter is laid out such that the findings are clustered around the research questions and propositions.

The researcher's judgement was used to select the two cases in order to acquire deeper understanding of the benefits of internationalising through flexible replication. The cases were also carefully selected to gain insights on configuring a business model that appropriately balances replication and adaptation. Furthermore, the cases of this study were purposefully selected with a view of establishing the circumstances and timing of adoption of the flexible replication model by internationalising firms. Secondary data of the two companies were collected and analysed, observations were made on some of the operations of both organisations, and eight senior managers of both organisations (as set out table 5) were interviewed. The data collected aimed to answer the following questions:

Research Question 1: Why should internationalising firms achieve high degrees of similarity of business operations, whilst taking advantage of benefits of local adaptation?

The following proposition was used to obtain evidence to answer research question 1:

Proposition 1: Internationalising firms will realise higher performance when they achieve an optimal balance between the fixed and variable elements of their business models (Jonsson & Foss, 2011).

Research Question 2: How can internationalising firms achieve high degrees of similarity of business operations, whilst taking advantage of benefits of local adaptation?

The following propositions were used in obtaining evidence to answer research question 2:

Proposition 2: Internationalising firms that fix the element of their business models that are affected by the integration pressures and vary elements that are affected by responsiveness pressures, achieve an optimal flexible replication model.

Proposition 3: Internationalising firms having clarity of their winning attributes design a flexible replication approach prior to operating in a foreign environment (Kodzi, 2013).

5.2 Summary of Findings

The balanced scorecard was the performance measurement tool used to evaluate the performance of both Mr Price and FirstRand. The data show that the implementation of the flexible replication model has assisted both Mr Price and FirstRand to realise higher performance. Figure 2 below shows that Mr Price sales of its operations outside of South Africa increased significantly after adopting the flexible replication model. Furthermore, Figure 3 below also show that after the adoption of the flexible replication model, FNB's subsidiaries outside of South Africa are doing well financially, despite the on-going investments by organisation in start-ups in other parts of Africa.

The customer perspective analysis show that the flexible replication model enables both organisations to continuously offer products and services that are appropriate for customers in different markets, hence improving customer satisfaction. The internal business perspective analysis show that the adoption of the flexible replication model has led both organisations to develop internal processes that ensure that value to the customer is delivered effectively and efficiently in different markets. The analysis of learning and growth perspective reveal that both Mr Price and FirstRand are continuing to grow and to share learnings across their subsidiaries in order ensure that the flexible replication model delivers the desired results.

The data reveal that both Mr Price and FirstRand fix certain elements of their business models and allow certain elements of their business models to vary. Mr Price and FirstRand replicate their value propositions when expanding to countries outside of South Africa. In order to be successful in a foreign market, both organisations reinforce their value proposition by selecting the products that are suitable for each market based on prior research.

The results also show that Mr Price and FirstRand target the same customers in all the markets that they operate in, with a view of delivering effectively and efficiently on their value propositions. The distribution channels used by both Mr Price and FirstRand differ from

country to country depending on customer needs and infrastructure in each country. Furthermore, both organisations build and maintain relationships with their customers differently in each country due to *inter alia* cultural and language difference in each market.

It was found that the value configuration element of the business model of both companies is replicated in all markets, subject to the regulatory requirements of each country. In addition, both Mr Price and FirstRand regard the expertise residing within their employees as providing the organisation with a core competency, as these expertise allow the organisation to satisfy the needs of their customers better than their competitors. Therefore, both organisations replicate this core competency in all their operations through *inter alia* training and skills transfer initiatives. Both Mr Price and FirstRand identified partnerships as being essential in enabling the organisations to perform well. Therefore, all strategic partnership networks of both organisations are managed at head office level.

In relation to the cost structure element of a business model, it was found that both organisations integrate the costs of all their subsidiaries through the accounting systems, for financial reporting purposes. The evidence also shows that the revenue models of the subsidiaries of both organisations are allowed to vary depending on the customer needs and regulations of each market.

The finding show that Mr Price and FirstRand develop firm-specific advantages in their home market and since these firm-specific advantages deliver successful results in that market, both organisations design the flexible replication model for operating in a foreign market of interest prior to operating in that market. Extensive research conducted by both organisations prior to expanding into new territories also assists the organisations in designing a successful flexible replication model for the new market. The evidence also shows that the exploitation of the firm-specific advantages and the perceived growth opportunities in the heterogeneous markets in other parts of Africa are the main drivers behind the adoption of flexible replication as a model for international expansion, by both organisations.

The paragraphs below present the analysis of the results of the study in greater detail.

5.3 Mr Price

Mr Price was established in 1986 as a South African fashion-value retailer that sells predominantly for cash (Mr Price Group Limited, 2007). The organisation's vision is to be a top performing retailer by *inter alia* having a highly focused and well-executed international strategy which includes owning and controlling its stores in new markets wherever possible

(Mr Price Group Limited, 2013). Mr Price currently has operations in a form of corporate owned stores in Botswana, Ghana, Namibia, Nigeria, Lesotho, South Africa and Swaziland (Mr Price Group Limited, 2013). It also has 26 franchise operations trading in Kenya, Malawi, Mauritius, Mozambique, Rwanda, Tanzania, Uganda and Zambia (Mr Price Group Limited, 2013).

Mr Price's international division is responsible for testing an effective business model for trading in each new territory or market and for scaling up operations in such territories or markets in line with the organisation's international strategy (Mr Price Group Limited, 2011). The first test corporate-owned store outside of the Southern African Development Community (SADC) region was Mr Price's apparel store in Lagos which opened in March 2012, and the second store was opened in Accra in June 2012 (Mr Price Group Limited, 2012).

5.3.1 Benefits of Flexible Replication

This section presents the results of the benefits of internationalising through flexible replication based on the data collected on Mr Price. The evidence in this section is set out to answer research question 1 by either supporting or opposing proposition 1. The balanced scorecard which measures the performance of an organisation from the financial, customer, internal business and learning and growth perspectives, was used to analyse the performance of Mr Price with the view of establishing the benefits of adopting flexible replication as a model for international expansion.

5.3.1.1 Financial Perspective

Mr Price intends to be an internationally competitive retailer, with robust top line growth and foreign revenue increasing at a higher rate than in the home market (Mr Price Group Limited, 2013). In order to achieve the goal of growing its top line, the organisation is currently researching and testing new markets (Mr Price Group Limited, 2013). The two corporate owned test stores in Ghana and Nigeria have performed well within the first year, even after including the set up costs (Mr Price Group Limited, 2013). Figure 2 below, sets out the sales figures of Mr Price stores outside of South Africa for the year 2011 and 2012. The data of Mr Price's stores outside of South Africa, prior to 2011 were not available. The test stores in Ghana and Nigeria which were launched in 2012 contributed R32 000 000 and R54 000 000 respectively in terms of sales revenue (Mr Price Group Limited, 2013).

Figure 2: Sales Figures of Mr Price Operations Outside of South Africa

Ownership Model	2011 (R'm)	2012 (R'm)
Corporate-Owned	548.4	778
Franchise	84.4	94
Total (% of Group Sales)	632.8 (5.4%)	872 (6.6%)

Note: Adapted from Mr Price Group Limited, 2013)

In 2011 Mr Price adopted the strategy of acquiring the existing franchise stores and converting such stores into corporate owned stores where possible. Furthermore, Mr Price's current strategy is to expand internationally through opening corporate stores. Figure 2 demonstrates that the organisation's strategy of moving from the franchise model to the flexible replication model when internationalising, is enhancing the organisation's financial performance. Although the data in Figure 2 is over a period of one year and as such does not fully demonstrate the impact of the flexible replication from a financial perspective, it still supports to some extent the notion that flexible replication leads to higher performance. The quotes below also illustrate that the implementation of the flexible replication model leads to higher performance:

"So part of what we doing at the moment is trying to buy back a few franchises and make them corporately owned stores.....Part of the reason why we are doing this is because we have successfully rolled out our own corporate stores in other key African countries like Nigeria and Ghana – very successfully". (Respondent 5)

"Profitability enhancement comes from the fact that you now got a whole lot of extra stores out there delivering branch contribution....which is obviously the gross profit they are making on those sales that they are doing, less their cost of stores" (Respondent 6).

The non-negotiable elements of the business model of Mr Price assists the stores in different markets to increase their contribution to the group's profits as the stores do not incur a lot of head office overheads due to the integration of some of the functions. On the other hand, the local adaptation also enhances the profitability of the organisation as it allows the stores to focus on retailing through more accurate forecasts on customer demands and making the appropriate assortment decisions which lead to the stores having the right products

available. The following quotes capture the benefits of adopting the flexible replication, from a financial perspective:

"They are feeding off the head office infrastructure, and that is where the leverage comes from, so if you are getting good enough branch contributions on those foreign countries, then it enhances ones margin obviously, because it is a nice hit to the bottom line without dragging another big overhead with it, being the head office overhead. So you are kind of getting scale effectively". (Respondent 5)

"Locally, as we fine tune the model locally, the result would be a high density, a high sales density, and additional stores, as your footprint would grow and your densities would grow. So in other words you are getting greater contributions from the stores and you are able to open more stores". (Respondent 6)

5.3.1.2 Customer Perspective

Mr Price's target customer is a middle income consumer who enjoys quality, comfort and fit and who wants to keep abreast of the latest international trends at exceptional prices (Mr Price Group Limited, 2013). The organisation's first expansion out of the SADC region through fixed replication failed in Chile as a result of the assortment that was not appropriate for that market. The failure of the fixed replication model in Chile and the challenges presented by the fixed replication model in a form of franchise stores, resulted in Mr Price taking a decision of moving away from the fixed replication model to a flexible replication model. Respondent 7 illustrated the challenges of adopting the fixed replication model by stating that: *"The problem has been that when you work with a franchisee you are letting go of the things that you are doing best, which is retailing, because you are basically just giving the stock and asking somebody else to go and do the retailing for you"*.

The flexible replication model also allows Mr Price to trade counter-seasonal. The ability to trade counter-seasonal has a positive effect on the South African operations as Mr Price now has greater volumes which justify the provision of a longer range of summer merchandise during the winter season to the coastal stores in South Africa. The organisation is now able to offer the appropriate products to the customers at all times and this ability increases customer satisfaction. Respondent 5 captured this concept of trading counter-seasonal by stating that: *"With our countries in Africa, like Nigeria, their summers are different to our summers, although it is hot most of the year round; they are like in the northern hemisphere, so we provide them with more summer merchandise during our winter"*.

5.3.1.3 Internal Business Perspective

The adoption of the flexible replication model has led Mr Price to re-engineer its internal business processes in order to improve efficiencies, release capacity and enhance the work environment (Mr Price Group Limited, 2013). The organisation is consolidating merchandise at source with shipment directly to point of customer demand (Mr Price Group Limited, 2012). This improvement in the shipping process has led to cost reduction and has also reduced lead times (Mr Price Group Limited, 2012). The improvement of the shipping process also assists the organisation in eliminating double duties as import duties will no longer be incurred in South Africa and again in foreign markets outside of the SADC region (Mr Price Group Limited, 2013). The improvement in these processes also ensures that the organisation reduces the selling price in the markets outside of South Africa and this has results in the reinforcement of Mr Price's value proposition in those markets and increased customer satisfaction (Mr Price Group Limited, 2013). Respondent 7 illustrated the improvement of internal processes by stating that: "*we are now investing in a system that will allow us to ship directly from China to our businesses in each of the countries. That will save us the leg of shipping to South Africa and also save us the double duty; that in turn will allow us to improve our margins and to reduce our pricing*".

Furthermore, Mr Price launched an e-commerce platform in order to allow its customers to shop on-line. The important aspect of e-commerce is that it gives customers the whole range of products that they would not have ordinarily had access to in an average Mr Price store. According to respondent 8, "*What e-commerce does is it stocks the full range, and that means it gives every South African, every African or everyone in the world, the opportunity to buy the full range, and not just the range from an average store*".

5.3.1.4 Learning and Growth Perspective

Mr Price has consistently delivered exceptional growth, however, the organisation still views itself as a growing company with great prospects (Mr Price Group Limited, 2013). As a result of adopting the flexible replication model for the purposes of international expansion, Mr Price has committed investments of up to R2.5 billion for a new ERP system, smartware solutions and distribution centre (Mr Price Group Limited, 2013). These investments will be deployed over a two year period and will support the organisation's future growth (Mr Price Group Limited, 2013). Mr Price also recognises that skilled and committed people, who have high passion for their work, drive a successful business (Mr Price Group Limited, 2013). Therefore with on-going expansion and business systems improvement, the organisation has recognised that management of change is essential in ensuring that employees

understand and are energised by the various opportunities in both their work and careers (Mr Price Group Limited, 2013).

Furthermore, moving from the franchise model to a flexible replication model through corporate owned stores outside of South Africa has pushed the business to invest in new retail platform systems in order to meet customer demands. These systems will allow the organisation to be competitive globally. The organisation is also transferring skills to its employees in other parts of Africa through different training platforms. These platforms include manuals and videos that *inter alia* capture the values and culture of the organisations. The lessons learned during the expansion process are documented and incorporated into the organisation's manuals and are then used in future expansions. The quotes below illustrate the benefits of the flexible replication from the growth perspective:

*"The expansion into Western Africa has presented a number of challenges so much so that we actually have to invest in a new platform, a new ERP, retail platform system that will allow us to plan more effectively for our international stores".
(Respondent 6)*

"Well the key guy on the ground there would obviously come back here every so often and meet with the relevant role players here and say listen guys, this is an issue here. And often those issues there will be issues that we will encounter when we go to other countries; we might have to adapt our system, our process, to account for that kind of nuance because it is a nuance that is going to be a problem for many other countries". (Respondent 7)

5.3.2 Optimal Mix of Fixed and Variable Elements of a Business Model

This section presents the results of the question relating to achieving an optimal mix of fixed and variable elements of a business model of an internationalising firm. The evidence in this section is set out to answer research question 2 by either supporting or opposing proposition 2.

5.3.2.1 Product Pillar

The product pillar of the business model indicates what an organisation is offering. This pillar shows the organisation's product value proposition. Table 6 provides a description of the product value proposition element of a business model.

Table 6 – Product Pillar (1)

	Pillar	Business Model Building Blocks	Description
What?	Product	Product Value Proposition	Gives an overall view of a company's bundle of products and services. A brand is an offering from a known source and it carries many associations in people's minds that make up the image (Kotler & Keller, 2012)

Note: Adapted from Osterwalder, Pigneur and Tacci (2005)

Product Value Proposition:

Mr Price is a value retailer and over the past years its brand has focused on fashion, quality and value (Mr Price Group Limited, 2009). The organisation believes that customers' perception of value will be high if they are satisfied with the level of fashion, the quality and the price of the merchandise (Mr Price Group Limited, 2013). The respondents confirmed that the key to Mr Price's success on the African continent has been its product value proposition which ensures 'Fashion Value' for its customers. According to the respondents, the organisation's value proposition is replicated in all its operations. The observations made at a Mr Price store in Mozambique and five stores in South Africa confirmed that the product value proposition is consistent in all the organisation's operations. All the stores that were visited had *inter alia* the same brand and similar products. The following quotes illustrate importance of replicating the product value proposition:

"You know so when we talk about why we can be successful in Africa, it is being able to offer the same fashion value, and value obviously has an element of quality in it, relative quality, but obviously the pricing is key. But it is that, you know, the fashionability that goes with it". (Respondent 4)

"It is actually fashion and value. Those are the two big things that are in our DNA that overrides everything else. Quality is a factor of the value". (Respondent 6)

The appropriate assortment in all stores and the ability to trade counter-seasonal as a result of implementing the flexible replication model has enhanced Mr Price's capability of delivering on its value proposition. Respondent 4 illustrated the importance of offering the appropriate products to customers at all times by stating that *"if you don't have the right product it doesn't matter how good you are, what your value is, people aren't going to buy it. So you have got to have the right product in front of the customer"*.

The respondents also emphasised that the price is an essential component of value to the customers. Respondent 6 captured the importance of price by stating that “*We are selling a better quality product but at incredibly low prices. So that is the value side of things*”.

5.3.2.2 Customer Element Pillar

The customer element pillar of the business model focuses on who the company wants to offer value to. The elements of the business model covered by this pillar are the target customers, distribution channels and relationships. Table 7 provides a description of the elements of the business model covered by this pillar.

Table 7 – Customer Interface Pillar (1)

	Pillar	Business Model Building Blocks	Description
Who?	Customer Interface	Target customer	Describes the segments of customers a company wants to offer value to.
		Distribution channel	Describes the various means of the company to get in touch with its customers.
		Relationships	Explains the kind of links a company establishes between itself and its different customer segments.

Note: Adapted from Osterwalder, Pigneur and Tacci (2005)

Target Customer:

Mr Price’s target customer is a middle income consumer who wants to keep abreast with the latest international trends at exceptional prices (Mr Price Group Limited, 2010). This target segment is made up of younger people between the ages of 16 and 24, predominantly female and across all racial groups (Mr Price Group Limited, 2010). Furthermore, Mr Price targets the same customers in all markets due to the fact that its value proposition appeals to the targeted segment and the organisation has the required expertise to service that segment in different markets. Therefore, the organisation began its internationalisation by strategically expanding into countries where there are little demographic or cultural differences to the South African market, so that it can maintain its value proposition. The fact that Mr Price targets a similar customer in different markets was confirmed by respondent 4 by stating that, “*the target market is always going to be same. I mean in SA we are targeting LSM's 5 to 10*”.

The respondents acknowledged that there might be slight differences in the demographics of the customers in countries outside of South Africa. The observations made in a store in Mozambique and the stores in South Africa (including in store advertising and the actual

customers in the stores) confirmed that Mr Price target customers are predominantly between the ages of 16 and 24. It was also confirmed through observations that the customers are similar in all Mr Price's operations that were visited.

Distribution Channels:

Mr Price conducts robust market research in different markets and has feasibility processes in place to ensure good location selections and store sizing, which positively impact trading densities and store profitability (Mr Price Group Limited, 2010). The organisation responds quickly to real estate opportunities and carefully monitors stores that are not achieving the required standards (Mr Price Group Limited, 2012). In July 2012, Mr Price launched its online retail offer. The successful implementation of this platform provides the organisation with opportunities not only in its existing markets, but in other markets where it is not currently present (Mr Price Group Limited, 2013). Furthermore, according to respondents the distribution channels depend on the requirements of the local customers, the infrastructure and the regulations in each market. Respondent 5 illustrated this concept by stating that: "*as we identify a market we will decide, are we just going to start off with purely online or are we going to test a brick store, or do we have a combination of bricks and online. This is part of our market research*".

The organisation is currently experiencing challenges in implementing its online platform in Nigeria due to lack of infrastructure and onerous regulatory requirements. Mr Price believes that there is great potential that can be unlocked through an online platform in Nigeria, and therefore it is investigating different ways of overcoming the challenges in that market.

