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Knowledge management and franchise systems

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ABSTRACT

Knowledge management is generally recognized as a resource for sustainable competitive advantage. Many organizations have approached knowledge management through the use of information technology. However, results are mixed, primarily because (1) information is merely one aspect of knowledge management, (2) some types of knowledge are difficult to transfer effectively and (3) the structure and culture of organizations may inhibit knowledge transfer. In this study, we examine knowledge management in a franchising context because franchisors and franchisees are independent entities linked together in a contractual (some even use the word hybrid) relationship. In addition, the 'product or service' offered by a franchise organization is an outcome of knowledge resources and the success of a franchise system depends on how well the parties involved in a franchise system leverage their knowledge resource. Specifically, we explicate types of knowledge, discuss the differences between traditional and network franchise organizations and develop a framework for knowledge management in franchise systems.

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Successful franchisors do not just sell products and services. They perfect a business system and then sell the know-how and benefits of the business system to prospective franchisees and subsequently to customers. One of the keys to franchise system success seems to be managing (e.g., developing, perfecting, disseminating, and improving) an intangible resource — knowledge, both within and across organizations. This is particularly pertinent because franchisors and franchisees are independent entities linked in a contractual (some even use the term hybrid to capture a place in between market and hierarchy — Bercovitz, 1999) relationship. Franchise business formats have been investigated extensively (Bai & Tao, 2000; Hoffman & Preble, 1993; Larson, 2002; Maylor, 1998; Shane & Foo, 1999), however, most studies have looked at franchising from a legal and contractual perspective, functional perspective (e.g., marketing, finance, production, supply chain management, and human resource management), and even ownership perspective (Bercovitz, 1998, 1999; Dant, Paswan, & Kaufmann, 1996; Lafontaine, 1992, 1993). To the best of knowledge, no research attention has been given to how knowledge is created and managed in franchise organizations.

The knowledge management literature offers much to franchise organizations. For example, knowledge has been suggested to be a complex resource that has a high propensity to contribute to sustainable competitive advantage (Morgan & Hunt, 1997), to enable franchise units to become more efficient (Darr, Argote, & Epple, 1995), and is vital for new product development and success (Van der Bij, Song, & Weggeman, 2003). Successful franchise organizations, therefore, must develop an environment and systems to foster knowledge creation and transfer between franchisor and franchisees, across franchised units, franchisor and company-owned units, and among all members in the network such as suppliers, customers and other organizations (Augier, Shariq, & Vendelo, 2001).

Franchise systems have been described as existing on a continuum with endpoints described as "traditional" and "network" franchise organizations. In traditional franchise organizations, the franchise agreement or contract explicitly delineates the roles and responsibilities of franchisors and franchisees (Bercovitz, 1999; Lafontaine, 1993) and guide the relationship and interactions between these entities. More likely, knowledge is created by the franchisor and disseminated to franchisees as well as company-owned units. In comparison, network franchise organizations are more flexible in nature and are guided by norms and relational dimensions rather than by contracts. Whereas traditional organizations have specific operating guidelines that are strictly adhered to, network franchise organization are more open, flexible, and allow greater communication between and among network members (Achrol, 1997; Achrol & Kotler, 1999). Thus, knowledge may flow from and to any member in the network. This view of the "franchise continuum" is consistent with Macneil's (1980) view of the relational exchange continuum in which pure contractual exchange and pure relational exchange lie at opposite ends (also see Maxwell, 1999). While in practice most franchise

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Table 1
List of research propositions

P1: In a traditional franchise system, franchisor and franchisees are likely to share information (and explicit knowledge to some extent), but less likely to share tacit knowledge (and may even explicit knowledge).
P2: In a network franchise systems, franchisor and franchisees are more likely to exchange knowledge (both explicit and tacit) with everyone in the network, than in traditional franchise systems.
P3: In traditional franchise organizations, the use of information technology is likely to enhance the transfer of information and explicit knowledge from franchisors to franchisees.
P4: In traditional franchise organizations, the use of information technology is likely to enhance the transfer of information from franchisees to franchisors.
P5: In a network franchise system, information technology will enhance the exchange of explicit knowledge and information between franchisor and franchisee, and among franchisees.
P6: In a network franchise system, information technology will enhance the exchange of tacit knowledge between franchisors and franchisees, and among franchisees.
P7: The rewards created by sharing of knowledge is likely to be perceived as more equitable and even in network franchise systems than in traditional franchise organizations, and consequently the extent of knowledge (both explicit and tacit) shared will be higher in network franchise organizations than in a traditional franchise organization.
P8: Knowledge transfer is positively related to innovation and competitive advantage.

organizations will lie somewhere in between, comparison of organizations at the endpoints provides a foundation for better understanding of knowledge management in franchise systems.

The purpose of this research is to develop a framework that purports to explain knowledge transfer in franchise organizations. Towards this goal, we integrate research from the knowledge and information management (Augier et al., 2001; Herschel, Nemati, & Steiger, 2001; Menon & Varadarajan, 1992; Nonaka, 1994) and franchise and business network research streams (Achrol, 1996, 1997; Achrol & Kotler, 1999; Anderson, Håkansson, & Johanson, 1994; Miles & Snow, 1992; Paswan, Wittmann, & Young, 2003; Snow, 1997; Snow, Miles, & Coleman, 1992; Walker, 1997). Specifically, we first provide an overview of knowledge management literature followed by its implications for competitive advantage. Next, we discuss the traditional and network type of franchise organizations and develop research propositions (see Table 1). We conclude with a discussion of a research agenda and limitations.

