Knowledge Network Communication in Virtual Setting: A Case of Collaborative Franchise System in China

Yingshing Lin, Associate Professor, National Kaohsiung First University of Science and Technology
Shih-Chieh Fang, Professor, National Cheng Kung University, Taiwan
Jenn-Maw Cheng, Ph.D. Candidate, National Kaohsiung First University of Science and Technology

ABSTRACT

Taiwan has Asia Pacific’s and perhaps the world’s highest density of convenient store per person: one store per 2,800 people. As domestic franchising market saturates, Taiwan franchisors are forced to seek substitute markets for future growth opportunity, especially the emerging markets such as China. The purpose of this article proposes a conceptual framework of collaborative activities within Taiwan franchise system in China via information technologies (IT) to create network knowledge affecting their core competence and system performance. This article outlines important factors of collaborative activities and discusses the effects of value-added knowledge management arising from franchising operations. The authors suggest that tacit knowledge combined with explicit knowledge could successfully deal with complicated problems faced on international retail franchise system through collaborative activities of knowledge network communication.

Keywords: International Retail Franchise System, Knowledge Network Communication, Collaborative Activities.

INTRODUCTION

As domestic franchising market saturates, franchisors who wish to grow have forced to seek alternate markets, especially abroad (Hackett, 1976). Welch (1989) proposed that franchising follows a life cycle that begins with internationalization into industrial markets similar to the United States such as Canada, the United Kingdom, and Australia, continues into dissimilar developed markets such as Japan, and progresses into emerging markets that are culturally distinct and economically less developed. The cycle ends with franchisors from the latter countries entering the original home markets to compete with the founders of the concept. Franchising in emerging markets, including China, has grown significantly in recent years, both because of push factors, such as domestic market saturation and highly competitive markets in developed market, and because of pull factors, such as the liberalization of political and economic systems in developing countries (Alan, 1999b).

According to the Taiwan Department of Statistics, Minister of Economic Affairs, Taiwan franchising have grown to about $46 billion in annual sales or about 44% of all retail trade in 2005. From ACNielsen ShopperTrends 2005 report, Taiwan has the Asia Pacific’s and perhaps the world’s highest density of convenience store per person: one store per 2,800 people. Thus, Taiwan retail franchising has reached domestic market saturation; while emerging markets such as China remain relatively uncultivated. China, with about one-quarter of the world’s population, has a soaring middle-class and is considered the most under-retailed country in the world (Hoffman and Preble, 2004). Especially, China’s middle class is some 70 million strong with average incomes from $3,000 to $5,000 a year (Hunt, 2001). In fact, China has rapidly growing middle-classes that are eager to spend on consumer and leisure franchise offerings. The growth of franchising business in China is considered a potential market for Taiwan franchisors to seek overseas. Particularly, after the Ministry of Commerce of China promulgated revised franchise by the end of December, 2004, Taiwan franchisors had invested heavily in China such as Taiwan FamilyMart Co., the second largest convenient store in Taiwan had more than one hundred outlets of international franchise system in Shanghai, China.

In the past literatures on the role of international retail franchise in competitive strategy has spawned several theoretical perspectives. For example, with the resource-based theories and agency theories, the decision of franchisors to internalize their operations was examined (Alon and McKee, 1999a; Doherty and Quinn, 1999). Consistent with
transaction cost economics, franchising facilitates efficient transactions globally under some conditions (Sashi and Karuppur, 2002). A related literature adopted on resource-based, knowledge-based, and strategy-based theories to concern the impact of select organizational variables on the use of master franchising agreements by business-format franchisors overseas (Alon, 2000). From the previous researches, most of researches have been a major focus the determinants on overseas entry of international franchisors. Yet, little research studies the collaboration activities of international retail franchise system in virtual setting to impact on efficient and effective knowledge network communication. From the knowledge-based view, the purpose of this article proposes a conceptual framework of collaborative activities within the Taiwan franchise system, Taiwan FamilyMart Co., in China via IT to create network knowledge affecting their core competence and system performance.