Relationships:

Mr Price ensures focused and appropriate communications with its target customers in different markets. The organisation engages with its customers through *inter alia* social media, customer surveys, customer service hotlines and store associates' interactions with customers (Mr Price Group Limited, 2013). The organisation's marketing team ensures alignment of marketing initiatives with the target market and campaigns are measured against sales achieved (Mr Price Group Limited, 2009). Mr Price's foundation for building and maintaining relationships with customers in all markets is based on its value proposition of offering fashion value to its customers. The organisation aspires to build its brand name and visibility internationally and to offer fashion value to its customers in different markets. According to respondent 7, the organisation aims "*to build the brand in the same way as the people love us here, is to grow that same DNA in each of these countries*."

According to the respondents, the customer needs, language and the culture of each country determines how the organisation builds its relationships and communicates its value proposition to its customers. The organisation takes into account *inter alia* the sophistication of the customers and different ways in which different target customer segments access information in each country, when developing the market strategy of a country. The observations at a Mr Price store in Mozambique and the stores in South Africa confirmed that the organisation builds relationships in different ways, in different markets. The use of different languages to communicate with customers in different countries was the most obvious observation. Respondent 8 captured the importance of building relationships based on customer needs in each country by stating that, “*On the marketing side of things, well you can go try and apply the things that work in SA in Nigeria for example, but it just may not appeal and then you are going to lose your money. So it is not even a nice to have, it's a... you know you have to adapt yourselves in the market you go to, in a way that it can appeal to your local target audience*”. Markets are very different and you need to be able to have local knowledge to exploit that.

5.3.2.3 Infrastructure Management Pillar

The infrastructure management pillar of the business model focuses on how the company manages its infrastructure in order to provide value to its customers. The elements of the business model covered by this pillar are the value configuration, core competency and partner network. Table 8 provides a description of the elements of the business model that are covered by this pillar.

Table 8 – Infrastructure Management Pillar (1)

	Pillar	Business Model Building Blocks	Description
How?	Infrastructure Management	Value Configuration	Describes the arrangement of activities and resources.
		Core Competency	Outlines the competencies necessary to execute the company's Infrastructure business model.
		Partner Network	Portrays the network of cooperative agreements with other companies necessary to efficiently offer and commercialize value.

Note: Adapted from Osterwalder, Pigneur & Tacci (2005)

Value Configuration:

Mr Price has a culture of entrepreneurship and innovation, while simultaneously enhancing accountability and solid integrated performance (Mr Price Group Limited, 2012). The head office of the organisation provides the following services to all its trading divisions:

information technology, internal audit, human resources, real estate, financial management, risk management and governance (Mr Price Group Limited, 2013). According to the respondents, the integration of these services at head office reduces the operational costs of the subsidiaries and leads to increased contribution from the subsidiaries as all the subsidiaries leverage from head office resources and skills. Respondent 6 illustrated this concept of value configuration by stating that “*what we don't want to do is to replicate unnecessary resources which obviously come with costs. You want to leverage what you have, as best you can, and as far as possible, and only go creating new resources and so on, where you absolutely have to.*”

Mr Price continues to identify opportunities in information technology, supply chain and product sourcing, to further increase efficiencies and to support future growth plans (Mr Price Group Limited, 2012). Therefore there is a need to ensure that the organisation is able to efficiently service new markets and territories. Projects that will result in an updated blueprint for both local and international operation are underway, including the establishment of a consolidation centre in China, which will enable shipping to be made directly to the end destination (Mr Price Group Limited, 2013).

In order to support the new projects Mr Price is also implementing information technology systems including new ERP systems, smart software solutions and retail platform systems that will ensure that the organisation is able to service international markets and new territories (Mr Price Group Limited, 2013). These investments will ensure that the systems across the different businesses are integrated in order to allow for greater control of the brand and higher visibility of activities in different businesses. Furthermore the integration of the systems will lead to the reduction of selling price of the products in key foreign markets, further embedding the organisation's value offer and driving high market penetration.

According to the respondents, the organisation replicates its value configuration in all its operations. The only exception to replicating the value configuration occurs only in response to local regulations. According to respondent 5, “*sometimes there are slight changes like certain local laws where you are required to store X on your pc and point of sale. In some countries you have to do things slightly differently and then we have to re-write certain programmes*”.

Core Competency:

Mr Price's merchandise offer allows it to be favourably positioned in many international markets (Mr Price Group Limited, 2009). The organisation has the ability to add value to its customers by providing fashion of high quality, at low prices, and having stock on hand of

the wanted items (Mr Price Group Limited, 2013). Furthermore, Mr Price has the people who possess the relevant specialised skills (including retail expertise) which are necessary to add value to the customer and enable the organisation to execute its business model effectively and efficiently (Mr Price Group Limited, 2013). Mr Price's people include strong leaders at board and executive management level who provide the required direction for the company to act quickly in a dynamic retail environment (Mr Price Group Limited, 2013). According to the respondents, the skills possessed by Mr Price's people, as well the systems that are controlled by Mr Price, give the organisation a competitive advantage. Therefore, the organisation considers the skills of its people as a core competency that is necessary to execute its business model.

Mr Price leverages the skills within the organisation through the transfer of knowledge. The organisation requires that all staff members undergo training in order to ensure brand consistency across the countries. An expert from South Africa is always sent to manage a start-up operation in another country and to provide on-the-job training for the local staff in order to equip them to manage the business operations in that country. Operating manuals are used to train employees on processes, and video and exchange programmes are also used to train employees on the organisation's values and culture. The quotes below illustrate how the organisation leverages the skills which are possessed by its people:

"We will always send an expert in our business to go and head up the start of that particular country. So he or she has got the knowledge, understands the brand. They have been working in this business for some time and then they would go and recruit the locals and then the locals would come to South Africa to have training possibly. Or they will have training manuals, train themselves on the computer you know, you know learning is a big thing for us". (Respondent 5)

"It is important to identify resources, skills, or potential resources and skill them up, so they are working alongside your ex-pats until the time they are self-sufficient". (Respondent 6)

Partner Networks:

According to Mr Price, having the right product, at the right place, at the right time and at the right price is what makes or breaks a fashion-value retailer (Mr Price Group Limited, 2012). Therefore, the organisation's ability to perform well is aligned with its ability to partner with its key suppliers (Mr Price Group Limited, 2013). Accordingly, Mr Price's partner networks enable it to strike an appropriate balance between price and quality, to spread country risk and risk of supplier dependency, and to improve on-time delivery and shorten lead times (Mr

Price Group Limited, 2012). As such, Mr Price's resourcing strategy involves building strategic relationships with certain key suppliers and working closer with certain local suppliers to improve speed to market for higher fashion turnaround time (Mr Price Group Limited, 2013).

The respondents confirmed that partnering with a variety of service providers is an important element for Mr Price's operations. Therefore, all the strategic partner networks are controlled by Mr Price's head office. The concept of controlling strategic partner networks at head office was captured by respondent 5, who stated that "*the suppliers are controlled from here and we ship, we direct the ship, so all that happens in that country is that these containers arrive, and then we use a local clearing and forwarding agent, to ship the goods to our local facility. We would listen to the recommendations of the expert on the ground, but ultimately we would control who is going to be the banker, the accountant, the auditor, the attorney if we need one, etc.*"

5.3.2.4 Financial Aspect Pillar

The financial aspect pillar of a business model focuses on how a business employs its financial resources and makes an income. The elements of the business model covered by this pillar are the cost structure and revenue model. Table 9 provide a description of the elements of the business model that are covered by this pillar.

Table 9 – Financial Aspect Pillar (1)

	Pillar	Business Model Building Blocks	Description
	Financial Aspect	Cost Structure	Sums up the monetary consequences of the means employed in the business model.
		Revenue Model	Describes the way a company makes money through a variety of revenue flows.

Note: Adapted from Osterwalder, Pigneur & Tacci (2005)

Cost Structure:

In order to sustain the value-focused business model and improve margins in all its operations, Mr Price maintains a low overhead structure and ensures that costs are contained, while continually improving operational efficiencies through innovation, improved systems and supplier engagement (Mr Price Group Limited, 2012). Every store in the Mr Price group is required to manage its own costs within the organisation's framework. The costs of each of the stores are carefully monitored by head office and are included in a centralised system for financial reporting of the group. This concept of centralising the cost

structure is captured by respondent 5, who stated that “*We try and keep it as centralized as possible, in terms of the accounting but obviously they have to have books and records there as well. But we like to make sure that we know exactly what is going on. And we know what has been sold, we know what the cash takings are every day, etc.*”

Further, the integration of certain services at head office reduces the costs of doing business for subsidiaries and therefore enables them to increase their contribution to the group’s profits. According to respondent 7, “*the profitability enhancement comes from the fact that you have now got a whole lot of extra stores out there delivering branch contribution. The stores don’t have to take a whole lot of head office overheads and that gives you a nice big contribution. The leverage comes from not replicating head office functions*”.

Revenue Model:

Mr Price’s revenue from stores outside of the SADC region comes from apparel sales (Mr Price Group Limited, 2013). The organisation intends to expand its other products including home textiles, home ware, furniture, bedroom, living room and bathroom ware to other countries outside of the SADC region in order to increase its revenue streams in new markets (Mr Price Group Limited, 2013). The expansion of the revenue streams will depend on the customer requirement in each market (Mr Price Group Limited, 2013). According to respondent 5, the contributions across the stores in other countries outside of South Africa are generally in the same bracket as those of the South African stores. Further, “*newer stores tend to have a smaller contribution to the group profits but as time goes on they fall in line with the other stores*”. (Respondent 5)

5.3.3 Circumstances and Timing of Adoption of Flexible Replication

This section presents the results relating to the circumstances that lead to the adoption and the timing of the adoption of the flexible replication model for the purposes of international expansion. The evidence in this section is set out to also answer research question 2 through either supporting or opposing proposition 3.

Mr Price started expanding its business internationally by setting up operations in the neighbouring countries including Botswana, Lesotho, Namibia, and Swaziland. The driver behind expanding to these neighbouring countries was that the organisation had built its core retailing competencies in South Africa and had competed successfully in the domestic market. Further, the culture of the neighbouring countries is similar to that of South Africa and therefore it is easier to do business in those countries. Respondent 4 illustrated this concept by stating that “*We have been trading in Botswana, Namibia, Lesotho and*

Swaziland for a long time now. I think what makes it easier is that you are almost one to one in terms of currency conversion and you drive your trucks across the border. The culture is very similar. So that makes it easier and we have to keep reminding ourselves that those are countries beyond our borders, but we consider them as almost part of South Africa".

According to the respondents, operating in the neighbouring countries allow the organisation to fine tune its core competencies. Furthermore, the fact that the organisation possesses firm-specific advantages and the desire to maintain growth led Mr Price to expand its operations beyond its domestic borders and neighbouring countries. The following quotes capture the concept of expanding to exploit firm-specific advantages and to maintain growth:

"In determining which country you are going to, your product has to be able to sell in that country, as we are our product. So the country doesn't dictate what the product needs to be, the product dictates which country we can go to". (Respondent 8)

"South Africa is becoming quite a saturated market area, all our international competitors are coming here, and so much as all those international competitors are seeing South Africa as an opportunity for them to go there to sustain growth, so we need to look outside of our borders to sustain growth". (Respondent 4).

The respondents also highlighted that, the failure of expanding through fixed replication in Chile, the challenges that were presented by the franchise model, as well as the superior performance delivered by the corporate owned stores, led Mr Price to adopt flexible replication as a model of international expansion.

The international division of Mr Price is responsible for identifying new markets that appear to have attractive trading potential for the organisation's brands (Mr Price Group Limited, 2012). This division undertakes extensive research in relation to *inter alia* identifying unique legislative requirements, conducting country visits, performing pricing comparison, analysing competitors, engaging external resources, and developing and analysing financial feasibilities (Mr Price Group Limited, 2012). According to the respondents, this research takes place prior to the establishment of any operations in a foreign country and the data gathered from the research is used to design an appropriate business model for the country of interest. This aspect of timing of the adoption of the flexible replication model was confirmed by respondent 4 who responded to the question on whether the organisation designs the model prior to operating in a new country by stating that: "*totally, I mean we are doing research all the time on different countries – what are economic conditions...where is the potential....who is our competition there, will our products sell there*".

After configuring a business model for a new market based on prior research, the organisation's international division works with the service divisions within Mr Price to *inter alia* provide across business planning, store location selection, store design, merchandise planning, pricing, systems and supply chain management and understanding and applying the HR policies of the new market (Mr Price Group Limited, 2012). After implementing all the processes and systems, Mr Price opens corporate test stores in the chosen market and fine tunes the business model in that market as more information is gathered. According to respondent 6, "*the scaling up operations occurs once the test store results have been analysed and sustained positive trading results have been delivered*".

5.4 FirstRand

FirstRand Limited (FirstRand) is a diversified South African financial services group that was created in 1998 through the merger of WesBank, First National Bank (FNB), Southern Life, Momentum and Rand Merchant Bank (RMB) (FirstRand Limited, 2007). The organisation currently has four diversified operating divisions namely: First National Bank (FNB), the retail and commercial banking division; Rand Merchant Bank (RMB), the investment banking division; WesBank, the asset-based finance division; and Ashburton, the asset management division (FirstRand Limited, 2012). The divisions represent a portfolio of separately branded profit centres and each division strives to be a leader in its respective market (FirstRand Limited, 2008). Each division takes ownership of its respective strategies, which are executed within the boundaries of FirstRand's vision and shared business philosophy (FirstRand Limited, 2012).

FirstRand executes its international expansion strategy through its retail and commercial banking division FNB. This division has operations in Botswana, Lesotho, Mozambique, Namibia, South Africa (FNB-SA), Swaziland, Tanzania and Zambia (FirstRand Limited, 2012). The organisation plans to expand to Ghana, Kenya and Nigeria in the next three to five years (FirstRand Limited, 2012). In executing FirstRand's international strategy, FNB collaborates with FirstRand head office and other group divisions in order to leverage from their products and capabilities (FirstRand Limited, 2012).

5.4.1 Benefits of Flexible Replication

This section presents the results of the benefits of internationalising through flexible replication based on the data collected from FirstRand. The evidence in this section is set out to answer research question 1 through either supporting or opposing proposition 1. The balanced scorecard which looks at the organisation from the financial, customer, internal business and learning and growth perspectives was used to analyse the benefits of the

adoption of the flexible replication model by FirstRand for the purposes of internationalisation.

5.4.1.1 Financial Perspective

In 2012 FirstRand's operations in African countries outside of South Africa (FNB Africa), contributed 8% to the group's profit before tax (FirstRand Limited, 2012). FNB Africa grew its pre-tax profits by 3% year-on-year (FirstRand Limited, 2012). Overall, FNB Africa performed well, despite on-going investment in start-up operations (FirstRand Limited, 2012). Figure 3 below presents some of the key numbers and financial ratios relating to FNB-SA and FNB Africa.

Figure 3: Key Financial Ratios for FNB-SA and FNB Africa

	2008	2009	2010	2011	2012
FNB-SA: Earnings (R'm)	4654	3756	4276	4787	6157
FNB Africa: Earnings (R'm)	499	514	524	540	516
FNB-SA: Group Contribution	43%	48%	52%	45%	49%
FNB-Africa: Group Contribution	5%	7%	9%	9%	8%
FNB-SA: ROE	33%	26%	31.8%	34.9%	38.7%
FNB-Africa: ROE	34%	27%	20%	19.6%	16.2%
FNB-SA: Cost to Income ratio	57.3%	57.5%	60.5%	58.2%	55.8%
FNB-Africa: Cost to income ratio	46.2%	52%	54.7%	54.3	57.0%

Note: Adapted from (FirstRand Limited, 2008, 2009, 2010, 2011, 2012)

According to the respondents, FirstRand is making significant investments in its existing and start-up operations in the markets outside of South Africa. The organisation has adopted flexible replication as a model of international expansion. Therefore, taking into account the significant investments that are being made by FirstRand in its existing and start-up operations in foreign markets, the numbers and ratios set out in Figure 3 indicate that the adoption of the flexible replication model by FirstRand, is leading to higher financial performance. Respondent 2 captured the concept of flexible replication leading to higher performance in the following quote:

"the subs are brilliant! No. Hell they are brilliant! I can't speak exact because some of the entities are listed but I mean they are making profit wise probably year on year performance even with all the expansion, you are talking close to 20% growth – even with massive expansion and massive losses in start-ups, because it is expensive to run a bank, to set up a bank. I mean your income streams take a long time to actual get going. Zambia was established in 2009, it is only going to be profitable now. And that is not going on year on year basis that is on month to month basis. But that is how long it takes. It is not a quick thing. Once you start going then it's fine."

5.4.1.2 Customer Perspective

FirstRand consistently improves its retail and commercial banking services by focusing on providing innovative and cost effective products and solutions for customers (FirstRand Limited, 2012). The adoption of the flexible replication model allows the organisation to introduce a number of its innovative South African products and delivery channels to its operations outside of South Africa (FirstRand Limited, 2012). As a result, FNB is successfully growing its customer base and transaction volumes in foreign markets (FirstRand Limited, 2012). The flexible replication model also enables FNB to identify the products that will add value to customers in a new market prior to commencing operations in that market (FirstRand Limited, 2012).

Furthermore, the model also allows FNB to introduce more innovative products after the commencement of its operations in a new market, based on customer needs. Respondent 1 captured the concept of introducing more products in a new market based on customer needs by stating that: *"As soon as your customers start to buy in to the new concepts, and then we start to introduce other concepts. I know we are doing it at the moment in Zambia as well: – as we see that the markets are actually accepting innovative products we start to flood the market, with all the things we offer in SA".*

According to the respondents, high levels of customer service are non-negotiable. In order to satisfy the customer, FNB collects client satisfaction data through surveys, observations, and talks with customers. The data is analysed in order to identify areas of excellence and areas that require improvement. Furthermore, the quality of FNB's service to customers in different markets can be measured by independent endorsements such as awards which include: FNB-SA being ranked South Africa's strongest brand in 2012, by Brand Finance and being awarded for the second time the "best customer services award" for the year 2011; FNB Namibia being named the best banking group in Namibia for 2012 by the World Finance

Banking Award; and FNB Swaziland being named the “best bank in Swaziland” in 2012, by the Banker Magazine (FirstRand Limited, 2012).

5.4.1.3 Internal Business Perspective

In order to ensure that its international expansion through flexible replication succeeds, FirstRand implemented measures for increasing mainstream market access to financial services, in all its operations in different markets (FirstRand Limited, 2012). Furthermore, the organisation is carefully monitoring and managing credit and operational risk as well as affordability among all customers on a current and forward looking basis, in all its operations. FirstRand also ensures that credit origination strategies are aligned with forward looking macro-economic indicators, in all the markets in which it operates (FirstRand Limited, 2012).