1. Overview of knowledge management literature

Many companies recognize that knowledge which resides in their organizations may be leveraged for competitive advantage, however many do not exploit its full potential for varied reasons (cf. Cross, Parker, Prusak, & Borgatti, 2001; McCann III & Buckner, 2004). Some have implemented information technology (IT) systems that are supposedly designed to harness and transfer knowledge throughout the organization. Success has been limited because while information is easily transferred through information technology systems, knowledge is not. Indeed, according to a recent survey (Hauschild, Licht, & Stein, 2001, p. 74), "many executives think that knowledge management begins and ends with building sophisticated information technology systems." Part of the confusion may be that few distinguish between information and knowledge. Several researchers have also investigated the barriers to knowledge management, especially knowledge sharing (cf. Kwok & Gao, 2005/2006; Lord, 2006). Researchers and practitioners faced with the difficult tasks of researching and managing knowledge must first develop an understanding of 'what is knowledge; how is it created, disseminated, and used'? We start with a brief discussion of information and knowledge including different forms of knowledge.

Information is commonly viewed as a preliminary stage (Lueng, 2001) of knowledge. That is, "Information is a necessary medium or material for initiating and formalizing… " (Nonaka, 1994, p. 16) or enhancing knowledge (Machlup, 1983; Nonaka, 1994), but is of little value if it is not used. Drestke (1981) suggests that information may be used to create knowledge depending on what we learn from it. Knowledge, therefore, is "information-produced (or sustained) belief" (Drestke, 1981, p. 86). For example, organizations gather a variety of information on a daily basis and many companies have libraries that are full of information that is never used to enhance the company's competitive position, improve their products, or serve customers. This information may never produce knowledge if it is simply stored in paper form (in libraries or files) or electronic form (in information technology systems). Following Nonaka (1994), Machlup (1983), and Drestke (1981), we define knowledge as *information produced belief that is anchored by the commitment and beliefs of the individuals and organizations that possess it*. Based on the extant literature, knowledge can be classified into *explicit* and *tacit knowledge* types (Augier et al., 2001; Nonaka, 1994).

Explicit knowledge is knowledge that is easily codified and transferred from one individual or organization to another. Information technology may be most efficient at codifying and transferring this type of knowledge because it is less dependent on the individuals' experience, i.e. tacit knowledge. In addition, policy and procedure manuals, books, articles, and even electronic communications may be effective means for codifying and transferring explicit knowledge.

Tacit knowledge, on the other hand, is gained through experience and may be extremely difficult to codify and transfer from one individual or organization to another. According to Nonaka (1994, p. 16), tacit knowledge is "deeply rooted in action, commitment, and involvement in a specific context" (Nonaka, 1994, p. 16). Reed and DeFillippi (1990) suggest that tacit knowledge is developed through learning by doing which supports Polanyi's (1966, p. 4) assertion that "We can know more than we can tell." Some processes are entirely too tacit to be expressed in explicit terms (O'Dell & Grayson, 1998) and many efforts to do so have failed. For example, Chevron and Citibank both created knowledge sharing databases to capture and share knowledge. However, since tacit knowledge is so difficult to capture, the databases have been used to collect more generic or explicit information and knowledge and to seek help from others who may be experts in a particular area. The opportunity to take advantage of tacit knowledge comes from interaction with experts rather than by learning from sources of explicit knowledge (e.g., a database). Thus, experience is a key factor for creating tacit knowledge and contributes to the difficulty of knowledge transfer.

The tacit–explicit typology can be further refined by incorporating the dimensions of conceptual–procedural (Dienes & Perner, 1999; Nonaka, 1994). Conceptual knowledge is defined as a bit more abstract, theoretical, nascent, and generalized in nature. From a franchising or marketing perspective, examples of conceptual knowledge could be the new product idea, promotional concept, positioning concept, firm's mission and vision, and franchise idea or concept. In contrast, procedural knowledge has a little more concrete, how to, cook-book, and step-by-step orientation. Examples could be a blue print, the first franchisor unit to test the concept, steps or guidelines for marketing plan, instruction manuals or a marketing strategy document. Researchers have also suggested the cognitive–technical dimension (cf. Dienes & Perner, 1999; Nonaka, 1994), however, we find that this dimension is very similar to the conceptual–procedural dimension. For example, cognitive knowledge is more conceptual and abstract than the technical knowledge which is more repetitive and skill oriented, i.e., procedural in orientation. In this study, we will focus on tacit–explicit and conceptual–procedural dimensions to conceptualize the types of knowledge and its management in a franchise system (please see Fig. 1).

The interaction between these knowledge dimensions and its relevance to franchise systems is detailed by considering a new franchise concept as it is translated from a fuzzy idea into a working franchise system. A franchisor starts with a vague idea (tacit–conceptual) based on his/her dreams, aspirations, experience, knowledge, conviction, and education. This idea is then translated into a business plan or format (tacit–procedural) which is then tested, perfected and then sold to

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