



The dynamics and evolution of knowledge transfer in international master franchise agreements



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ARTICLE INFO

Keywords:

Knowledge transfer
International master franchising
Shared identity
Inter-organisational processes

ABSTRACT

The paper identifies and evaluates the antecedents, contextual factors and inter-organisational processes that influence knowledge transfer in international hotel master franchise agreements and how these evolve from the perspective of both franchisors and franchisees. A single, purposively selected in-depth qualitative case study reveals the specific factors relevant to knowledge transfer at different stages of the franchise agreement. Drawing on the alliance literature, the impact of four partner-specific variables on inter-organisational design processes used to transfer knowledge and on three antecedents to knowledge transfer; shared identity, absorptive capacity and casual ambiguity is identified. The study contributes to our understanding of the dynamics and evolution of knowledge transfer in master franchise agreements by highlighting the relative importance of partner-specific variables and relational management to knowledge transfer evolution and the relative importance of shared identity as an antecedent to knowledge transfer in these agreements

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1. Introduction

Although business format franchising has long been popular in the hospitality industry, the use of master franchise agreements has increased in line with greater levels of internationalisation (Brookes and Altinay, 2011; Welsh et al., 2006). A fundamental component of business format franchising is the knowledge transfer (KT) that takes place between the franchisor and the franchisee. From an organisational learning perspective, a franchisor develops a concept through exploratory learning and exploits that concept through franchisees who replicate the franchisor's brand (Szulanski and Jensen, 2008). Master franchise agreements are distinct however, as franchisors ally contractually with established local firms as master franchisees (Grewal et al., 2011) to operate branded units and/or grant franchise rights to third parties. While the potential for two-way KT through master franchising has been recognised (Elango, 2007), so too has the increased risk associated with the dissemination of knowledge and loss of competitive advantage, particularly across international borders (Welsh et al., 2006). Despite these potential benefits and risks, KT within franchising remains under researched (Gorovaia and Windsperger, 2010).

Researchers have however, examined KT in other types of alliances. These agreements are increasingly viewed as a way of

gaining access to knowledge as a critical resource (Oxley and Wada, 2009) to enhance organisational competitiveness (Mesquita et al., 2008). The success of this knowledge acquisition strategy however depends on the effectiveness of the KT process between the partners (Kumar and Ganesh, 2008). Furthermore, the potential benefits derived from KT are tempered by the difficulty of transferring knowledge across organisational (Szulanski, 1996) and cultural borders (Perez-Nordtvedt et al., 2008); the potential risks of dissemination (Beeby and Booth, 2000) and the subsequent dilution of competitive advantages (Becerra et al., 2008). Recognising the importance of understanding the factors that influence KT (Easterby-Smith et al., 2000), researchers have identified antecedents and contextual factors relevant to KT (Khamseh and Jolly, 2008). However, empirical studies have tended to examine KT in relation to outputs or performance, rather than through the process by which it takes place (Easterby-Smith et al., 2008). Further insight can be gained by examining KT through the inter-organisational processes and mechanism used (Martinkenaite, 2011) and how these change during alliance life cycles (Meier, 2011). The need for further research that examines KT from the perspective of both partners (Park, 2011) and within different alliance contexts (Oxley and Wada, 2009) has also been identified.

This paper therefore aims to identify and evaluate the inter-organisational processes used to transfer knowledge in international hospitality master franchise agreements from the perspective of both partners, and whether and how these evolve over the course of these agreements. It draws from three streams of literature which recognise knowledge as a key competitive

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resource; organisational learning, the resource-based view of the firm and relational management to define KT and identify the antecedents and contextual factors that influence it. These factors are considered in relation to inter-organisational processes within alliances and then within the context of franchising before the research design and findings are presented. By examining antecedents, contextual factors and inter-organisational processes concurrently and from a dyadic and evolutionary perspective, the paper contributes to our understanding of the dynamics of KT through the identification of the specific factors which support or hinder it at different evolutionary stages. As such, it yields a number of implications for hospitality franchise managers which are discussed, along with the limitations of the study, in the conclusion.

2. The process of knowledge transfer (KT)

Knowledge resides in the individuals, technology, structure, routines and coordination processes within organisations (Argote and Darr, 2000) and can be transferred by moving or combining these knowledge reservoirs (Inkpen, 2008a) within or across firm boundaries. As a process, knowledge is exchanged 'between two agents, during which one agent purposefully receives and uses the knowledge provided by another' (Foss and Pedersen, 2002, p. 163) to develop their capabilities (Phan and Perides, 2000). Within an inter-organisational context, KT therefore involves a source firm that generates knowledge and a recipient firm which adapts and uses that knowledge to enhance performance.