According to the respondents, the adoption of the flexible replication model has also enhanced FirstRand’s culture of continuous innovation which provides the organisation with a comparative advantage in different markets. Therefore, as the innovations provide the organisation with a comparative advantage, the organisation focuses on *inter alia* implementing its innovations in different markets and as such innovations have the greatest impact on customers and the organisation’s financial objectives. In 2012, FirstRand implemented 1555 innovations in different markets (FirstRand Limited, 2012). An information technology governance framework has also been implemented by the organisation in order to ensure the effectiveness of implementing the organisation’s innovations (FirstRand Limited, 2012). The following quote illustrates some of the processes that FirstRand focuses on from the internal business perspective:

“The things which actually set us apart are online banking, cellphone banking and our ability to deal Forex effectively, efficiently and cheaply. So what we try and do is we use what we believe is a comparative advantage, being our systems, once they are stabilized and established in-country, and to provide products which actually help and improve the service, the end customer experience at the end of the day. And I mean that is really what we have got to focus on, because we are just another one of the other banks otherwise. We are trying to do is we use what we believe is our superior banking platform to deliver first class service”.

5.4.1.4 Learning and Growth Perspective

The expansion through flexible replication allows FirstRand to empower people to run the organisation’s businesses as if they were their own businesses. These businesses are aligned through the FirstRand group strategy, shared values and principles (FirstRand

Limited, 2009). The organisation's philosophy is reflected in its owner-manager culture which is rooted in the belief that if a manager runs a business as if they are an owner, the manager will make decisions that are tightly aligned to the interests of shareholders (FirstRand Limited, 2012). Furthermore, they are also likely to be more entrepreneurial and innovative if they take ownership of the success (or failure) of the enterprise (FirstRand Limited, 2012).

FirstRand operations remain concentrated in its domestic market despite the organisation's investments in other parts of Africa. As a result of this concentration of operations in the domestic market, the organisation believes that it is important to seek geographic diversification through the flexible replication model. Therefore, in 2012, FirstRand applied 10% of its economic value toward expansion and growth and the organisation is investing in building the footprint and expanding the branch network, particularly in the new territories (FirstRand Limited, 2012). This has resulted in customer acquisition and growth in transactional volumes (FirstRand Limited, 2012). Furthermore, FirstRand is investing in technology platforms which are key to providing a holistic transactional capability for its customers in different markets (FirstRand Limited, 2012).

FirstRand has designed a compensation strategy that is tailored towards *inter alia* attracting, retaining and motivating people with the ability, experience and skills to successfully implement the business strategy (FirstRand Limited, 2011). This compensation strategy is also designed to incentivise employees to deliver consistent performance in line with strategic goals and risk tolerance and to reward success appropriately (FirstRand Limited, 2011). Furthermore, the strategy encourages behaviour to be consistent with the organisation's code of ethics, business philosophy and corporate culture (FirstRand Limited, 2011). The organisation has also implemented a human capital strategy, with special focus on employment equity, succession planning and resourcing present and future operations (FirstRand Limited, 2012).

In order to ensure that the flexible replication model delivers the optimal results, FirstRand focuses on training and transferring skills to its employees across Africa. Respondent 3 captured this point by stating that: "*And then you have to ensure you have the correct staff, the correct training and that the people understand the whole process or processes*". FirstRand also ensures that the learnings and experience from different countries are shared across the group and such lessons are taken into account in order to improve the performance of existing subsidiaries and/or in future expansions. The learning and experience are shared *inter alia* through exchange programmes.

5.4.2 Optimal Mix of Fixed and Variable Elements of a Business Model

This section presents the results relating to the question on achieving an optimal mix of the fixed and variable elements of the business model, identified through the data collected from FirstRand. The evidence in this section is set out to answer research question 1 through either supporting or opposing proposition 1.

5.4.2.1 Product Pillar

The product pillar of the business model indicates what an organisation is offering. This pillar reveals the organisation's product value proposition. Table 10 below provides a description of the product value proposition element of a business model.

Table 10 – Product Pillar (2)

	Pillar	Business Model Building Blocks	Description
What?	Product	Product Value Proposition	Gives an overall view of a company's bundle of products and services. A brand is an offering from a known source and it carries many associations in people's minds that make up the image (Kotler & Keller, 2012)

Note: Adapted from Osterwalder, Pigneur and Tacci (2005)

Product Value Proposition:

FirstRand's value proposition is providing innovative products and channels at an acceptable cost to its customers (FirstRand Limited, 2010). This is done through providing superior service levels to customers, value for money and innovation (FirstRand Limited, 2012). The value proposition is supported by various reward programmes; technology (including the banking app and cellphone banking) and innovative products. This value proposition provides the organisation with a superior competitive advantage (FirstRand Limited, 2012).

According to the CEO of FNB Africa, the organisation takes the look, feel, brand and service of FNB into other African countries offering similar products which can be adapted as needs differ (FirstRand Annual Report, 2008, p. 21). The observations made in two of FNB's branches in Mozambique and four branches in South Africa, confirmed that the brand including the look, feel and services in all the branches of FNB, are similar. The respondents also confirmed that FNB's value proposition is replicated in all the countries where the organisation has operations. Respondent 2 captured the concept of replicating the value proposition by stating that "*What we are trying to do is to use what we believe is our superior banking platform to deliver first class service, because effectively wherever we go outside*

the borders of SA, the biggest complaint that everyone has is that the quality of the banking service is pretty awful”.

According to the respondents, FirstRand is able to differentiate itself in different markets mostly through its superior systems, innovative banking products and superior services. Therefore, according to respondent 2, the organisation tries to improve the quality of the banking service by providing innovative products and services, including online banking and cellphone banking services. The provision of these innovative products and services help the organisation to improve the quality of the banking service to the end customer.

5.4.2.2 Customer Interface Pillar

The customer pillar of the business model focuses on who the company wants to offer value to. The elements of the business model covered by this pillar are the target customer, distribution channel and relationships. Table 11 provides a description of the elements of the business model covered by this pillar.

Table 11 – Customer Interface Pillar (2)

	Pillar	Business Model Building Blocks	Description
Who?	Customer Interface	Target customer	Describes the segments of customers a company wants to offer value to.
		Distribution channel	Describes the various means of the company to get in touch with its customers.
		Relationships	Explains the kind of links a company establishes between itself and its different customer segments.

Note: Adapted from Osterwalder, Pigneur and Tacci (2005)

Target Customer:

The description of the target customer element of the business model is set out in Table 11 above. FirstRand targets all customers in different segments of the market in South Africa. The segments targeted by FirstRand are the mass segment (individuals earning less than R100 000 per annum); the consumer segment (individuals earning between R100 000 to R1.1 million per annum); wealth segment (individuals earning above R1.1 million); the commercial segment (mid corporate businesses and small businesses); the global transaction services segment (large corporate customers, financial institutions and certain state-owned enterprises); and the public sector banking segment (national, provincial and local government) (FirstRand Limited, 2011).

FirstRand offers a diverse portfolio of products and services for individuals and corporates which enables it to target the full spectrum of people. When expanding into other countries, the large product diversity allows the organisation to target any customer segment in any country. Therefore the organisation is able to target similar customer in different markets. Respondent 1 described the organisation's target customers in different countries by stating that, *"It is exactly the same; you may focus on one particular area as you go, or develop those market sets, whether it be retail or whether it be commercial". (Respondent 1)*

Distribution Channels:

The description of the distribution channel element of the business model is set out in Table 11 above. FNB services its customers with a physical footprint it believes to be appropriately structured to service all the segments of the markets, including digital and electronic channels (FirstRand Limited, 2011). FNB distributes its products through many innovative channels such as cellphone banking and automatic deposits terminals which allow customer to pay bills and deposit cash in real time (FirstRand Limited, 2012). These channels are designed around customer needs and therefore FNB's focuses on affordability and convenience when designing the distribution channels (FirstRand Limited, 2011).

The respondents confirmed that FirstRand provides numerous banking channels for its customers as a result of its highly innovative and integrated banking platforms. These channels include *inter alia* the physical branch network, cellphone banking, internet banking and ATMs. The organisation takes into account the legislative requirements and the customer needs when implementing the distribution channels in each country in order to provide the appropriate channels in each environment. The quotes below illustrate how FNB's distribution channels differ from country to country:

"You adapt as you go into each country; it just depends on what that country and the level of offering the country has, from an infrastructure and financial services point of view". (Respondent 1).

"There are certain things which we do in SA which are not feasible to launch outside of SA" (Respondent 3).

Furthermore, each country's management selects which banking channels they will offer to the clients depending on the responsiveness from the people to various banking channels. According to respondent 1, *"Your channels, your branch network and that kind of thing, you*

know; you want to keep it up to date, relevant, easy access for people location-wise and that sort of thing. So you make sure that you take all of that into account”.

Relationships:

The description of the relationship element of the business model is set out in Table 11. FNB's strategy of focusing on customer relationships is supported by appropriate product and channel innovation, as well as targeted pricing strategies. This strategy has been successful for FNB as evidenced by a net increase of 1.3 million active accounts in 2012 and growth in customers of 5% to 7.5 million (FirstRand Limited, 2012).

According to the respondents, it is easier for FNB to build and maintain relationships in the SADC region because the organisation believes that it has a very good value proposition and its brand is well known within this region. However, building new relationships with customers outside of the SADC region is challenging as FNB's value proposition and brand is not known in those markets. FNB uses an incremental strategy to build these relationships in countries outside of the SADC region by growing the corporate and large business base of clients quickly in order to have a base of clients to leverage off. This also provides the organisation with the time needed to ensure that its systems get up to speed in the host country before it can target the mass market segment, as it can take up to a year to become fully functional. The concept of building relationships incrementally in markets that are far from the home country is captured in the quotes below:

“You will go in and target your large business and commercial clients. You have to do that because that will give you traction quickly, and once you get them on board you sort of get the payroll attached to it and everything like that, and your retail business with a whole lot of other strategies aligned to it, like your cellphone banking and that kind of thing – that follows, but you know that takes a long, long time to build up”. (Respondent 3)

“The difficulties of servicing and trying to grow a big retail base quickly are that you don't have the infrastructure in place, and people don't know you. So it is very difficult to actually grow that. So that is really an incremental strategy”. (Respondent 2)

Once systems and processes are running smoothly, FirstRand then actively build relationships with the retail market and grow its client base of corporate and business markets. The organisation uses various ways of building relationships with its customers, depending on the segment it is focusing on. These include networking, word of mouth, and marketing and advertising. Marketing and advertising varies from country to country due to

inter alia cultural and language differences. The observations made in some of the FNB branches in Mozambique and South Africa confirmed that FNB communicates with its customers in their preferred language. In Mozambique FNB communicates with its customers predominately in Portuguese and English is predominately used to communicate with customers in South Africa. Furthermore, branding standards are maintained so that the look and feel remains consistent across countries but there is a great amount of freedom allowed in relation to the content of the adverts. According to respondent 1, “*You really want the consistency to come through, from the brand perspective and therefore we are very particular in this regard. However, each country does its own in country advertising and that sort of thing, but the focus would be in the similar vein*”.

5.4.2.3 Infrastructure Management Pillar

The infrastructure management pillar of the business model focuses on how the company manages its infrastructure in order to provide value to its customers. The elements of the business model covered by this pillar are the value configuration, core competency and partner network. Table 12 provides a description of the elements of the business model covered by this pillar.

Table 12 – Infrastructure Management Pillar (2)

	Pillar	Business Model Building Blocks	Description
How?	Infrastructure Management	Value Configuration	Describes the arrangement of activities and resources.
		Core Competency	Outlines the competencies necessary to execute the company's Infrastructure business model.
		Partner Network	Portrays the network of cooperative agreements with other companies necessary to efficiently offer and commercialize value.

Note: Adapted from Osterwalder, Pigneur & Tacci (2005)

Value Configuration:

The description of the value configuration element of the business model is set out in Table 12. The executive committee of FirstRand oversees the synchronisation of the divisions' strategies and the optimisation of the organisation's financial and non-financial resources (FirstRand Limited, 2012). Furthermore, the organisation leverages the group efficiencies in IT and related procurement expenditure (FirstRand Limited, 2012).

According to the respondents, Oracle and Hogan are the standard systems that FirstRand replicates in all its operations. Modules may be adapted or new modules added to the

systems in order to meet the regulatory requirements of the specific country. Sometimes regulatory requirements (e.g. Mozambique and Namibia) lead to a different core system being implemented in a particular country. However, these situations are an exception rather than a rule. The following quotes illustrate the fact that the systems are generally replicated unless the regulatory requirements dictate otherwise:

"In general we leverage off the systems...You might have to localize certain core systems like in the likes of Namibia at the moment, they had to localize the core system. And I think there are one or two systems we might use that are only country specific, but in general yes, you would replicate and leverage off Hogan on SA. And in Mozambique we run off a different system because of Portuguese, there is a regulatory requirement in country to have your systems both front end and back end being in Portuguese". (Respondent 3)

"We use a centralized HR platform here, although we obviously do have separate HR units in each of the countries, but we try and have one HR platform for the group". (Respondent 2)

Core Competency:

The description of the core competency element of the business model is set out in Table 12. According to the chairman of FirstRand, "*banks are complex organisms and when such complexity is replicated over and over again it is extremely difficult to keep track of the most basic principles and reliance on people's competence and integrity increases exponentially*" (FirstRand Limited, 2012, p. 13). Therefore, FirstRand sends its best people to its operations in markets outside of South Africa to drive innovation (FirstRand Limited, 2012). The organisation benefits from an extensive pool of people with diverse experience and competence. Furthermore, the organisation ensures that its divisions have access to suitably qualified and adequate human resources to execute the business strategy successfully (FirstRand Limited, 2010).

The respondents confirmed that FirstRand's people possess the expertise which create the firm-specific advantages for the organisation, as the people assist the organisation to provide quality banking. According to respondent 2, FirstRand employees have *inter alia* "*commercial banking expertise, asset finance expertise as well as global markets expertise, which incorporate the dealing and treasury functions and the corporate investment banking*". The expertise possessed by FirstRand's employees are necessary to execute the organisation's business model, and therefore such expertise are a core competency of the organisation.

Respondents also indicated that it is often difficult to source local people to manage operations in different countries. As a temporary measure, FirstRand takes people from South Africa to establish operations in the foreign markets whilst training the local people to manage such operations in the future. Therefore, FirstRand believes that training and skills transfer of the essential expertise possessed by its employees are essential in leveraging the organisation's core competency. The organisation replicates this core competency by sending key employees from South Africa to its new operations to train and transfer skills to the local employees in the new markets. This concept of providing training and transferring skill was captured by Respondent 3 who stated that: "*Yes, we train people all the time, and transfer the skill and knowledge. That is what you are there for when you start off, but initially there will always be positions that have representation from SA*".

Partner Network:

The description of the partner network element of the business model is set out in Table 8. In the 2012 financial year, 13% of FirstRand's economic value was distributed to its partners (FirstRand Limited, 2012). The amount of the organisation's economic value that was distributed to its partners illustrates the importance of the partner network to FirstRand. As a result of the importance of the partner network, FirstRand has aligned its procurement strategies through leveraging economies of scale and managing concentration risk in the supply chain (FirstRand Limited, 2012).

The partner networks are controlled in South Africa due to their strategic importance. These partner networks include international partnerships such as correspondent banking arrangements with Deutsche Bank and Citi Bank and partnerships with Visa and Master Card. These partnerships are extended to FirstRand subsidiaries in foreign markets. The concept of extending the international partnerships to foreign markets was captured by respondent 1 who stated that, "*We have correspondent banking arrangements...because FirstRand is a highly credible bank, so our correspondent banks would align themselves with us in a foreign market, whether it is Deutsche or Citi or whoever. We would also have a Visa offering or a Master Card offering in foreign markets*".

Furthermore, partnerships that currently exist in South Africa are leveraged in foreign markets where FirstRand operates. In other words, if there is a South African partner that has operations in the country where the organisation wants to operate, the partnership will be extended into that new market as well. Therefore, the first step in the process of creating partnerships in a new market is to run the South Africa procurement process to establish what is available in the destination country. Respondent 3 illustrated this concept of

partnering by stating that, “*We try and source as much of our infrastructure requirements, computers, etc. in the local market. So we try and establish relationships like with HP, we would ask them who is your guy in town? So we would actually run it through a South African procurement process to find out who are the guys we can actually deal with in those countries. So a lot of that comes through our knowledge of who we use in SA*”. This model of partnering further demonstrates that key partner networks are controlled in South Africa.

5.4.2.4 Financial Aspect Pillar

The financial aspect pillar of the business model focuses on how a business employs its financial resources and makes an income. The elements of a business model covered by this pillar are the cost structure and the revenue models. Table 13 provides a description of the elements of the business model covered by this pillar.

Table 13 – Financial Aspect Pillar (2)

	Pillar	Business Model Building Blocks	Description
	Financial Aspect	Cost Structure	Sums up the monetary consequences of the means employed in the business model.
		Revenue Model	Describes the way a company makes money through a variety of revenue flows.

Note: Adapted from Osterwalder, Pigneur & Tacci (2005)

Cost Structure:

The costs of subsidiaries of FirstRand are generally similar, with the main costs relating to employees in the form of salaries, wages and other benefits (FirstRand Limited, 2012). The biggest difference in terms of the amount of costs between the South African operations and subsidiaries outside of South Africa are seen to be the staff costs (other than salaries and wages). These costs relate to the housing for expats from South Africa who have relocated to assist the organisation in growing or establishing a business in a new market, especially in the beginning stages of penetrating a country.

All the subsidiaries are responsible for managing their own costs, however, the accounting structures of the organisation, including the general ledger, are replicated across the different subsidiaries. Furthermore, the same reporting system is used throughout the organisation, with prescribed designation of the costs. All subsidiaries are also required to provide monthly reports by prescribed dates and all reporting is then translated and integrated within FNB for a group report to be formulated. Respondent 1 illustrated the integration of the accounting structures and systems by stating that: “*the GL [general ledger]*

and account structures are all the same. So everything is the same, because you consolidate at the end of the day, into FirstRand. So you have to have similar accounts, line items, designation of what you put in this account".

Revenue Model:

The description of the revenue model element of the business model is set out in Table 13 above. FirstRand has diversified products across various segments in different markets and this provides the organisation with the ability to reduce earnings volatility and mitigate against reliance on specific revenue streams (FirstRand Limited, 2012). The current macroeconomic conditions favour the retail and consumer business and this is indicated by growth in the overall contribution from the retail division for FirstRand whilst the corporate and investment banking division is subdued (FirstRand Limited, 2012).

