Knowledge transfer and isomorphism in franchise networks

Maureen Brookes *, Levent Altinay

Oxford School of Hospitality Management, Oxford Brookes University, Oxford, OX30BP, UK

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ABSTRACT

This study draws on institutional and organisational learning theories to evaluate how knowledge transfer (KT) practices contribute to the development of isomorphism in franchise networks. It also analyses how the characteristics of franchise partners influence this process. Research conducted across a sample of hospitality and retail franchisees in Turkey reveals how the transfer of explicit knowledge aids in the realisation of coercive isomorphism and the transfer of tacit knowledge supports mimetic isomorphism. Additionally, the study identifies the factors that influence the extent to which these types of isomorphism are achieved. In doing so, it identifies the importance of franchisor institutionalisation, or the degree to which a strong and supportive infrastructure is developed, to isomorphism within franchise networks. Institutionalisation impacts on the antecedents to KT. Differences between the KT practices of hospitality and retail franchise networks are also identified.

1. Introduction

Business format franchising has grown phenomenally in recent years, particularly amongst hospitality and retail firms seeking international expansion in developed and emerging markets (Altinay et al., 2014a; Lindblom and Tikkanen, 2010). This popularity is explained through the potential benefits franchising offers to hospitality and retail franchisors and franchisees (Brookes and Altinay, 2011). These benefits are realised, in part, through the knowledge transfer (KT) that occurs between these franchise partners. Franchisors provide operational, technological and marketing know-how to franchisees and, in return, franchisees provide knowledge on local market conditions and customer preferences to support innovation and network growth (Weaven et al., 2014). While KT in both directions is therefore important, it is KT from the franchisor to the franchisee that is critical in ensuring brand conformity (Paswan et al., 2014). The success of franchise networks has been attributed to the franchisor's KT capacity (Gorovaia and Windsperger, 2010) and the ability of franchisees' to absorb and apply the knowledge transferred (Minguela-Rata et al., 2010). As such, KT is a fundamental component of hospitality and retail franchising, yet one that remains relatively under-researched (Brookes, 2014; Weaven et al., 2014).

This study aims to contribute to our understanding of KT in franchising by combining institutional and organisational learning theories in order to i) evaluate how KT practices contribute to the development of isomorphism amongst franchisees in a franchise network and ii) analyse how franchisor and franchisee partner characteristics influence KT to achieve isomorphism amongst franchisees. Institutional theorists highlight the relevance of the social dimensions of franchising to achieve isomorphism (Combs et al., 2009); a process whereby organisations in the same industrial field model themselves on one another (Di Maggio and Powell, 1983). Isomorphism is achieved using power and sanctions (coercive isomorphism); through copying others perceived as experts (mimetic isomorphism), or through the imposition of laws, rules and standards in the field (normative isomorphism) (Di Maggio and Powell, 1983). Isomorphism therefore reflects the KT between organisations, which in turn, influences conformity within industrial fields. Franchise researchers applying organisational learning theories also recognise the influence of social relationships on KT effectiveness (Minguela-Rata et al., 2010; Szulanksi and Jensen, 2008). We argue therefore that institutional and organisation learning theories may be combined to understand KT in franchising and its impact on achieving isomorphism and conformity within franchise networks.

This study makes three distinct contributions to the franchise literature. Firstly, it provides evidence of how the transfer of explicit knowledge supports the realisation of coercive isomorphism and how the transfer of tacit knowledge supports the realisation of mimetic isomorphism amongst franchisees in a network. Secondly, it identifies the factors that influence the extent to which these

* Corresponding author.
E-mail addresses: meabrookes@brookes.ac.uk (M. Brookes), laltinay@brookes.ac.uk (L. Altinay).

types of isomorphism are achieved. In doing so, it highlights the importance of franchisor institutionalisation, a partner characteristic not previously identified in the franchise KT literature, but one which is shown to influence KT antecedents and thus isomorphism. Thirdly, the paper highlights key differences in the KT practices and isomorphism of the hospitality and retail industrial sectors.

The paper begins by examining KT from an organisational learning perspective to identify relevant knowledge and partner characteristics. It then reviews the extant franchise research using institutionalisation theory in order to develop the study's research questions. After presenting the research design, the findings identify how KT practices and partner characteristics influence isomorphism. The conclusions highlight the similarities and differences between the hospitality and retail sectors and the implications for industry practice.

2. Franchise knowledge transfer (KT)

In business format franchising, a franchisor 'sells the right to market its products and services using a proven business concept and its brand name to legally independent entrepreneurs, the franchisees' (Cochet and Garg, 2008, p.135). Franchisees therefore buy the right to operate branded units and the operational, technical and marketing knowledge to run those units. The transfer of knowledge to franchisees is therefore critical to ensure that they understand and conform to their franchisor's business model (Gorovaia and Windsperger, 2010). At the outset of the franchise agreement, franchisors are typically the source firm for knowledge and franchisees, the recipients who purposefully receive that knowledge (Foss and Pedersen, 2002). Franchisors must therefore create a blueprint for franchisees (Watson et al., 2005) to operate their units so that brand conformity is protected.