Alliance researchers consider KT as proceeding through different stages. Martinkenaite (2011) conceptualised a two-stage process of knowledge acquisition and exploitation, whereas Duanmu and Fai (2007) identified that the type of knowledge transferred evolves as relationships are initiated, developed and intensified. Inkpen (2008a) identified three stages comprising the change in one partner's mindset, KT, then both partner's focus on continual improvement. Abou-Zeid (2005, pp. 147–148) conceptualised a comprehensive four-stage model. In the initialisation stage, a knowledge gap is recognised, the knowledge source and type of collaborative arrangement required are identified and feasibility is determined. Constructive dialogue begins in the inter-relation stage to identify appropriate knowledge conduits and potential transfer problems. In the third stage of implementation, members of the recipient firm unpack newly acquired knowledge, reinterpret it and apply it to develop new capabilities. The final stage of internalisation is only reached if the recipient firm achieves satisfactory results and the acquired knowledge achieves a 'taken for granted' status. Despite the disparity in the number of stages identified these models all acknowledge KT as an evolutionary process where changes occur either in the mindsets of, or relationships between partners, the type of knowledge transferred or its use within recipient firms. A number of factors that impact upon this evolutionary process are discussed in the following section.

2.1. Antecedents and contextual factors that influence KT in alliances

Research in both intra and inter-organisational contexts suggests three main antecedents to KT as casual ambiguity (Simonin, 1999), absorptive capacity (Zahra and George, 2002) and shared identity (Priestley and Sammadar, 2007). The characteristics of knowledge and alliance partners and the relationships between them also impact on knowledge outcomes (Meier, 2011). These antecedents and contextual factors, their impact on KT and their relevance to inter-organisational processes are considered below.

2.1.1. Causal ambiguity

Causal ambiguity is the ability to understand the connections between actions and outputs that are the sources of competitive advantage (King, 2007). It is a fundamental starting point to examine KT (Simonin, 1999) as it can impede the movement of knowledge between firms (Van Wijk et al., 2008) and be influenced by knowledge and partner-specific characteristics (Khamseh and Jolly, 2008).

Knowledge-specific characteristics comprise the type of knowledge and its degree of complexity (Martinkenaite, 2011). Knowledge can be explicit, easily codified and transmitted between firms without loss of integrity (Dyer and Nobeoka, 2000); or tacit and contextually, organisationally (Phan and Perides, 2000) or socially (Inkpen, 2008b) embedded. Tacit knowledge is therefore sticky (Szulanski, 1996), increases causal ambiguity and is harder and more costly to transfer (Dyer and Hatch, 2006). The same is true for complex knowledge, considered more ambiguous (Hong et al., 2009) as it has a greater 'number of interdependent technologies, routines, individuals, and resources linked' to it (Simonin, 1999, p. 600). Explicit knowledge can be transferred through training manuals, standard operating procedures and information systems (Paswan and Wittmann, 2009), whereas tacit knowledge must be embedded in technology or transferred through socialisation and communication processes (Squire et al., 2009). However, cultural fit, mutual trust and commitment are also required if the knowledge transferred needs to become tacit within recipient firms (Beeby and Booth, 2000). Inkpen (2008b) found in his joint venture case study that communication processes and social interactions can break down barriers of causal ambiguity, although a common language for learning was important. Within organisations, decentralised designs that encourage cooperative efforts and participative decision making have been shown to support effective learning (Blazevic and Lievens, 2004), although not KT specifically. Less is known however, about how inter-organisational processes (Martinkenaite, 2011) or knowledge characteristics (Meier, 2011) impact on KT within alliances.

Partner-specific variables include prior experience, cultural and organisational distance (Simonin, 1999). A lack of prior experience can increase knowledge stickiness and thus causal ambiguity (Beeby and Booth, 2000). Cultural distance also increases ambiguity if language and cross-cultural skills create KT barriers (Phan and Perides, 2000). Similarly, organisational distance, or the degree of dissimilarity between the partners' business practices, institutional heritage, and organisational culture (Simonin, 1999, p. 603), positively impacts on causal ambiguity and hence negatively on KT (Mowery et al., 1996). The quality of relationships between source and recipient firms has been empirically shown to positively influence the efficiency and effectiveness of KT through its impact on learning intent and knowledge source attractiveness (Perez-Nordtvedt et al., 2008). However, there remains a gap in our understanding of the link between causal ambiguity and inter-organisational processes and their impact on KT.

2.1.2. Absorptive capacity

Absorptive capacity, 'the ability of a firm to recognize the value of new, external information, assimilate it and apply it to commercial ends' (Cohen and Levinthal, 1990, p. 128) is considered critical to effective KT (George et al., 2001). It is enhanced when firms have an understanding of three knowledge dimensions; the 'know-what' to value new information; the 'know-how' to assimilate that information and the 'know-why' to exploit it for commercial purposes (Lane and Lubatkin, 1998). Partner-specific variables, such as learning intent, source attractiveness, language and problem-solving commonality also impact on absorptive capacity (Park, 2011).

Research has highlighted the relevance of organisation designs to absorptive capacity (Dyer and Hatch, 2006) and in particular

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