The organisation has different revenue streams in each country especially due to the fact that interest and non-interest revenue are treated differently in each country. The following quotes capture this concept:

"It differs from country to country because your non-interest revenue compared to your interest revenue differs. In some countries we are very limited in terms of what you can charge a customer in terms of non-interest revenue. So you then find that the swing in the balance sheet is more towards the interest income stream than non-income revenue. In other countries non-interest revenue is a larger component of your income... So it differs from country". (Respondent 1)

"It is also a regulated type of thing; you can't just go and things we charge for here in SA you may not be able to charge for in terms of like on a cheque account or on a cheque book or something like that. You can't charge certain cash deposits or whatever. So you find other ways of bringing in revenue". (Respondent 3)

Therefore country regulations influence revenue streams for banking operations and contributions to bottom line differs from country to country. FirstRand uses a standard branch profitability model to monitor the contribution by each branch and to benchmark within the group and with other banking operations in the country. The organisation also recognises that the costs of doing business in countries outside of the SADC region are higher and therefore the profit margins will be the same in all markets. Respondent 1 illustrated this concept by stating that, *"each branch, it depends on the size, it depends on the market they are in. You know you get big branches, small branches. So contributions differ from branch to branch"*.

5.4.3 Circumstances and Timing of Adoption of Flexible Replication

This section presents the results on the circumstances that lead to the adoption and the timing the flexible replication model from the data collected on FirstRand. The evidence in this section is set out to answer research question 2 through either supporting or opposing proposition 3.

FirstRand started its international expansion by acquiring or starting new operations in Botswana, Namibia, Swaziland and Lesotho. Thereafter, the group acquired a bank in Mozambique and established a bank in Zambia. This was due to the proximity of these countries to South Africa and the fact that the economies of Namibia, Swaziland and Lesotho closely mirror South Africa. Furthermore, the inflationary and interest rate trends in the markets are similar to the trends in the South African (FirstRand Limited). The spill over advertising also makes it easier for FirstRand to operate in the neighbouring countries.

In 2010, FirstRand established its operation in Tanzania, the country furthest away from South Africa, when compared to other countries where it has its current operation. The problem of expanding to a country that is far away from the home country was illustrated by Respondent 2 in the quote below

"the problem that we have is like in Tanzania, you have not got that spill over marketing, people don't know who the hell FNB is. So it is a very different proposition, it is more brand building, coupled with excellence of delivery and then you know you start getting in. But it is a much longer slog. I mean people in Africa, I mean outside of SA and further up the continent, you kind of realize just how small your brand; no matter how big it is in SA and it was recognized as being the biggest brand in Africa at one stage. But it is not known, I mean it is known very well in Southern Africa but not really beyond that".

The challenges presented by the expansion into the countries that are further away from South Africa led FirstRand to adopt flexible replication as a model of international expansion. Furthermore, FirstRand is currently looking for investment opportunities (through acquisition of existing businesses or establishing new business) in other African markets that are expected to produce above average domestic growth, including Ghana and Nigeria (FirstRand Limited, 2011). FirstRand's international expansion into other parts of Africa is aligned to its vision of being the African financial services group of choice (FirstRand Limited, 2011). Exploiting opportunities in foreign markets depends on FirstRand being able to leverage its core competencies which include skills and infrastructure in new markets,

forging relationships with local partners and obtaining the proper regulatory approvals (FirstRand Limited, 2008). From an operational perspective, FirstRand focuses on leveraging existing operating platforms in Africa such as client bases, infrastructure, systems, products and services (FirstRand Limited, 2012).

The main motivation for FirstRand's international expansion is the creation of long-term value and return for its shareholders and as such, the organisation has committed to a highly disciplined approach (FirstRand Limited, 2011). FirstRand has a clear framework where it balances the critical "play-off" between capital deployment, acceptable return of equity and growth (FirstRand Limited, 2012).

According to the respondents, prior to expanding into a new country, FirstRand conducts research in order to understand the business environment and to assess whether its flexible replication model would be viable in that environment. The quotes below demonstrate to some extent the process followed prior to expanding to a new country:

"So when you start the business requirement specification, right then with those documents, that is when you start: this is what SA looks like, these are the changes needed for Tanzania. They might have completely different changes from Mozambique. Every country would be different, so we can't take Namibia or Zambia example to somewhere else. It is not going to work". (Respondent 3)

"What we try and do is we export those products which we believe will work in country and we export them from SA. We obviously tailor-make them for local requirements – there might be language issues which we obviously translate for language as well, and we do a lot of in country assessment of what the other banks are doing, what products are successful there" (Respondent 2)

5.5 Conclusion

The benefits of adopting the flexible replication as a model of international expansion were presented in this chapter. The data showed that the adoption of the flexible replication by Mr Price and FirstRand led to a higher overall performance. The results relating to an optimal mix of fixed and variable elements of the business model of internationalising firms were presented in this chapter. Furthermore, the results relating to the circumstances that lead to the adoption of flexible replication as a model for international expansion, as well as the timing of the adopting the model were also presented. The data reveal that both organisations fix the value proposition, target customer, core competency, value

configuration, partner networks and cost structure elements of their business models. The evidence also show that Mr Price and FirstRand allow the distribution channels, relationships, revenue model elements of their models to be variable. The value configuration element of the business model is only allowed to vary in response to local regulation requirements. The findings further reveal that the organisations adopted the flexible replication model in order to grow and exploit their firm-specific advantages in heterogeneous market. Furthermore, both organisations configure the flexible replication model prior to operating in a foreign market.

CHAPTER 6: DISCUSSION OF RESULTS

6.1 Introduction

This chapter discusses the results of the study by answering the research questions using the propositions set out in chapter three. The results presented in chapter five are interpreted using the literature review in chapter two, as a base. These results were obtained from documentary research, eight semi-structured interviews and observations. The chapter uses the research questions as major headings. The discussion in this chapter demonstrates that this study contributes to the existing body of knowledge by confirming or opposing some of the theories relating to the internationalisation of businesses, replication, business models and the related frameworks. The study also contributes by explaining some relationships between the theories that are relevant to this research. Appendix C contains a consistency matrix that shows the consistency of this research.

6.2 Research Question 1

Research question 1 sought to establish why internationalising firms should achieve high degrees of similarity of business operations, whilst taking advantage of benefits of local adaptation. The literature review favoured the adoption of flexible replication as the model of international expansion more than internationalisation through fixed replication (on its own) or business model innovation (on its own) (Prahalad & Doz, 1987; Bartlett & Ghoshal, 1998; Devinney, Midgley & Venaik, 2000; Jonsson & Foss, 2011). This was mainly due to the recognition by several scholars that the benefits associated with replication often needed to be traded off against the benefits of local adaptation (Prahalad & Doz, 1987; Bartlett & Ghoshal, 1998; Devinney, Midgley & Venaik, 2000; Jonsson & Foss, 2011).

The results in chapter five revealed that both the organisations that were the subject of this study adopted flexible replication as a model of international expansion. The balanced scorecard showed that these organisations realised higher performance as a result of adopting the flexible replication model for the purposes of international expansion. This can be expected as the literature revealed that fixed replication (on its own) and business model innovation (on its own) does not lead to higher performance (Aspara, Heitanen & Tikkanen, 2010; Jonsson & Foss, 2011).

6.2.1 Proposition 1

Proposition 1 stated that internationalising firms will realise higher performance when they achieve an optimal balance between the fixed and variable element of their business models. The paragraphs below discuss results based on the balanced scorecard which

evaluates the organisation's performance from the financial, customer, internal business and learning and growth perspectives.

6.2.1.1 Financial Perspective

Drury (2009) describes the financial perspective as the way a business looks to its shareholders. The key theme that emerged from the analyses of the financial perspectives of both Mr Price and FirstRand is that the adoption of flexible replication as a model for international expansion improves the financial performance of an organisation.

The results of Mr Price set out in Figure 2 show that in 2012, the sales figures of the organisation's corporate owned stores outside of South Africa increased by 42% from the 2011 sales figures. However, the franchise stores sales figures for the same period, only increased by 12%. The evidence in Figure 2 shows that Mr Price's strategic move from the fixed replication (in the form of a franchise model) to a flexible replication model (in the form of corporate owned stores) is enhancing the organisation's financial position. Although Mr Price has only reported the results for a one year period after the implementation of the flexible replication model, the results still give a clear indication that the implementation of a flexible replication model improves the financial performance of an organisation.

FirstRand's financial ratios set out in Figure 3 also show that FirstRand's subsidiaries outside of South Africa are performing well financially, despite on-going investments in start-up operations. The findings further indicate that as a result of adopting the flexible replication model, the performance of FirstRand's subsidiaries outside of South Africa will improve further, once the start-ups begin to be profitable. The data indicates that it will take approximately three to four years for the start-ups to become profitable. The results also show that profitability enhancement comes from the fact that certain functions are integrated and performed by head office and other functions in particular, those that require response to customer needs are performed by the local operations.

The analyses of the results from a financial perspective support proposition 1, as they show that both Mr Price and FirstRand realised a higher financial performance by adopting the flexible replication model, as proposed by Jonsson and Foss (2011). The results also confirm the study conducted by Aspara, Heitanen and Tikkanen (2010), which found that firms that combine a high strategic emphasis on business model innovation with a high strategic emphasis on replication, have a superior average performance. The notions that fixed replication (on its own), as proposed by Winter, Szulanski, Ringov and Jansen (2007) or business model innovation (on its own), as proposed by Hamel (1998), are more successful models of international expansion, are contradicted by the evidence in this study.

It was expected that organisations that adopt flexible replication as a model of international expansion would achieve higher financial performance. This expectation was based on that integration of appropriate functions at the head office enables all the subsidiaries to leverage from the organisation's infrastructure and skills. This ability to leverage from the resource provided by the head office leads to reduction of costs of doing business for the subsidiaries, resulting in higher contribution from such subsidiaries. Furthermore, as internationalising firms that are expanding internationally through flexible replication learn from the local environment and adjust the relevant elements of their business model in order to respond effectively to customer demands, it was expected that the sales of the subsidiaries will increase due to the appropriate response to customer needs.

6.2.1.2 Customer Perspective

The customer perspective refers to how the customers see the organisation (Drury, 2009). The key theme that emerged from the analysis of the customer perspectives of Mr Price and FirstRand was that the flexible replication model allows the organisation to increase customer satisfaction in foreign markets.

The findings of this study show that the adoption of a flexible replication model has assisted both organisations in embedding their value propositions in foreign markets. This reinforcement of the value proposition has resulted in increased levels of customer satisfaction in all the target customer segments. The results reveal that Mr Price's first expansion out of the SADC region was through fixed replication and it failed as a result of the assortment that was not appropriate for the new market. The data also show that the adoption of the flexible replication model by Mr Price has increased customer satisfaction, as the model enables the organisation *inter alia* to trade counter seasonal. This ability to trade counter seasonal allows Mr Price to offer its customer the appropriate products in any market at any time.

The findings also indicate that the adoption of the flexible replication model has allowed FirstRand to identify the products that will add value to the customers in a new market, from its existing products in South Africa. The ability to replicate products in a new market from existing products developed in the home market, allows FirstRand to operate in the new market with the basic products and to introduce more appropriate innovative products as more local knowledge in the foreign market is acquired. FirstRand's approach which is based on customer needs is beneficial to the organisation, as the evidence shows that the organisation is growing its customer base and transaction volumes in foreign markets. The independent endorsement of the organisation through awards in different markets also

confirms that the organisation is successful in meeting customers' needs.

The adoption of the flexible replication model has allowed both organisations to increase their customer's satisfaction levels in different markets through the effective and efficient use of their resources when delivering on their value propositions, as proposed by Shepherd and Gunter (2006) and Sharabi and Abedian (2009). The results also confirm the importance of the replication-adaptation balance in meeting customers' needs (Prahalad & Doz, 1987; Bartlett & Ghoshal, 1998; Devinney, Midgley & Venaik, 2000; Winter & Szulanski, 2001; Jonsson & Foss, 2011). The evidence of this study also supports proposition 1, as it shows that the adoption of flexible replication by FirstRand and Mr Price led to increased customer satisfaction, in line with Jonsson & Foss' (2011) proposal. The results further contradict the notions that fixed replication (on its own), as proposed by Winter, Szulanski, Ringov and Jansen (2007) or business model (on its own) as proposed by and Hamel (1998), are more successful models of international expansion.

It can be expected that the adoption of the flexible replication model by an internationalising firm would lead to higher customer satisfaction, as such firms benefit from economies of scale when sourcing products for all the subsidiaries. Internationalising firms are also able to tap into existing products and replicate such products in a new market and therefore do not need to spend considerable amount of time developing new products for the new market. Furthermore, local adaptation allows such firms to offer customers the appropriate products at all times, in response to customer needs. This balance reinforces the value proposition of an organisation and increases the levels of customer satisfaction.

6.2.1.3 Internal Business Perspective

According to Kaplan and Norton (2001) and Drury (2009), the internal business perspective identifies what the business needs to excel at in order to provide the biggest impact on customer satisfaction. The key theme that emerged from the analysis of the internal business perspective of both Mr Price and FirstRand is that the re-engineering of internal processes, as a result of the adoption of the flexible replication model increases the organisation's global competitiveness.

The results show that Mr Price decided to re-engineer its internal processes as a result of adopting the flexible replication model. Re-engineering of the processes led to the reduction of lead times and reduction of shipping costs and duties. Ultimately, the reduction in lead times and costs has the biggest impact on customer satisfaction as it leads to *inter alia* lower prices. The findings also reveal that as a result of adopting flexible replication as a model for international expansion, FirstRand is now concentrating its efforts on implementing

innovations which show high impact on customers in different markets. Furthermore, FirstRand is implementing processes for increasing access to financial services by customers in different markets. These improvements in internal processes enable the organisation to provide customers with a better banking service, and have a high impact on customer satisfaction and the organisation's performance. The results also show that the improved internal processes have led to the creation of more distribution channels for both organisations and this has resulted in additional customer satisfaction.

The adoption of the flexible replication model has driven both organisations to identify processes that they must excel when in implementing their strategies, as proposed by Kaplan and Norton (2001) and Drury (2009). Therefore, the findings support Dunning (1980, 1995) and Rugman and Li's (2007) argument that organisations can develop firm-specific advantages by identifying and focusing on excelling in the business needs which have the biggest impact on customer satisfaction. Furthermore, the results confirm Rugman & Li's (2007) argument that the firm-specific advantages bestow firms with a competitive advantage and such firm-specific advantages are exploited by firms when expanding internationally.

The results of the analysis of the internal business perspective of Mr Price and FirstRand support proposition 1, as they show that improvements in internal processes had a positive impact on customer satisfaction and overall performance of both organisations, as proposed by Jonsson and Foss (2001). Furthermore, the evidence contradicts that fixed replication, as proposed by Winter, Szulanski, Ringov and Jansen (2007) or business model innovation as proposed by Hamel (1998) are superior strategies for the purposes of internationalisation.

Therefore, based on the results and literature review, it can be concluded that internationalising firms cannot rely only on legacy infrastructure when expanding to heterogeneous markets as that may reduce their ability to be competitive globally. It was expected that internationalising firms would re-engineer their internal processes in order to enhance the firm-specific advantages as well as their global competitiveness.

6.2.1.4 Learning and Growth Perspective

The learning and growth perspective identifies the infrastructure required by the business to create long term value and improvement (Kaplan & Norton, 2001; Drury, 2009). The categories falling within the learning and growth perspective are employees' capabilities, information system capabilities, innovation, empowerment and alignment (Kaplan & Norton, 2001; Drury, 2009). The following themes emerged from the analysis of the learning and growth perspectives of Mr Price and FirstRand:

- the investments made in information systems as a result of adopting the flexible replication model allow organisations to be competitive globally.
- training and skills transfer are crucial for the successful implementation of the flexible replication model.

In relation to the first key theme, the results show that moving from the franchise model to flexible replication as a model of international expansion drove Mr Price to invest in new retail platform systems in order to meet the customer demands. The systems that Mr Price is investing in are integrated and all the group's subsidiaries are leveraging off these systems and new operations that will be established in the future will also leverage off these systems. The evidence also shows that the systems that Mr Price is investing in are making the organisation competitive globally. FirstRand also believes that investing in technology platforms is key to providing a holistic transactional capability for its customers. Furthermore, the results show that the continued investment in building the footprint and expanding the branch network, particularly in new territories, has resulted in customer acquisition and growth in transactional volumes. FirstRand replicates its innovations, systems and frameworks as much as possible in all markets, as this gives the organisation a competitive advantage in all the markets of interest.

The evidence highlights that the flexible replication model has led the organisations to identify and to invest in infrastructure that create long term growth and improvement, as suggested by Kaplan and Norton (2001) and Drury (2009). Furthermore, the information systems capabilities of both Mr Price and FirstRand have provided both organisations with firm-specific advantages that allow them to be globally competitive, as proposed by Rugman and Li (2007), Deng (2009) and Guillén and García-Canal (2009). The results therefore indicate that internationalising firms must invest continuously in their infrastructure in order to compete successfully in foreign markets, particularly in heterogeneous markets.

In relation to the second key theme, it was shown that both Mr Price and FirstRand focus on training and transferring skills across all their operations in different markets, as both organisations believe that the expertise possessed by their employees gives the organisations a competitive advantage. Therefore, both organisations view the skills within the organisation as a core competency and as such, replication of the skills across all operations is crucial for the purposes of implementing the flexible replication model. The training and skills transfer takes place *inter alia* through manuals, videos that capture the values and culture of the organisations, experts' guidance and on the job training.

Furthermore, the lessons learned during the expansion process are documented and incorporated into the organisations' manuals and are then used in future expansions. The evidence also revealed that Mr Price recognises that skilled and committed people, who have a high passion for their work, drive successful businesses and as such, the organisation ensures that the employees remain motivated about their career prospects and the organisation expansion opportunities. FirstRand's owner-manager culture of empowering people to run the businesses (in line with the group's strategy and shared value and principles) as if they are their own assists the organisation to compete successfully in foreign countries. This culture is replicated in all the operations of the organisation.

The results confirm that the skills developed by the organisations assist in the creation of firm-specific advantages that are exploited through international expansion, as proposed by Rugman and Li (2007) and Guillén & García-Canal (2009). The focus by both organisations on training and skills transfer, support Jonsson and Foss' (2011) proposal which states that "international replicator that deploy organisation mechanisms for lateral and reverse knowledge flows will be better able to identify, harvest, and transfer local learning that is useful for the purposes of revising the format for replication" (p 1095). The findings also confirm that the adoption of the flexible replication allow the organisations to implement their business models in different countries through templates and through principles, as proposed by Wæhrens, Cheng and Madsen (2012). Furthermore, the results confirm the positive reinforcing interplay between templates and principles and therefore support the argument that seeing replication through a template and principles as complementary is the best way of implementing the flexible replication model (Bade-Fuller & Winter, 2005; Morris et al., 2009; Dunford, Palmer & Benveniste, 2010; Wæhrens, Cheng & Madsen, 2012).