2.1. KT from an organisational learning perspective

Franchise researchers investigating KT from an organisational learning perspective provide empirical evidence of the importance of both knowledge and partner characteristics for effective KT. Knowledge can be characterised as either explicit or tacit. Explicit knowledge is easily codified and transferred (Kalnins and Mayer, 2004). The strong drive for standardisation in hospitality franchising leads to the development and use of explicit operational, technical and marketing knowledge that is transferred through training, standard operating procedures and detailed brand and operating manuals (Paswan and Wittmann, 2009). Tacit knowledge, on the other hand, is sticky as it is embedded contextually, organisationally or socially within organisations (Inkpen, 2008). It therefore requires information-rich transfer mechanisms such as socialisation and communication that can be personalised, use multiple cues (voice, gestures, words), language variety and feedback (Gorovaia and Windsperger, 2010). Minguela-Rata et al. (2010) advise from their multi-sector study that explicit and tacit KT mechanisms are complementary and that on-going support services that aid in the transfer of tacit knowledge make it easier for franchisees to apply the explicit knowledge transferred.

A limited number of franchise studies also recognise the importance of franchise partner characteristics to KT. Weaven et al. (2014) argue conceptually that prior experience and organisational distance are particularly important as they influence the development of three KT antecedents; shared identity, absorptive capacity and causal ambiguity. When organisational distance between partners is large, knowledge barriers are created through differences in norms, language and business practices (Altinay and Wang, 2006). These barriers influence the perceived attractiveness of knowledge sources and the learning intent of knowledge recipients (Park, 2011). In a study of hospitality master franchising, Brookes (2014) identifies that these barriers inhibit the development of shared identity, a KT antecedent that reflects the social relationships between franchise partners.

These partner characteristics also influence the absorptive capacity of KT partners; their ability to recognise the value of new information, assimilate it and apply it to commercial ends (Cohen and Levinthal, 1990). Prior experience also impacts on causal ambiguity (Beeby and Booth, 2000) or the ability to understand the connections between actions and outputs that are the source of competitive advantage (King, 2007). Brookes (2014) identifies that all three antecedents are relevant to KT between hospitality franchisors and master franchisees and that the evolution of shared identity positively influences both partners' absorptive capacity. Lindsay et al. (2003) also found that absorptive capacity is strongly influenced by relationships developed across service industry franchise networks.

While these studies highlight the importance of social relationships and contribute to our understanding of franchise KT, they currently fall short of exploring how KT practices influence isomorphism and thus conformity in franchise networks. The following section therefore explores the extant literature on franchising and institutionalisation theory.

2.2. Franchising and institutionalisation theory

Institutional theorists argue its potential to increase our understanding of franchising as it considers the social factors that influence decision making (Barthelemy, 2011; Combs et al., 2009; Doherty et al., 2014). Institutional theory draws explanatory power from these social factors (Granovetter, 1985) and assumes that managers respond to social influences and pressure for conformity (Di Maggio and Powell, 1983). Social influences are derived from the external institutional environment or internal institutional pressures (Combs et al., 2009), and lead to coercive, mimetic or normative isomorphism. Institutional theory therefore explains why organisations in the same industrial fields become increasingly similar or isomorphic in their organisation structure and strategy (Barthelemy, 2011).

Franchise researchers have applied institutional theory to examine the propensity to franchise and the survival rates of franchisors. Shane and Foo (1999) explored both issues in a study of 1292 new multi-sector US franchisors between 1979 and 1996. The researchers found that the success of new franchise firms depends on economic efficiency and institutional approval in order to give new franchisors legitimacy. Their findings provide evidence that coercive isomorphism is developed through franchisors' efforts to achieve cognitive legitimacy by taking organisational activities for granted. Normative isomorphism is achieved through sociopolitical legitimacy and the extent to which legislation dictates accepted rules and standards. For example, legal requirements for new franchisors to produce disclosure circulars and strict termination laws support normative isomorphism. Disclosure circulars provide evidence that franchisors are legitimate and aid franchisee recruitment.

In a subsequent multi-sector US study, Combs et al. (2009) also sought to explore the propensity to franchise and identified that normative and mimetic isomorphism occurred through internal and external social forces. Normative isomorphism was influenced by professional associations within industrial fields and mimetic isomorphism, by managers' degree of uncertainty; the greater the uncertainty, the greater the tendency to mimic competitors. Barthelemy (2011) also identified that French franchisors mimicked competitors' propensity to franchise when they deemed them to be successful. However, he cautions of the dangers of mimick-