The analysis of the learning and growth perspective of both Mr Price and FirstRand support proposition 1, as they show that the investments made by organisations in technology and people capabilities, create long term value and improvement for the organisations. The evidence also contradicts the notion that fixed replication as proposed by Winter and Szulanski (2001) and business model innovation as proposed by Hamel (1998) are superior strategies of international expansion.

Therefore, internationalising firms that seek to achieve higher performance in heterogeneous markets must invest in information system capabilities and employees' capabilities on continuous basis, as these investments create firm-specific advantages. The culture of continuous innovation and empowerment as well as the alignment of the organisation's processes enable internationalising firms to learn and grow in a sustainable manner.

6.2.2 Summary for Research Question 1

The results show that the adoption of the flexible replication model by the organisations that were the subject of this study has improved the overall performance of both organisations when measured from financial, customer, internal business and learning and growth perspectives, using the balanced scorecard. The results therefore support Proposition 1 which states that internationalising firms will realise higher performance when they achieve an optimal balance between the fixed and variable elements of their business models. Therefore, internationalising firms should achieve high degrees of similarity of business operations, whilst taking advantage of benefits of local adaptation in order to realise higher performance.

6.3 Research Question 2

Research question 2 aimed to establish how internationalising firms can achieve high degrees of similarity of business operations, whilst taking advantage of benefits of local adaptation. The literature review showed that internationalising firms must take into account the integration, responsiveness and transaction completeness pressures when configuring their business models (Prahalad & Doz, 1987; Devinney, Midgley & Venaik, 2000). Aspara, Heitanen and Tikkanen (2010) proposed a strategic balance between an emphasis on replication and an emphasis on business model innovation. Jonsson and Foss (2011) framed this balance by treating replication as a business expansion format with a hierarchy of features that are flexible to varying degrees, an approach they refer to as flexible replication. The literature review also highlighted that internationalising firms should develop firm-specific advantage prior to expanding to foreign markets (Dunning, 1980, 1995; Takeuchi & Porter, 1986; Rugman & Verbeke, 2003).

The results of this study in chapter five revealed that both the organisations that were the subject of this study configured balanced business models for the purposes of internationalisation by having non-negotiable and variable elements in their business models. The results also showed that the main driver for international expansion for Mr Price and FirstRand is growth through exploitation of the firm-specific advantages. Furthermore, the clear understanding of their firm-specific advantages and research on destination countries allowed both organisations to design the flexible replication model prior to operating in a new market.

6.3.1 Proposition 2

Proposition 2 states that internationalising firms that fix the elements of their business models affected by the integration pressures and vary elements that are affected by

responsiveness pressures, configure an optimal flexible replication model. The paragraphs below discuss the non-negotiable and the variable elements of the business models of internationalising firms.

6.3.1.1 Product Value Proposition

Two key themes emerged from the examination of the data relating to the product value proposition of Mr Price and FirstRand. The first key theme that emerged was that it is important for an internationalising firm to replicate its value proposition in different markets. The product value proposition gives an overall view of a company's bundle of products and services (Osterwalder, Pigneur and Tacci, 2005). According to Mr Price, offering customers fashionable products of good quality at low prices is the organisation's value proposition. The evidence shows that Mr Price's product value proposition is consistent in all its operations. FirstRand's value proposition is defined as providing innovative products and channels at an acceptable cost to customers, and this product value proposition is replicated in all its operations.

The results show that firm-specific advantages which include the skills, the intellectual property and the infrastructure that is controlled by firms, as proposed by Dunning (1980), assists organisations to create and maintain their value proposition. Internationalising firms therefore replicate their product value proposition in foreign markets as this assists them to exploit their firm specific advantages developed in the home market (Dunning, 1980, 1995; Takeuchi & Porter, 1986; Winter & Szulanski, 2001; Rugman & Verbeke, 2003; Rugman & Li, 2007). Therefore, the results confirm that the replication of value proposition gives the firms a quick competitive advantage in foreign markets, as proposed by Devinney, Midgley and Venaik (2000), Deng (2009), Guillén and García-Canal (2009) and Jonsson and Foss (2011). Furthermore, the results contradict the notion that business model innovation is a superior model of internationalisation, as proposed by Hamel (1998).

The results also show that the internationalising firm's multinational customers from the home country provide the organisation with quick traction in the early stages of operating in a new market. The relation between an internationalising firm and its multinational customers is based on the fact that the multinational customers know the value proposition of such internationalising firm, which according to Kotler & Keller (2012) carries many positive associations in the minds of such multinational customers. It is clear that the value proposition of an internationalising firm is influenced by the importance of international customers from the home country. According to Devinney, Midgley and Venaik (2000) the importance of international customers is affected by the integration pressures. Therefore, as

a result of the influence of international customers on the value proposition element of the business model of an internationalising firm, it can be argued that the value proposition element is affected by integrations pressures. This argument indicates the value proposition element of an internationalising firm should be fixed.

The second key theme that emerged from the analysis of the value proposition of Mr Price and FirstRand was that price is an essential component of the value proposition. The value propositions of both organisations emphasis the value for money to the customers. Therefore, if the value to customers is not ultimately reflected in the price, the customer will not buy the products or use the service of an internationalising firm. The result support Devinney, Midgley and Venaik's (2000) argument that if the price of the products or services of an internationalising firm is not appropriate, the transfer of intermediate products and services will not be efficient. The results also highlight the importance of taking into account the transaction completeness pressures when designing a business model of an internationalising firm.

It was expected that internationalising firms would replicate their value proposition in all their operations as this enables such organisations to build strong brands in different markets as well as to maintain good relationships with international customers. Furthermore, it can be expected that the value proposition of an internationalising firm should be accompanied by the appropriate pricing of the products and/or service, in order to enable the organisation to sell its products or provide its services efficiently in a new market.

6.3.1.2 Target Customer

The key theme that emerged from the analysis of the target customer elements of the business models of Mr Price and FirstRand is that in order to deliver on the product value proposition, organisations target similar customers in all markets of interest. The data shows that Mr Price targets younger people, from a middle income bracket, who have a desire to clothe themselves in line with the latest international fashion trends. Furthermore, the evidence illustrates that Mr Price started its internationalisation by expanding to markets with similar demographics and culture to the home country. This assisted the organisation in targeting similar customers. Mr Price is also targeting similar customers in the heterogeneous markets.

FirstRand's target market in South Africa is very diverse, as the organisation targets any individual or organisation that can be banked. The organisation also has a diverse portfolio of products and services which enable it to satisfy all its target customers. This product diversity allows FirstRand to target similar customers in all countries of interest and the

organisation strategy of targeting customers in a new market is incremental. The concept of targeting similar customers in different markets is captured in the quote below:

"It is exactly the same; you may focus on one particular area as you go or develop those market sets, whether it be retail or whether it be commercial". (Respondent 1)

Targeting similar customers and replicating the value proposition assists Mr Price and FirstRand's subsidiaries to reduce the costs of doing business in different countries. Mr Price achieves cost reduction by sourcing large volumes of products for all its operations in different markets, which leads the organisation to benefit from economies of scale. The benefits of economies of scale are passed on to the customers through the reduction of the selling price and this reinforces the organisation's value proposition in different markets. Through introducing innovative products that are developed in the home country to the foreign markets, FirstRand reduces costs of doing business in those markets as the subsidiaries operating in foreign market do not incur costs of developing new products. This strategy also reduces FirstRand's subsidiaries' cost of doing business, leading to price reduction and reinforcement of the organisation's value proposition in different markets.

The key theme revealed by the analysis of the target customer element of the business models of both organisations shows that this element of the business model is influenced by cost reduction. According to Prahalad and Doz (1987) and Devinney Midgley and Venaik (2000), cost reduction is affected by integration pressures. As a result of the influence of cost reductions of the target customer element of the business model, it can be argued that, the target customer element is also affected by integration pressures. Therefore, the target customer element should be a fixed element of a business model of an internationalising firm.

The analysis of the target customer element of the business model supports Winter and Szulanski (2001), Osterwalder (2004) and Byhlin and Holme's (2012) argument that there are interrelations between the different elements of the business model as the results showed a clear relationship between replication of the value proposition element and the targeting of similar customers in different markets. The results also support Thongpapanl, De Clercq and Dimov's (2012) argument that autonomy should be limited for activities that require efficiency and coherence. As a result, both Mr Price and FirstRand do not allow autonomy in relation to target customers as such autonomy will lead the organisations to deliver products and services in an inefficient and incoherent manner and thus weakening their value proposition. Furthermore, the study supports Rugman and Verbeke's (2003) argument that there is an increased demand from external markets to receive a clear

message from corporate headquarters regarding *inter alia* market segments of the organisation. The results contradict the notion that business model innovation is superior to fixed or flexible replication, for the purposes of internationalisation, as proposed by Hamel (1998).

As a result of the replication of the value proposition of internationalising firms in all markets, it can be expected that these organisation also target similar customers in all markets, as internationalising firms develop expertise in their home markets to service their target segment. Furthermore, the expertise of internationalising firms focus on the organisation's target market and the firms rely on such expertise when expanding to new markets.

6.3.1.3 Distribution Channels

The key theme that emerged from the analysis of the distribution channel element of the business models of Mr Price and FirstRand is that distribution channels depend on local customer needs and/or specific country requirements. Mr Price conducts robust market research which assists the organisation in deciding on appropriate distribution channels in each country of interest. The organisation also has a feasibility process in place to ensure good location selection and store sizing. The following quote illustrates the importance of market research in determining the distribution channels in different markets:

"as we identify a market we will decide, are we just going to start off with purely online or are we going to test a brick store, or do we have a combination of bricks and online. This is part of our market research". (Respondent 5)

The recent launch of Mr Price's online store has shown that the organisation's innovative response to market demands and its ability to service customers in areas where there are no appropriate physical store outlet opportunities. Mr Price is experiencing challenges in implementing its online store in Nigeria, due to infrastructure and regulatory constraints in that market. FirstRand has a dynamic physical footprint as well as digital and electronic channels in different markets. These channels are designed around customer needs, which focus on affordability and convenience and are adapted for each country to suit the needs of the local market. The regulatory requirements and the availability of infrastructure in each country also play an important role in roll out the distribution channels.

The emerging theme from the analysis of the distribution channel element of the business models of both Mr Price and FirstRand supports Prahalad and Doz (1987) and Devinney, Midgley and Venaik's (2000) argument that distribution channels are influenced by customer needs and affected by responsiveness pressure. Therefore, distribution channels should be

a variable element of a business model of an internationalising firm. The use of different distribution channels Mr Price and FirstRand to reach customers in different countries, support Hamel (1998) and Bock, Opsahl, George and Gann's (2012) argument that business model innovation assists organisations to meet customer needs in different markets. The results also supports Rugman and Verbeke (2003) and Thongpapanl, De Clercq and Dimov's (2012) argument that autonomy should be encouraged for activities that require novel or radical ideas. The infrastructure and regulatory requirement challenges that Mr Price faces in launching its online platform in Nigeria confirms that country-specific advantages/disadvantages play an important role in the configuration of a business model of an internationalising firm, as proposed by Rugman and Li (2007) and Klein and Wöcke (2007). The results contradict Winter and Szulanski's (2001) argument which states that "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" (p.737).

It was expected that internationalising firms would have different distribution channels in different markets as a result of different local regulations in heterogeneous markets. Furthermore, infrastructure development is not the same in all markets and this has a big impact on how an organisation reaches its customers. It was also expected that customer needs would be different in each market as a result of different macro-economic factors of each country, leading customer in different market preferring to reach the organisation in different ways.

6.3.1.4 Relationships

The key theme that emerged from the analysis of the relationships element of the business models of both Mr Price and FirstRand is that customer needs, language and culture determine how an organisation build relationships in foreign markets. Building a strong brand was identified as vital by both Mr Price and FirstRand in building and maintaining relationships in a foreign market. The results support Deng (2009) and Guillén and García-Canal's (2009) argument, that firms can create a firm specific advantage by effectively developing their brands in new markets. According to Ostenwalder, Pigneur and Tacci (2005) a brand is a means for an organisation to describe the value it offers, through *inter alia* its marketing campaigns, in order to ultimately provide a revenue stream for the business.

Mr Price has developed a repertoire of communications means to ensure focused and appropriate communication with its target customers. These include social media, customer surveys, advertising campaigns, and store associates' interactions with customers.

Imperative to the success of these relationship building efforts is the understanding of the language and the culture of each country and aligning the marketing initiatives with the customers' needs. FirstRand also uses various ways of building relationships with its customers, depending on the customer needs. These include networking, word of mouth, marketing and advertising and physical visibility such as the replicable look and feel of the branches. FirstRand believes it is easier to build relationships in the SADC region due to spill over advertising from South Africa and the similarity of languages and cultures. The organisation finds that building new relationships with customers outside of the SADC region is challenging as the brand is not known and these challenges are amplified by language and cultural difference. The quote below illustrates the importance of communicating the value proposition effectively:

"On the marketing side of things, well you can go try and apply the things that work in SA in Nigeria for example, but it just may not appeal and then you are going to lose your money. So it is not even a nice to have, it's a... you know you have to adapt yourselves in the market you go to, in a way that it can appeal to your local target audience". Markets are very different and you need to be able to have local knowledge to exploit that". (Respondent 8).

The key theme that emerged from the analysis of the relationship element of the business model shows that building a strong brand and focusing on customer needs assists organisations to build strong relationships with customers in foreign markets. The results show that relationships are influenced by customer needs and according to Devinney, Midgley and Venaik (2000) customer needs are affected by responsiveness pressures. As a result of the influence of customer needs on the relationship element of the business model, it can be argued that relationships in different markets are affected by responsiveness pressures. Therefore, relationships should be a variable element of a business model of an internationalising firm. The results also confirm the importance of language and culture in building relationships in a foreign market. The influence of language and culture in building relationships in heterogeneous markets show that the relationship element of business model is also affected by transactional completeness pressures in the form of socialisation, as proposed by Devinney, Midgley and Venaik (2000). This confirms the importance of transaction completeness pressures in the configuration of a business model for internationalising firms. The findings also support Hamel (1998) and Bock, Opsahl, George and Gann (2012) argument that business model innovation can assist organisations to meet customer needs in different markets. Therefore, the results of this study contradict Winter and Szulanski's (2001) argument that the template should not be altered, regardless of

learnings that take place. The evidence supports Wæhrens, Cheng and Madsen's (2012) argument, that copying the template precisely increases local resistance and decreases transfer effectiveness by inhibiting local adaptation.

As a result of the importance of culture and language in building relationships, it can be expected that internationalising firms build relationships differently in each market. This ensures that an organisation presents its value proposition and communicates its brand message to customers in an appropriate and effective manner in heterogeneous markets.

6.3.1.5 Value configuration

The following themes emerged from the analysis of the value configuration element of the business models of both Mr Price and FirstRand:

- the services provided by head office assist the subsidiaries to increase their contribution to the organisation;
- investment in and integration of systems assist subsidiaries to leverage from the organisation's infrastructure; and
- local regulation requirements lead to adaptation of the value configuration.

In relation to the first key theme, the results reveal that the integration of certain activities under the control of the head office, is a key success factor of both Mr Price and FirstRand' internationalisation strategies. The service provided by the head office assists in achieving high degrees of similarity of business operations. The service provided by the head office of Mr Price, also assists the subsidiaries to increase their contribution, as this reduces the subsidiaries' costs of doing business. According to FirstRand, the head office coordinates the activities of the divisions and this allows the subsidiaries to leverage off the efficiencies of the group's infrastructure and from the products of different divisions within the group. This also leads to increased contribution from the subsidiaries as their costs of doing business are reduced.

The evidence shows that the integration of certain functions which are controlled by head office lead to cost reduction. Therefore, an argument can be made that cost reduction influences the value configuration of an organisation. Furthermore, according to Devinney, Midgley and Venaik (2000) cost reduction is affected by integration pressures. In light of an argument that cost reduction influences value configuration, it can be argued that the value configuration is affected by integration pressures and therefore it should be a fixed element

of the business model of an internationalising firm. The results also support Takeuchi and Porter's (1986) approach to internationalising which views the configuration of activities, the coordination of activities and the linkage of activities across functions as key strategic issues in internationalisation. The results also show that the integration of head office functions creates firm-specific advantages that can be exploited in foreign markets, as proposed by Rugman and Verbeke (2003). Further, these results support the fixed replication, proposed by Winter and Szulanski (2001) and contradict the business model innovation paradigm, proposed by Hamel (1998).

The results also show that the head office of an internationalising firm play an important role in configuring the value of the organisation by controlling certain functions. This integration allows all subsidiaries of the organisation to benefit from such functions. This concept of having certain functions under the control of head office, illustrates that hierarchy is important in the configuration of a business model for an internationalising firm. Therefore, it can be argued that since hierarchy plays an important role in the arrangement of the organisation's activities and resources, the value configuration element of the business model is also affected by transaction completeness pressures, as proposed by Devinney, Midgley and Venaik (2000).

In relation to the second theme, the results show that Mr Price continues to identify opportunities and to invest in activities such as information technology, supply chain and product sourcing in order to incrementally increase efficiencies. These investments as well as the integration of systems enable the organisation to plan effectively and efficiently for the future growth of the organisation and allow subsidiaries to leverage from the organisation's infrastructure. Furthermore, these investments will lead to the reduction of the costs of doing business in different countries and will also reduce the price of the merchandise, further embedding the organisation's value proposition. FirstRand also invests in and uses standard banking platforms such as Oracle and Hogan. These core systems are replicated in all countries and are only adapted to comply with the local regulatory requirements. The replication of these systems leads to high degrees of similarity of business operations in different countries, reduces costs and reinforces the organisation's value proposition.

The results show the value configuration element of the business models of both organisations is highly influenced by the investment and technology intensity. Furthermore, the efficient value configuration leads to costs reduction. According to Devinney, Midgley and Venaik (2000) cost reduction, investment and technology intensity are affected by integration pressures. As a result of the influence of cost reduction, investment and technology intensity on the value configuration it can be argued that the value configuration

element is also affected by integration pressures. Therefore, value configuration should be a fixed element of a business model of an internationalising firm. The results also show that value configuration elements of the business model create proprietary technology that organisations replicate and exploit in different markets. This confirms that multinational organisations invest in foreign countries to further expand on and exploit their firm specific advantages, as proposed by Dunning (1980), Rugman and Verbeke (2003) and Rugman and Li (2007), Deng (2009) and Guillén and García-Canal (2009). This also supports Thongpapanl, De Clercq and Dimov's (2012) study which found that high autonomy between organisational units has limited efficiencies in process areas such as technology. The results also contradict the superiority of the business model innovation as a model for international expansion, as proposed by Hamel (1998).

In relation to the third theme, the results show that both organisations only adapt their core systems in response to local regulation requirements. In Namibia, FirstRand has localised its core system and in Mozambique, it is using a different core system due to regulations requirement of those countries. This confirms Devinney, Midgley and Venaik (2000) and Rugman and Li's (2007) arguments that in some countries the value configuration is influenced by the host government demands. According to Devinney, Midgley and Venaik (2000) host government demands are affected by responsiveness pressures. As a result of the influence of host government demands on the value configuration from time to time, it can also be argued that the value configuration can be influenced by responsiveness pressures. Therefore, the value configuration will be variable to the extent that it is influenced by the host government demand. The results also confirms Rugman and Li (2007) and Klein and Wöcke's (2007) argument that most MNEs use strategies that allow for an interaction between country-specific advantages/disadvantages and firm-specific advantages, for the purposes of international expansion.

In light of the investments made by internationalising firms in infrastructure (including the core systems), it was expected that the firms would replicate the value configuration element of their business models in all their operations in order to realise a return on the investment. Furthermore, due to the importance of the skills of the employees of an internationalising firm in providing the organisation with a competitive advantage, it was also expected that these firms would leverage such skills through training and skills transfer, in different markets. Furthermore, it can be expected that internationalising firms adjust their value configuration in response to local regulation requirements, as it would be difficult to operate in a foreign market without complying with the local regulations.

6.3.1.6 Core Competency

The key concept that emerged from the analysis of the core competency element of the business models of Mr Price and FirstRand is that specialised skills are a core competency required by an organisation in order to be able to deliver on its value proposition. The results show that both Mr Price and FirstRand have the people with the right skills and this helps the organisations to deliver their value proposition. Both organisations ensure that training and skills transfer takes place across all operations in order to maintain their competitive advantage in different markets. Furthermore, both organisations send experts from South Africa to the start-up operations in new markets in order to provide knowledge transfer and on-the-job training in the initial phases of expansion into those markets. Various other forms of training including exchange programmes are also available to the employees. The following quote by respondent 6 illustrates the importance of maintenance of the core competencies:

“It is important to identify resources, skills, or potential resources and skill them up, so they are working alongside your ex-parts until the time they are self-sufficient”.

The results support Winter and Szulanski's (2001) argument that the core competencies form an integral part of the “arrow core” of the business model as they are the important element in the creation of value for the customer. Furthermore, both organisations exploit their core competencies when expanding internationally through replication, as proposed by Winter and Szulanski (2001), Deng (2009), and Guillén and García-Canal (2009). The results also confirm that the firm's core competencies create firm-specific assets that provide competitive advantage to multinational firms against domestic firms and other foreign multinationals, as proposed by Dunning (1980, 1995), Rugman and Verbeke (2003) and Ramamurti (2012). Both organisations invest considerable amounts of time and money in developing their core competencies and this assists the organisations in developing the firm-specific advantage. Therefore, the results show that the core competency element of a business model is influenced by investment intensity. According to Devinney, Midgley and Venaik (2000) the investment intensity is affected by integration pressures. It can therefore be argued that, due to the influence of investment intensity on the core competency element, this element of the business model is also affected by integration pressures. As a result, the core competency should be a fixed element of a business model of an internationalising firm.

As the core competencies of the internationalising firms create firm specific advantages and provides such firms the competitive advantage, it was expected that such firms would

leverage from their core competencies when expanding internationally in order to gain market share in a new market. It can also be expected that training and skills transfer is crucial for the implementation of the flexible replication model, as this enables an organisation to maintain its core competencies in different markets and to acquire learning from new markets which can be used in other markets and/or in future expansions.

6.3.1.7 Partner Network

The key theme that emerged from the analysis of the partner network element of the business model of both Mr Price and FirstRand is that, key partners impact on the organisation's ability to deliver on its value proposition. According to Mr Price, its ability to partner with its key suppliers contributes positively to its overall performance. The partnerships with key suppliers, allows the organisation to place large orders with key suppliers and as a result, the organisation benefits from the economies of scale. FirstRand has aligned its procurement strategies to leverage economies of scale.

The results show the importance of partnerships is assisting the organisations to execute the strategies and business models effectively. Furthermore, the partnerships help organisations to create firm-specific advantages and to deliver on their value propositions. Therefore, as a result of the strategic importance of the partnerships to internationalising firms, the partner networks are controlled at head office. Furthermore, local partnerships are developed through leveraging existing partnerships in the home country.

The results confirm that the partner networks create the firm-specific advantages for organisations, as proposed by Rugman and Li (2007). These firm-specific advantages provide both Mr Price and FirstRand with a competitive advantage when expanding into foreign markets, in line with Deng (2009) and Guillén and García-Canal's (2009) arguments. The results also support the description of a business model by Osterwalder, Pigneur and Tacci (2005) and Doz and Kosonen (2010) as an operational relationship between the firms and *inter alia* partners. The key partnerships allow organisations to leverage from economies of scale, which leads to the reduction in cost of doing business. The result therefore shows that that partner networks influence costs reduction. According to Devinney, Midgley and Venaik (2000), cost reduction is affected by integration pressures. As a result of the influence of cost reduction on the partner network element of the business model, it can be argued that the partner network element of a business model is influenced by integration pressures, and therefore should be a fixed element of the business model of an internationalising firm. The results further contradict the notion of the superiority of the business model innovation as a model of international expansion, as proposed by Hamel

(1998).

6.3.1.8 Cost Structure

The key theme that emerged from the analysis of the cost structure element of the business models of Mr Price and FirstRand is that the costs for each subsidiary are monitored by head office and included in a centralised system for financial reporting of the group. Mr Price's cost structure framework is that of maintaining low overheads and ensuring that costs are contained, while continually improving operational efficiencies through innovation, improved systems and supplier engagement. All the subsidiaries are required to manage their own costs within the organisation's framework. The costs of each subsidiary are carefully monitored by head office and included in a centralised system for financial reporting of the group. The accounting structures of FirstRand, including the general ledger, are replicated across the different subsidiaries. The same reporting system is used throughout the organisation, with prescribed designation of the costs. The following quote from respondent 5 captures the concept of integration of the systems:

"We try and keep it as centralised as possible, in terms of the accounting but obviously they have to have books and records there as well. But we like to make sure that we know exactly what is going on".

The results indicate that the integration of the accounting systems and the monitoring of the costs by head office ensure that the subsidiaries conduct the business in an effective and efficient manner which reduces the overall costs of doing business. This also allows the organisations to deliver effectively on their value proposition. Therefore, the results support Devinney, Midgley and Venaik's (2000) argument that the cost structure is affected by integration pressures, and therefore should be a fixed element of the business model of an internationalising firm. The results also support Rugman and Verbeke (2003) and Thongpapanl, De Clercq and Dimov's (2012) argument that there is an increasing demand from external financial markets to receive a clear message from corporate headquarters regarding *inter alia* detailed costs and profitability of each division. The results also contradict the notion of the superiority of the business model innovation as a model of international expansion, as proposed by Hamel (1998).

It can be expected that internationalising firms integrate the cost of all their subsidiaries, through their reporting systems, as the costs have a big impact of the organisations' ability to deliver effectively and efficiently on their value proposition. If the organisation can lower its costs, it can lower its prices, increase demand for its products and also increase its profits.

Furthermore, the international reporting standards and stock exchanges rules require organisations to integrate their financial reporting systems.

6.3.1.9 Revenue Model

The key theme that emerged from the analysis of the revenue model element of the business models of Mr Price and FirstRand is that revenue flows differ from country to country depending on the customer needs in each country. Mr Price's revenue from stores outside of the SADC region currently comes from the apparel stores. The organisation intends to expand its other products to these countries in order to increase its revenue streams, depending on the customer requirements in those markets. FirstRand has different revenue streams in each country due to the fact regulations in each country treat interest and non-interest income revenues differently. Therefore, the evidence shows that the local regulations influence revenue streams for banking operations. Furthermore, contributions to the bottom line of the group differ from country to country. According to respondent 1:

"Each branch, it depends on the size, it depends on the market they are in. You know you get big branches, small branches. So contributions differ from branch to branch".

The results show that the revenue streams in each country are influenced by customer needs and host government demands. According to Devinney, Midgley and Venaik (2000) both customer needs and host government demand are affected by responsiveness pressures. Therefore, it can be argued that as a result of the influence of customer needs and host government demands on revenue streams, the revenue model element of the business model is also affected by responsiveness pressures, and as such, it should be a variable element of a business model of an internationalising firm. The results also support Rugman and Verbeke and Thongpapanl, De Clercq and Dimov's (2012) argument that there is an increasing demand for multinational enterprises to achieve internal scope economies that allow resources to aid the development of autonomous initiatives. The study also confirms that country-specific advantages/disadvantages have a significant impact on the revenue models of organisations in foreign markets, as proposed by Rugman and Li (2007) and Klein and Wöcke (2007).

6.3.2 Summary for Proposition 2

The results of the study support proposition 2 which states that internationalising firms that fix the elements of their business models affected by the integration pressures and vary elements that are affected by responsiveness pressures, configure an optimal flexible replication model. Table 14 below shows the elements of the business model that are

affected by integration pressures, and therefore should be fixed, and the elements that are affected by responsiveness pressures, and therefore should be variable. The results also show that the value configuration element of the business model is affected by integration pressures and should be fixed. However, due to host government demand, this element can be affected by responsiveness pressures, and therefore can become variable. The results also show the importance of the transaction completeness pressures. Price is a transactional completeness pressure that affects the value proposition in each country, and therefore it must be considered on a country by country basis. Socialisation is a transactional completeness pressure that affects the relationship element and it also needs to be considered on the basis of each country. The value configuration is also affected by the hierarchy transactional completeness pressures and therefore it is important for internationalising firms to consider hierarchy when designing a business model for a foreign market.

Table 14 – Fixed and Variable Elements of a Business Model

Fixed Elements	Variable Elements
Product Value Proposition	Distribution Channels
Target Customers	Relationships
Core Competencies	Revenue Model
*Value Configuration	*Value Configuration
Partner Networks	
Cost Structure	

*Note: value configuration is generally a fixed element, which is only adjusted in response to host country's regulations

Therefore, internationalising firms can achieve high degrees of similarity of business operations, whilst taking advantage of benefits of local adaptation by fixing elements of their business models affected by integration pressures and varying elements that are affected by responsiveness pressures.

6.3.3 **Proposition 3**

Proposition 3 states that internationalising firms having clarity of their winning attributes design a flexible replication approach prior to operating in a foreign environment (Kodzi, 2013). The paragraphs below discuss the circumstances that lead to adoption of the flexible replication model and the timing of adopting the model.

The following key themes emerged from the analysis of the circumstances that led Mr Price and FirstRand to adopt the flexible replication model and the timing of adopting the model:

- the organisations start international expansion by first setting up operations in the neighbouring countries due to proximity and cultural similarities;
- growth prospects and possession of expertise that organisations exploit in foreign markets are the main motivations for international expansion; and
- research conducted prior to expansion into a foreign market assists the organisations in configuring the flexible replication model.

In relation to the first key theme, the results show that Mr Price and FirstRand started their international expansions firstly by setting up operations in the SADC region. Mr Price started by expanding to Botswana, Lesotho, Namibia, and Swaziland and FirstRand started in Botswana, Namibia, Swaziland and Lesotho and later Mozambique and Zambia. The rationale for targeting these countries first was that it was easier to do business in these neighbouring countries due to the proximity of the countries to the home country; the economies of these countries mirror the economy of South Africa; and these countries have cultural similarities with the home country. The spill over advertising from the home country also makes it easier for FirstRand to operate in the neighbouring countries. Both organisations acknowledge that operating in a country which is far away from home is more difficult due to the fact that the brand is relatively unknown and it has to be built from scratch and that the organisations also need to spend time understanding the culture of the new environment. Therefore, international expansion into countries that are outside of the SADC region, led both organisations to adopt the flexible replication model, as a result of a substantial differences in culture, language and lack of brand recognition in those markets.

The results support the aspect of the internationalisation process model which proposes that firms expand first to countries closer and similar to the home country before going to dissimilar countries and countries that are further away from home (Johanson & Vahlne, 1977; Meyer & Thaijongrak, 2013). The results also indicate that expansion into the neighbouring countries also assists the organisation to clarify their firm-specific advantages developed in the home market, as proposed by Rugman and Li (2007). Once these organisations are certain of the firm-specific advantages, they exploit them in countries that are far way and dissimilar to the home country, as proposed by Guillén and García-Canal (2009). The results contradict the calls for the refinement of the IPM model in so far as it relates to organisations expanding first to countries that are closer and similar to the home country, as proposed by Malhotra and Hinings (2010) and Ramamurti (2012). Due to cultural and languages similarities, it was expected that internationalising organisation would first expand to neighbouring countries prior to expanding to heterogeneous markets.

In relation to the second theme, the results show that the rationale for international expansion of both Mr Price and FirstRand is to achieve growth and long term value for their shareholders. Respondent 4 was of the opinion that the South African market is becoming saturated and that internationalisation is a necessary means of sustaining growth. The growth strategy adopted by FirstRand to drive its vision of becoming the African financial services group of choice is to grow its existing African operations. FirstRand's strategy also involves expanding its operations through acquisition of existing businesses or establishing new businesses in the market that are expected to produce above average domestic growth. Mr Price's expansion into a foreign market also depends on whether its products will be appropriate for the new market. According to FirstRand, exploiting opportunities in a foreign market depends on the organisation being able to leverage its core competencies which includes skills and infrastructure. Most markets that offer the highest growth opportunities in Africa are outside of the SADC region, and as previously stated the language and the culture of doing business in those markets is substantially different from the language and the culture of doing business in South Africa. These major language and cultural barriers led both organisations to adopt the flexible replication model as a model of international expansion.

The results contradict the IPM in relation to an incremental process of building commitment into a host country, as proposed by Johanson and Vahlne (1997) and Meyer and Thajongrak (2013). Mr Price first set up test stores to acquire local knowledge in the foreign market, whereas FirstRand acquires existing businesses or establishes new businesses in the foreign market. Therefore, both organisations do not make a commitment to a position in a network when expanding to a foreign market, as proposed by Meyer and Thajongrak (2013). The results confirm that different types of organisations follow different processes of internationalisation, and support the call for the refinement and extension of the IPM to incorporate the case of multinational enterprises from emerging markets, as proposed by Malhotra and Hinings (2010) and Ramamurti (2012). The study confirms the notion that firms must have ownership advantages prior to engaging in market-seeking internationalisation, as proposed by Dunning (1980), Ramamurti (2012) and Kodzi (2013). The study also confirms that organisations invest in foreign countries to further expand and exploit their firm-specific advantages, as proposed by Dunning (1980), Takeuchi and Porter (1986), Rugman and Li (2007), and Guillén and García-Canal (2009). The results also support to some extent Jonsson and Foss' (2011) argument that the proportion of fixed to flexible replication features in a format of replication depends negatively in the heterogeneity and dynamism of the target market.

In relation to the third theme, the results showed that neither FirstRand nor Mr Price will consider expansion into a new territory before conducting an extensive research in the host country. Mr Price has an international division that is dedicated to finding new markets with good potential for gaining market share and attractive value. Furthermore, the organisation chooses markets where it will have the ability to sell its products. The organisation opens corporate test stores in the new chosen key markets and scales up operations once the test store results have been obtained. FirstRand will only consider a new territory once the organisation has established that its core competencies can be leveraged in that new territory and having done due diligence confirming that the organisation will obtain proper regulatory approvals. The firms' knowledge of their firm-specific advantages and prior research assist them in configuring the flexible replication model prior to operating in a new market and the firms' fine-tune their models as they acquire local knowledge.

The results of this study contradict Jonsson and Foss' (2011) proposition that organisations that internationalise through replication adopt a flexible replication approach only after substantial experience with either one of the alternative highly explorative or highly exploitative internationalisation, or both. The results also contradict the IPM in so far as it suggests that investing firms initially make a commitment to a position in a network in a foreign country in order to acquire local knowledge, as proposed by Johanson and Vahlne (1977) and Meyer and Thajongrak (2013). The results support Kodzi's (2013) argument that organisations seeking to expand through flexible replication can learn from best practices (or otherwise) demonstrated by companies that have adopted the flexible replication and can connect key principles with their own contexts instead of learning only by experience. Furthermore, the results confirm that the flexible replication model can be determined prior to operating in a foreign market and can be fine-tuned with more information (Kodzi, 2013). The results again confirm that different types of organisations follow different processes of internationalisation and support the call for the refinement of and the extension of the IPM to incorporate the cases of multinational enterprises from emerging markets, as proposed by Malhotra and Hinings (2010) and Ramamurti (2012). It can be expected that internationalising firms would design the flexible replication model prior to expanding to a foreign markets, due to the availability of data on foreign markets and the ability of the organisations to conduct studies in new markets prior to establishing operations in those markets.

6.3.4 Summary of Proposition 3

The results support the IPM in so far as it relates to organisations expanding first to neighbouring countries, prior to expanding into countries which are dissimilar. Further, the

results show that expansion to the neighbouring countries allows organisations to further develop their firm-specific advantages that can be exploited in countries that are dissimilar to the home country. The results also show that growth and having firm-specific advantages motivates organisations to expand internationally and organisations. The clear understanding by the organisations of the firms-specific advantages and purposeful research of the target country, assist organisation to design the flexible replication prior to operating in the foreign market. Therefore, the results support proposition 3 which states that internationalising firms having clarity of their winning attributes design a flexible replication approach prior to operating in a foreign environment (Kodzi, 2013). Furthermore, in order for internationalising firms to achieve high degrees of similarity of business operation, whilst taking advantage of local adaptions, they must understand the firm-specific advantages and conduct purposeful research prior to operating in a foreign market.

6.4 Conclusion

This chapter answered the research questions set out in chapter three by interpreting the results in chapter five using the literature in chapter two and insights derived from the data. The key concern is that the study only looked at two South African multinational companies in the retail and the banking sectors. However, the replication logic provided through the use of the comparative two case-study strategy provided external validity to this research, as proposed by Yin (2009) and Klein and Wöcke (2007). Therefore, the research objectives stated in chapter one have been met.

CHAPTER 7: CONCLUSION

7.1 Introduction

The purpose of this chapter is to highlight the major findings of the study and to give recommendations to various stakeholders based on the findings. A model of international expansion through the flexible replication model is also presented in this chapter.

7.2 Major Findings

The study confirmed that flexible replication as a model of international expansion is superior to fixed replication (on its own) or business model innovation (on its own), as proposed by *inter alia* Aspara, Heitanen and Tikkanen (2010), Jonsson and Foss (2011) and Thongpapanl, De Clercq and Dimov (2012). The strength of the flexible replication model lies in balancing the benefits of replication, with the benefits of local adaptation. As a result, the flexible replication model allows internationalising firms to achieve a high degree of similarity of business operations, whilst taking advantage of the benefits of local adaptation.

The research also confirmed that overall, internationalising firms that adopt the flexible replication model achieve higher performance, as proposed by Aspara, Heitanen and Tikkanen (2010), Jonsson and Foss (2011) and Thongpapanl, De Clercq and Dimov (2012). The profitability of these internationalising firms is enhanced by the fact that their subsidiaries leverage from the activities that are integrated and excel in performing activities that respond to local customer needs. This replication-adaptation balance reduces the subsidiaries' cost of doing business and increases their contribution to the group. Furthermore, the flexible replication model allows the organisations to utilise their resources effectively and efficiently and this enables subsidiaries in different markets to increase their levels of customer satisfaction. The flexible replication model drives internationalising firms to re-engineer their internal processes and this leads to cost reduction and reinforcement of the value proposition. The adoption of the flexible replication model also motivates internationalising firms to invest in infrastructure that creates long term growth and allows subsidiaries to benefit from the existing expertise in the organisations through training and skills transfer. These investments foster a culture of continuous learning and growth which leads internationalising firms to be competitive globally.

Internationalising firms can achieve a high degree of similarity of business operations, whilst taking advantage of benefits of local adaptation by fixing elements of the business model affected by integration pressures and allowing elements that are affected by responsiveness pressures to vary. The elements of the business model that are affected by integration pressures are: product value proposition, value configuration, core competencies, cost

structure, partner networks and target customers. The elements that are affected by the responsiveness pressures are value configuration, distribution channels, revenue models and relationship management. The value configuration is only affected by responsiveness pressures in response to local regulation requirements. The transactional completeness pressures which are price, socialisation and hierarchy are also important in the design of the flexible replication model as they affect the value proposition, relationship and value configuration elements of the business model.

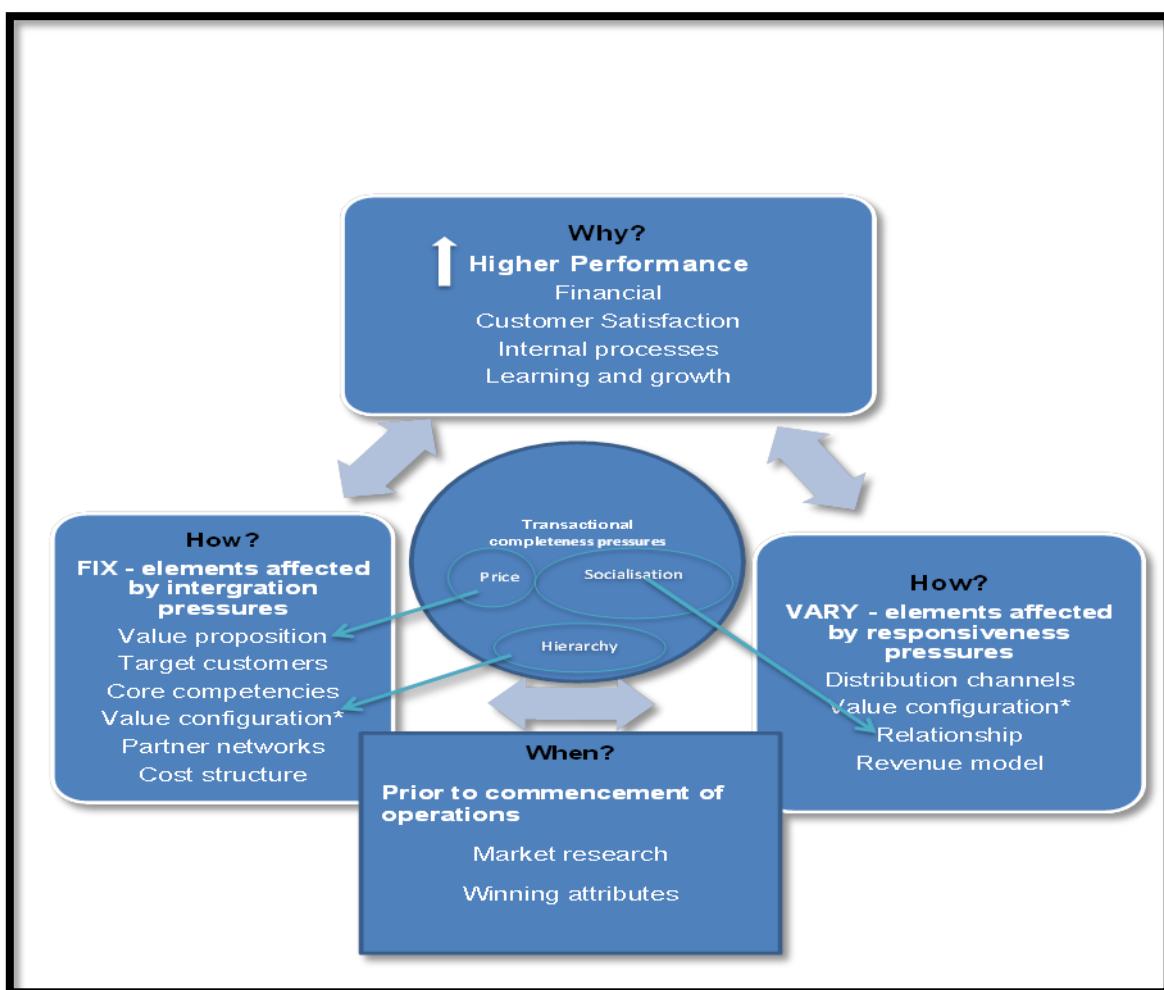
This study supports Rugman and Verbeke's (2003) argument that internationalising firms develop the firm-specific advantages in their home markets. Furthermore, the research confirmed that internationalising firms begin by expanding to neighbouring countries to exploit and fine tune their firm-specific advantages, due to *inter alia* proximity and cultural similarities, as proposed by Johanson and Vahlne (1977), Meyer and Thajongrak (2013) and Ramamurti (2012). After gaining clarity of their firm-specific advantages, the internationalising firms conduct research on the target foreign market. The clear understanding of firm-specific advantages and prior research on the target market, assist internationalising firms to design the flexible replication model prior to operating in the new market, as proposed by Kodzi (2013). The study found that after designing the flexible replication model, firms test the model in the new market and updates are made based on the local knowledge acquired. The scaling up of operations occur in the new market once the test results of the model have been analysed, and sustained positive trading results have been delivered. The perceived growth prospects in countries outside of the home and neighbouring markets and the challenges of operating in those markets, including language and cultural differences, lead internationalising firms to adopt the flexible replication model.

Figure 4 shows a model for international expansion through flexible replication. This model was constructed by integrating the findings of the study. The top part of the model shows that internationalising firms adopt the flexible replication model, as it leads to higher overall performance. The model looks at performance of an organisation from a financial, customer, internal business and learning and growth perspective. The arrows from the top part to the middle part of the model show that once internationalising firms know the benefits of expanding through flexible replication, they then want to know how to design the model.

The middle part of the model shows that an optimal flexible replication can be achieved by fixing the elements of the business model affected by integration pressures and by allowing the elements affected by responsiveness pressures to be varied. The six elements of the business model that are affected by integration pressures and the four elements of the business model affected by responsiveness pressures are also identified. The model also

shows that the value configuration is affected by integration pressures but it can be allowed to vary in response to local regulation requirements. The middle part of the model further shows that the transactional completeness pressures which are price, socialisation and hierarchy affect the value proposition, relationship and value configuration elements of the business model, respectively. Furthermore, the model shows that hierarchy only affects the fixed value configuration element of the business model, as that is the only value configuration element controlled by the an organisation's head office. The arrow between the fixed and the variable elements of the model shows that these elements must be balanced by internationalising firms.

Figure 4 – A Model for International Expansion Through Flexible Replication



*Note: value configuration is generally a fixed element, which is only adjusted in response to host country's regulations

The bottom part of the model shows that the flexible replication model is designed by internationalising firms prior to commencing operations in the foreign market. Furthermore, this part of the model shows that grasping the organisation's winning attributes and conducting prior research on the target market, assists organisations in designing the flexible

replication model prior to operating in a new market.

The model can be used to establish the benefits of adopting flexible replication as model of international expansion, how to configure an optimal flexible replication model, as well as determining when the model can be configured. The people who could use the model include business leaders, expatriate employees and investors.

7.3 Recommendations for Business Leaders

Operating in heterogeneous markets clearly requires the adjustment of business models of internationalising firms. This demonstrates that it is important for business leaders to understand the environment of the markets which are considered for investment. This also demonstrates the value of conducting purposeful prior research before operating in such foreign markets. Furthermore, it is also important for business leaders to develop and understand the firm-specific advantages of their businesses prior to expanding to heterogeneous markets, with a view of assessing if their firm-specific advantages will give them a competitive advantage in a new market.

The understanding of the organisations firm-specific advantages will enable business leaders to identify the elements in their business models that are affected by integration, responsive and transactional completeness pressures. This understanding will then assist such leaders to configure an optimal flexible replication model for new markets, as they will know the elements that should be non-negotiable and the elements that should be varied. Prior research and firm-specific advantages will also assist leaders to configure an optimal business model for a new market before commencing operations in that market. Therefore, it is recommended that more emphasis be placed on firm-specific advantages and research when expansion to a new market is considered.

7.4 Recommendations for Expatriate Employees

The expertise that are possessed by employees help internationalising firms to create firm-specific advantages. It is therefore important for internationalising firms to develop and maintain relevant expertise in all operations in different markets. Therefore, internationalising firms must certify that employees who receive international assignment understand the organisation's strategy, the configuration of the business model for the new markets, and the relevant manuals, values and culture of the organisation. Furthermore, employees that are transferred by internationalising firms to work in foreign markets must understand that the firms *inter alia* rely on them to develop and maintain the relevant expertise in new markets, through training and skills transfer. There is also an expectation that expatriate employees

will share learnings from the new markets, across the organisation through the head office. Therefore, it is recommended that employees who aspire to work in foreign subsidiaries of their organisations must ensure that they understand the organisation's strategy, the configuration of the business model for the new markets, and the relevant manuals, values and culture of the organisation, in anticipation of receiving offers to work in such foreign subsidiaries. It is also recommended that expatriate employees take time to understand the environment of the new market, provide training and transfer skills to local employees, and learn and share the learnings from the new market.

7.5 Recommendations for Investors

Prior to investing in an internationalising firm that is expanding or intending to operate in heterogeneous markets investors must understand the strategy and the configuration of the business model of that organisation. This understanding of the strategy and the business model will assist an investor in determining if such internationalising firm of interest is likely to produce the expected return on the investment. It is therefore recommended that investors carefully consider the configuration of the business models of internationalising firms of interest, in addition to other tools used to evaluate the investment opportunities.

7.6 Recommendations for Future Research

The research contributed to the body of knowledge by showing the benefits of adopting flexible replication as a model of international expansion, establishing an optimal mix of fixed and variable elements of a business model of an internationalising firm, and the circumstances and the timing of adopting the flexible replication model. The conclusions drawn and the limitations of this research suggest the following areas to be investigated in the future:

- similar case studies across other industries or markets to triangulate and compare the findings made in this study;
- similar case studies with a longer period of time as a unit of analyses in order to capture other benefits, aspects and the impact of the flexible replication over time;
- a quantitative research on this case study to compare the observations and results of this study with those made using a different methodology; and
- a case study examining whether the flexible replication model will lead to higher performance in the national context.

7.7 Conclusion

This research has shown that the adoption of flexible replication by an internationalising firm leads to higher performance. Furthermore, internationalising firms can design an optimal flexible replication model by fixing the elements of the business model affected by integration pressures and balancing elements that are affected by responsiveness pressures. The research also showed that firms seeking growth opportunities in new markets and having clarity of their firms-specific advantages, design a flexible replication model prior to operating in a foreign market. Therefore internationalising firms seeking to expand to new markets through flexible replication must have clarity of their winning attributes and must conduct purposeful research prior to designing a business model and operating in that market.

REFERENCES

- Aspara, J., Hietanen, J., & Tikkanen, H. (2010). Business model innovation vs replication: financial performance implications of strategic emphases. *Journal of Strategic Marketing*, 18(1), 38-56.
- Baden-Fuller, C., & Winter, S. (2005). Replicating organizational knowledge. Working Papers of Economics and Evolution. *Max-Plank-Institute of Economics*, p 1-40.
- Bartlett, C., & Goshal, S. (1998). *Managing Across Borders: The Transnational Solution*. Boston: Harvard Business School Press.
- Bock, A., Opsahl, T., George, G., & Gann, D. (2012). The effects of culture and structure on strategic flexibility during business model innovation. *Journal of Management Studies*, 49(2), 279-305.
- Byhlin, H. & Holm, E. (2012). *Entering the Chinese e-emerging market: A single case study of business model adjustment* (Doctoral dissertation, Umeå University)
- Deng, P. (2009). Why do Chinese firms tend to acquire strategic assets in international expansion?. *Journal of World Business*, 44(1), 74-84.
- Devinney, T., Midgely, D., & Venaik, S. (2000). The Optimal Performance of Global Firm: Formalizing and Extending the Intergration Responsiveness Framework. *Organizational Science*, 11(6), 674-695.
- Doz, Y., & Kosonen, M. (2010). Embedding strategic agility: A leadership agenda for accelerating business model renewal. *Long Range Planning*, 43(2), 370-382.
- Drury, C. (2009). *Management accounting for business*. 4th ed. Hampshire: Cengage Learning EMEA.
- Dunford, R., Palmer, I., & Benveniste, J. (2010). Business model replication for early and rapid internationalisation: The ING direct experience. *Long Range Planning*, 43(5), 655-674.
- Dunning, J. (1980). Toward an eclectic theory of international production: Some empirical tests. *Journal of International Business studies*, 11(1), 9-31.
- Dunning, J. (1995). Reappraising the eclectic paradigm in an age of alliance capitalism. *Journal of International Business Studies*, 26(3), 461-491.

Eisenhardt, K., & Graebner, M. (2007). Theory building from cases: Opportunities and challenges. *Academy of Management Journal*, 50(1), 25-32.

FirstRand Limited. (2007). *FirstRand Group Annual Report*. Retrieved April 18, 2013, from
<http://www.firstrand.co.za/InvestorCentre/Annual%20Reports%20Archives/2007%20FirstRand%20annual%20report.pdf>.

FirstRand Limited. (2008). *FirstRand Group Annual Report*. Retrieved April 18, 2013, from
<http://www.firstrand.co.za/InvestorCentre/Annual%20Reports%20Archives/2008%20FirstRand%20annual%20report.pdf>.

FirstRand Limited. (2009). *FirstRand Group Annual Report*. Retrieved April 18, 2013, from
<http://www.firstrand.co.za/InvestorCentre/Annual%20Reports%20Archives/2009%20FirstRand%20annual%20report.pdf>.

FirstRand Limited. (2010). *FirstRand Group Annual Report*. Retrieved April 18, 2013, from
<http://www.firstrand.co.za/InvestorCentre/Annual%20Reports%20Archives/2010%20FirstRand%20annual%20report.pdf>.

FirstRand Limited. (2011). *FirstRand Group Annual Report*. Retrieved April 18, 2013, from
<http://www.firstrand.co.za/InvestorCentre/Annual%20Reports%20Archives/FirstRand%20annual%20report%202011.pdf>.

FirstRand Limited. (2012). *FirstRand Group Integrated Annual Report*. Retrieved April 18, 2013, from
<http://www.firstrand.co.za/InvestorCentre/Annual%20Reports%20Archives/2012%20FSR%20annual%20integrated%20report.pdf>.

Friesl, M., & Larty, J. (2013). Replication of Routines in Organizations: Existing Literature and New Perspectives. *International Journal of Management Reviews*, 15(1), 106-122.

Guillén, M., & García-Canal, E. (2009). The American model of the multinational firm and the "new" multinationals from emerging economies. *The Academy of Management Perspectives*, 23(2), 23-35.

Guttel, W., Konlecher, S., Muller, B., Trede, J., & Lehrer, M. (2012). Facilitating Ambidexterity in Replicator Organizations: Artifacts in their role as Routine-Reactors. *Schmalenbach Business Review*, 64, 187-203.

- Hamel, G. (1998). Strategy innovation and the quest for value. *Sloan Management Review*, 39, 7-14.
- Hedley, N. (2013, June 7). Yum to push KFC into Africa “as fast as possible”. Business Day, 7 June, p. 12. Retrieved June 30, 2013 from
<http://www.bdlive.co.za/business/retail/2013/06/07/yum-to-push-kfc-into-africa-as-fast-as-possible>.
- Jensen, R., & Szulanski, G. (2004). Stickiness and adaptation of organizational practices in cross-border knowledge transfers. *Journal of International Studies*, 35(6), 508-523.
- Johanson, J., & Vahlne, J. (1977). The internationalisation process of the firm: A model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies*, 8(1), 23-32.
- Jonsson, A., & Foss, N. (2011). International Expansion through flexible replication: learning from the international experience of IKEA. *Journal of International Business Studies*, 42(9), 1079-1102.
- Kaplan, R., & Norton, D. (2001). Transforming the balanced scorecard from performance measurement to strategic management: Part I. *Accounting Horizons*, 15(1), 87-104.
- Kearney, C. (2012). Emerging Market Research: Trends, issues and future direction. *Emerging Markets Review*, 13(2), 159-183.
- Klein, S., & Wöcke, A. (2007). Emerging global contenders: the South African experience. *Journal of International Management*, 13(3), 319-337.
- Klein, S., & Wöcke, A. (2009). Protective Incubators and South African MNEs. *Thunderbird International Business Review*, 51(4), 341-354.
- Kodzi, E. (2013). “International expansion through flexible replication: rethinking the propositions”. “Forthcoming” in the *Jindal Journal of Business Research*.
- Kotler, P., & Keller, K. (2012). *A Framework For Marketing Management*. Essex: Pearson Education Limited.
- Lamb, M., & Sutherland, M. (2010). The components of career capital for knowledge workers in the global economy. *The International Journal of Human Resource Management*, 21(3), 295-312.

Lambert, S., & Davidson, R. (2012). Applications of the business model in studies of enterprise success, innovation and classification: An analysis of empirical research from 1996 to 2010. *European Management Journal*, August, 2012.

Malhotra, N., & Hinings, C. (2010). An organisational model for understanding internationalisation process. *Journal of International Business Studies*, 41(2), 330-349.

Mason, J. (1994). *Qualitative Researching*. 2nd ed. London: Sage.

Meyer, K., & Thaijongrak, O. (2013). The dynamics of emerging economy MNEs: How the internationalization process model can guide future research. *Asia Pacific Journal of Management*, 30(4), 1125-1153.

Miles, M., & Huberman, M, (1994) *Qualitative data analysis*. Beverly Hills, CA: Sage.Higgins, R. C. (2009).

Moorad, Z (2013a, January 14). KFC eager to spread wings in Africa. Business Day, January 14. Retrieved June 30, 2013, from
<http://www.bdlive.co.za/business/2013/01/14/kfc-eager-to-spread-its-wings-in-africa>.

Moorad, Z (2013b, April, 3). Procter & Gamble see growth opportunities in Africa. Business Day, 3 April, p. 13. Retrieved June 30, 2013, from
<http://bdlive.co.za/retail/2013/04/03/procter-gamble-see-growth-opportunities-in-africa>.

Morris, S, Wright, P., Trevor, J., Stiles, P., Stahl, G., Snell, S., Paauwe, J., & Farndale, E. (2009). Global challenges to replicating HR: The role of people, processes, and systems. *Human Resource Management*, 48(6), 973-995.

Mr Price Group Limited. (2007). *Mr Price Group Limited Annual Report*. Retrieved May 1, 2013, from
http://www.mrpricegroup.com/MRPG/media/MRPG/Files/00_MrPAR07_AR_Bk_Compote2.pdf.

Mr Price Group Limited. (2008). *Mr Price Group Limited Annual Report*. Retrieved May 1, 2013, from
http://www.mrpricegroup.com/MRPG/media/MRPG/Files/MrPriceGroup_AnnualReport_June2008.pdf

Mr Price Group Limited. (2009). *Mr Price Group Limited Annual Report*. Retrieved May 1, 2013, from

http://www.mrpricegroup.com/MRPG/media/MRPG/Files/2009_AnnualReport.pdf

Mr Price Group Limited. (2010). *Mr Price Group Limited Annual Report*. Retrieved May 1, 2013, from

http://www.mrpricegroup.com/MRPG/media/MRPG/Files/MRPG_AnnualReport2010.pdf

Mr Price Group Limited. (2011). *Mr Price Group Limited Annual Integrated Report*. Retrieved May 1, 2013, from http://www.mrpricegroup.com/MRPG/media/MRPG/Files/mrp_ar2011_full.pdf

Mr Price Group Limited. (2012). *Mr Price Group Limited Annual Integrated Report*. Retrieved May 1, 2013, from <http://www.mrpricegroup.com/getmedia/7e688f1b-45a1-44a2-b622-ec65277dd90d/Mr-P-AIR-2012a.pdf.aspx>

Mr Price Group Limited. (2013). *Mr Price Group Limited Annual Integrated Report*. Retrieved May 1, 2013, from [http://www.mrpricegroup.com/getmedia/f51755eb-aed5-4787-a153-eb9386e30e83/36087_MrP_AR2013_Whole-book-\(reduced-size\)_1.pdf.aspx](http://www.mrpricegroup.com/getmedia/f51755eb-aed5-4787-a153-eb9386e30e83/36087_MrP_AR2013_Whole-book-(reduced-size)_1.pdf.aspx)

Ndzamela, P. (2013, March 6). FirstRand has double-digit growth goal. Business Day, 6 March, p. 9. Accessed June, 2013 at
<http://www.bdlive.co.za/business/financial/2013/03/06/firstrand-has-double-digit-growth-goal>.

Osterwalder, A. (2004). The business model ontology: A proposition in a design science approach. *Institut d'Informatique et Organisation. Lausanne, Switzerland, University of Lausanne, Ecole des Hautes Etudes Commerciales HEC*, 173.

Ostenwalder, A., Pigneur, Y., & Tucci, C. (2005). Clarifying Business Models: Origins, Present and Future of the Concepts. *Communications of the Association for Information Systems*, 16(1), 1-25.

Prahalad, C., & Doz, Y. (1987). *The Multinational Mission: Balancing Local Demands and Global Vision*. New York: Free Press.

Ramamurti, R. (2012). What is really different about emerging market multinationals?. *Global Strategy Journal*, 2(1), 41-47.

- Roxburgh, C., Dörr, N., Leke, A., Tazi-Riffi, A., van Wamelen, A., Lund, S., Chironga, M., Alatovik, T., Atkins, C., Terfous, N., & Zeino-Mahmalat, T. (2010). Lions on the Move: The Progress and Potential of African Economies. McKinsey Global Institute report.
- Rugman, A., & Li, J. (2007). Will China's multinationals succeed globally or regionally?. *European Management Journal*, 25(5), 333-343.
- Rugman, A., & Verbeke, A. (2003). Extending the theory of the multinational enterprise: internalization and strategic management perspectives. *Journal of International Business Studies*, 34(2), 125-137.
- Ruuska, I., & Brady, T. (2011). Implementing the replication strategy in uncertain and complex investment projects. *International Journal of Project Management*, 29(4), 422-431.
- Saunders, M., & Lewis, P. (2012). *Doing Research in Business and Management*. Essex: Pearson Education Limited.
- Sharahi, S., & Abedian, M. (2009). Performance Measurement. In *Supply Chain and Logistics in National, International and Governmental Environment* (pp. 21-42). Physica-Verlag HD.
- Shepherd, C., & Günter, H. (2006). Measuring supply chain performance: current research and future directions. *International Journal of Productivity and Performance Management*, 55(3/4), 242-258.
- Sulaiman, P. (2013, August 9). From FDI to Africans investing in Africa. Business Day, 9 August, p. 6. Accessed September, 2013 at
<http://www.bdlive.co.za/africa/africanbusiness/2013/08/09/from-fdi-to-africans-investing-in-africa>
- Takeuchi, H., & Porter, M. (1986). Three roles of international marketing in global strategy. *Competition in Global Industries*, 111-46.
- Thongpapanl, N., De Clercq, D., & Dimov, D. (2012). An investigation of the performance consequences of alignment and adaptability: contingency effects of decision autonomy and shared responsibility. *Research and Development Management*, 42(1), 14-30.

- Wæhrens, B., Cheng, Y., & Madsen, E. (2012). The replication of expansive production knowledge: the role of templates and principles. *Baltic Journal of Management*, 7(3), 268-286.
- Welman, C., Kruger, F., & Mitchell, B. (2005). *Research methodology*. Cape Town: Oxford University Press.
- Winter, S., & Szulanski, G. (2001). Replication as strategy. *Organization Science*, 12(6), 730-743.
- Winter, S., Szulanski, G., Ringov, D. & Jensen, R. (2007). Reproducing Knowledge: Inaccurate Replication and Failure in Franchise Organisations. *Academy of Management, 2007*(1), 1-6.
- Yin, R. (2003). *Case Study Research: Design and Methods*. 3rd ed. Thousand Oaks: Sage.
- Yin, R. (2009). *Case Study Research: Design and Methods*. 4th ed. Thousand Oaks: Sage.
- Zikmund, W. (2003). *Business research methods*. Mason, Ohio: Thomson/South-Western.

Appendix A: PROTOCOL

PROJECT OVERVIEW

Introduction to the Research Project and the Purpose of the Protocol

There is increasing interest in international expansion of businesses worldwide and this invites the analysis of business models that allow these business to thrive in spite of the known challenges of doing business in a foreign market. In light of the increasing interest in international expansion of businesses, the aim of this project is to identify the benefits of internationalising through flexible replication, explore the optimal mix of fixed and variable elements of business models of internationalising firms and investigate the timing of the adoption of flexible replication model and the circumstances that lead to the adoption of the model.

The purpose of this protocol is to increase the reliability of the research. The design of this protocol is based on literature review. The protocol provides an agenda that will be followed by the researcher in executing this project. This protocol will also provide guidance to the researcher beginning with the formulation of the research questions and ending with the compilation of the research report.

Research Questions and Propositions

The following research questions and propositions were formulated based on the literature review:

Research Question 1: Why should internationalising firms achieve high degrees of similarity of business operations, whilst taking advantage of benefits of local adaptation?

The following proposition will be used to obtain evidence to answer research question 1:

Proposition 1: Internationalising firms will realise higher performance when they achieve an optimal balance between the fixed and variable elements of their business models.

Research Question 2: How can internationalising firms achieve high degrees of similarity of business operations, whilst taking advantage of benefits of local adaptation?

The following propositions will be used in obtaining evidence to answer research question 2:

Proposition 2: Internationalising firms that fix the element of their business models that are affected by the integration pressures and vary elements that are affected by responsiveness

pressures, achieve an optimal flexible replication model.

Proposition 3: Internationalising firms having clarity of their winning attributes design a flexible replication approach prior to operating in a foreign environment.

Theoretical framework for the case study

This case study will be based on the following theoretical framework:

- International Process Model (IPM);
- Integration-Responsiveness Framework (IRF);
- Theory on Country-Specific and Firm Specific Advantages;
- Theory on Replication;
- Theory on Business Model; and
- Theory on Performance Management.

DATA COLLECTION PROCEDURES

Names of sites to be visited, including contact persons

- Mr Price's Head Office in Durban will be visited. The contact person at Mr Price's Head Office is Helen Grosvenor;
- FirstRand's Head Office in Sandton will be visited. The contact person at FirstRand's Head Office is John Macaskill;
- First National Bank's (FNB) Head Office in Johannesburg will also be visited. The contact person at FNB's is Graca Pereira.
- Mr Price store in Mozambique (Maputo) and several Mr Price stores in Durban and Johannesburg will be visited; and
- FirstRand branches in Mozambique (Maputo) and several FirstRand branches in Durban and Johannesburg will also be visited.

Data Collection Plan

The plan below will be followed by the research to collect data:

Week	Activity
24-28 May 2013:	Obtain signatures of all the consent letters
3 June 2013:	Submission of ethical clearance

10 June 2013 – 20 June 2013:	Interviews – Mr Price
21 June 2013 – 1 July 2013:	Interviews – FirstRand and FNB
7 July 2013 – 15 July 2013:	Observations to be made in Mozambique (Mr Price & FNB)
18 July 2012 – 28 July 2013:	Observations to be made in DBN & JHB (Mr Price & FNB)
1 August 2013:	Complete data collection

Expected Preparation Prior to Company Visits

The following documents will be reviewed prior to visiting Mr Price:

- All communication to Mr Price's stakeholders that is available on the company's website for the period 2007 to 2013.
- Mr Price's Annual Reports for the period 2007 to 2013 – These reports will be accessed from the company's website; and

The following document will be reviewed prior to visiting FirstRand and FNB:

- All communication to FirstRand's stakeholders that is available on the company's website for the period 2007 to 2012.
- FirstRand Annual Reports for the period 2007 to 2012 – These reports will be accessed from the company's website; and

OUTLINE OF CASE STUDY REPORT

The research report will be structured as set out below:

- Chapter 1 – Introduction to the Research Problem;
- Chapter 2 – Literature Review;
- Chapter 3 – Research Questions and Propositions;
- Chapter 4 – Research Methodology;
- Chapter 5 – Results;
- Chapter 6 – Discussion of Results; and
- Chapter 7 – Conclusion

CASE STUDY QUESTIONS

The case study questions are set out separately in the Interview Guide.

Appendix B: INTERVIEW GUIDE

Introductory Note

What is flexible replication?

There is recognition by internationalising firms that benefits associated with replication need to be balanced with the benefits of local adaptation. An organisation that adopts the flexible replication model allows the certain features of their business model to vary across the organisation's business in response to market-based learning, while it replicates certain features of the business model in a uniform manner across businesses.

The awareness of language and cultural differences in different countries drive internationalising firms to determine elements of their business models that are non-negotiable and the elements that would be adjustable to allow for local variation. This approach allows internationalising firms to benefit from economies of scale by replicating appropriate elements of their business models and to benefit from providing the appropriate products and services in new markets by varying suitable elements of their business models, in new environments.

Informed Consent Letter

Flexible Replication as a Model of International Expansion

<Greeting and Introductions>

My name is Velile Memela, I am doing an MBA with the University of Pretoria's Gordon Institute of Business Science (GIBS). As part of my studies, I am conducting research on why and how international replicators achieve high degrees of similarity of business operations, whilst taking advantage of the benefits of local adaptation.

I am grateful that you have agreed to participate in this research. **Please note that your participation is voluntary and you can withdraw at any time without penalty.** Of course, all data will be kept confidential as no names will be recorded on the report. If you have any concerns, please contact me or my supervisor. Our details are provided below.

	Researcher	Supervisor
Name:	Velile Memela	Dr Emmanuel Kodzi
e-mail:	velile.memela@firstrand.co.za	emmanuel.kodzi@ufl.edu
Phone:	+27 73 726 3628	

In order to ensure that the research project complies with the ethical standards, please sign the part below, confirming that you are happy that we can proceed with this interview.

Full names:

Signature of the participant:

Date:

Velile Memela

Signature of the Researcher:

Date:

Interview Guide

Introduction questions

- Name, position, time at the company and responsibilities.
- What is your involvement in the Company's international expansion?

Business Model

- What are the elements of your Company's business model? [Based on Osterwalder, Pigneur & Tacci's (2005) framework]

Product - Value proposition

- What is the Company's value proposition? [Based on Osterwalder, Pigneur & Tacci's (2005) framework]
- What differentiates the Company from its competitors? [Based on Rugman & Verbeke, 2003; Rugman & Li, 2007; Deng, 2009; Guillén & García-Canal's, 2009 arguments]

Customer interface - Target customer, Distribution channel and Relationships

- Who are the Company's target customers? [Based on Osterwalder, Pigneur & Tacci's (2005) framework]
- How does the company reach its customers? [Based on Osterwalder, Pigneur & Tacci's (2005) framework]
- What is done to ensure customers' satisfaction with pricing, delivery, products etc.? [Based on Devinney, Midgley & Venaik's (2000) argument]
- How are new customers attracted and maintained? [Based on Osterwalder, Pigneur & Tacci's (2005) framework]

Infrastructure management – Value configuration, Capability & Partnership

- How does the Company manage and leverage its infrastructure and resources? (i.e. arrangement of activities, routines, processes and resources). [Based on Osterwalder, Pigneur & Tacci's (2005) framework]
- Please outline the Company's core competencies that are necessary to execute the business model? [Based on Osterwalder, Pigneur & Tacci's (2005) framework]
- Who are the Company's partners that are necessary to efficiently offer and commercialise value. [Based on Osterwalder, Pigneur & Tacci's (2005) framework]
- Are these partners used by all the subsidiaries of the Company? [Based on Osterwalder, Pigneur & Tacci's (2005) framework]

Financial aspect – Revenue model and Cost structure

- Does the Company have a variety of revenue flows and a cost structure? [Based on Osterwalder, Pigneur & Tacci's (2005) framework]
- How are these financial aspects integrated? [Based on Osterwalder, Pigneur & Tacci's (2005) framework]

International Expansion

- What is your understanding of the concept of “flexible replication”? [Based on Jonsson & Foss' (2011) argument]
- Which elements of the Company’s business model are non-negotiable and which elements of the Company’s business model are adjustable in each new environment? [Based on Prahalad & Doz (1987), Bartlett & Ghoshal (1998), Devinney, Midgley & Venaik (2000), Winter & Szulanski (2001), Aspara, Heitanen & Tikkanen (2010), and Jonsson & Foss' (2011) arguments]
- In what circumstance is the “flexible replication” strategy adopted? [Based on Jonsson & Foss (2011) and Kodzi's (2013) argument]
- At which stage of the expansion process is the decision to adopt the “flexible replication” taken? [Based on Jonsson & Foss (2011) and Kodzi's (2013) argument]
- What are the benefits of adopting the “flexible replication” strategy and how are these benefits measured? [Based on Winter & Szulanski (2001), Aspara, Heitanen & Tikkanen (2010), and Jonsson & Foss' (2011) arguments]
- Does the “flexible replication” strategy achieve high degree of similarity of business operations and how? [Based on Winter & Szulanski (2001), Aspara, Heitanen & Tikkanen (2010), and Jonsson & Foss' (2011) arguments]
- Does the “flexible replication” strategy assist the company to take advantage of the benefits of the local environment and how? [Based on Winter & Szulanski (2001), Aspara, Heitanen & Tikkanen (2010), and Jonsson & Foss' (2011) arguments]
- What are the steps taken in implementing the “flexible replication” in each new environment? [Based on Johanson and Vahlne (1977), Malhotra & Hinings (2010), Jonsson & Foss (2011), Meyer and Thajongrak (2012), Ramamurti, and Kodzi's (2013) arguments]
- What are the main stumbling points to implementing the strategy and how are these resolved? [Based on Winter & Szulanski (2001), Aspara, Heitanen & Tikkanen (2010), and Jonsson & Foss' (2011), and Kodzi's (2013) arguments]

- How is the knowledge shared and/or transferred across the units of the Company? [Based on Jonsson & Foss' (2011) argument]
- Has the adoption of the “flexible replication” strategy increased the performance of the Company and how? [Based on Winter & Szulanski (2001), Aspara, Heitanen & Tikkanen (2010), and Jonsson & Foss' (2011) arguments]

General

- Are you willing to answer follow-up questions if there are any?

Appendix C: CONSISTENCY MATRIX

TITLE: Flexible Replication as a Model of International Expansion

QUESTIONS/PROPOSITIONS	LITERATURE REVIEW	DATA COLLECTION TOOL	ANALYSIS
Research Question 1 Why should internationalising firms achieve high degrees of similarity of business operations, whilst taking advantage of benefits of local adaptation?	Prahalad & Doz (1987) Bartlett & Ghoshal (1998) Devinney, Midgley & Venaik (2000) Jonsson & Foss (2011)	(a) Interview guide (b) Researcher	Pattern matching between propositions and secondary data and data from interviews.
Research Question 2 How can internationalising firms achieve high degrees of similarity of business operations, whilst taking advantage of benefits of local adaptation?	Dunning (1980) Devinney, Midgley & Venaik (2000) Aspara, Heitanen & Tikkanen (2010) Jonsson & Foss (2011) Rugman & Verbeke (2003)	(a) Interview guide (b) Researcher	Pattern matching between propositions and secondary data and data from interviews and observations.
Proposition 1 Internationalising firms will realise higher performance when they achieve an optimal balance between the fixed and variable elements of their business models.	Hamel (1998) Winter, Szulanski, Ringov & Jansen (2007) Aspara, Heitanen & Tikkanen (2010) Jonsson & Foss (2011)	(a) Interview guide (b) Researcher	Pattern matching between propositions and secondary data and data from interviews.
Proposition 2 Internationalising firms that fix the elements of their business models that are affected by integration pressures and vary elements that are affected by responsiveness pressures, achieve an optimal flexible replication.	Hamel (1998) Osterwalder, Pigneur & Tacci (2005) Devinney, Midgley & Venaik (2000) Winter & Szulanski (2001) Aspara, Heitanen & Tikkanen (2010) Jonsson & Foss (2011)	(a) Interview guide (b) Researcher	Pattern matching between propositions and secondary data and data from interviews and observations.
Proposition 3 Internationalising firms having clarity of their winning attributes design a flexible replication approach prior to operating in a foreign environment	Johanson & Vahlne (1977) Jonsson & Foss (2011) Malhotra & Hinings (2010) Meyer & Thaijongrak (2012) Kodzi (2013)	(a) Interview guide (b) Researcher	Pattern matching between propositions and secondary data and data from interviews.