LITERATURE REVIEW

Franchise System
Franchise system, as commonly defined, is an organizational form based on a legal agreement between a parent organization (the franchisor) and local outlet (the franchisee) to sell a product or service using a process and brand name developed and owned by the franchisor. The franchisor typically provides the franchisee with the right to use this intellectual property in return for a lump sum payment and an annual royalty fee based on sales for a specified period of time (Doherty and Quinn, 1999). Grant (1985, p. 4) defines business format franchising as: “the granting of a license for a predetermined financial return by a franchising company (the franchisor) to its franchisees, entitling them to make use of a complete business package, including training, support and the corporate name, thus enabling them to operate their own businesses to exactly the same standards and ‘format’ as the other units in the franchised chain.” This organizational form, hereafter simply called franchising, occurs when a firm (the franchisor) sells the right to use its trade name, operating systems, and product specifications to another firm (the franchisee). The franchisee is then permitted to develop one or more retail outlets that offer the franchisor’s product or service and bear the franchisor’s name (Justis and Judd 1988a).

Despite the increase in the utilization of franchising by international retailers, the research community has only recently begun to examine international franchising within the context of retailer internationalization (Singhavi, 1991; Manaresi and Uncles, 1995; Quinn, 1998a). Burton and Cross (1995, p. 36) defined international franchising as a “foreign market entry mode that involves a relationship between the entrant (the franchisor) and a host country entity, in which the former transfers, under a business contract and a business package (or format), which it has developed and owns, to the latter.” This host country entity can be either a domestic franchisee, a foreign franchisee, a master franchisee or an entity which is partly owned by the franchisor itself (Alon and McKee, 1999b). Shane (1996b, p. 86) stated that “the use of franchise contracts appears to be an important long-term strategic choice in its own right for international service firms.” Thus, Taiwan FamilyMart Co. with Ting Hsin International Group, Japan FamilyMart Co., and Itochu Co. has entered into the Chinese retail market by partly owned business format franchising in 2004.

Knowledge-based View and Collaborative Activities in Virtual Setting
Knowledge is declarative (know-about), procedural (know-how), causal (know-why), conditional (know-when), and relational (know with) (Zack 1998c). A pragmatic approach to classifying knowledge simply attempts to identify types of knowledge that are useful to organizations. Examples include knowledge about customers, products, processes, and competitors, which can include best practices, know-how and heuristic rules, patterns, software code, business processes, and models; architectures, technology, and business frameworks; project experiences (proposals, work plans, and reports); and tools used to implement a process such as checklists and surveys (KPMG, 1998b). Nonaka (1994) explicated two dimensions of knowledge in organizations: tacit and explicit. Rooted in action, experience, and involvement in a specific context, the tacit knowledge is comprised of both cognitive and technical elements. The cognitive element refers to an individual’s mental models consisting of mental maps, beliefs, paradigms, and viewpoints. The technical component consists of concrete know-how, crafts, and skills that apply to a specific context. The explicit knowledge is articulated, codified, and communicated in symbolic form and/or natural language. Polyani (1975)
delineated that tacit and explicit knowledge are not dichotomous states of knowledge, but mutually dependent and reinforcing qualities of knowledge: tacit knowledge forms the background necessary for assigning the structure to develop and interpret explicit knowledge.

Knowledge can also be viewed as existing in the individual or the collective. Individual knowledge is created by and exists in the individual whereas social knowledge is created by and inherent in the collective actions of a group (Nonaka 1994). Knowledge management refers to identifying and leveraging the collective knowledge in an organization to help the organization compete (von Krogh 1998). According to Davenport and Prusak (1998), most knowledge management projects have one of three aims: (1) to make knowledge visible and show the role of knowledge in an organization. Mainly through maps, yellow pages, and hypertext tools; (2) to develop a knowledge-intensive culture by encouraging and aggregating behaviors such as knowledge sharing (as opposed to hoarding) and proactively seeking and offering knowledge; (3) to build a knowledge infrastructure not only a technical system, but also a web of connections among people given space, time, to interact and collaborate.

Collaborative activities involve two or more parties working together to achieve the desired outcomes the parties would find difficult or impossible to achieve on their own (Huxham, 1996; Schrage, 1995). Advance in information and communications technology have made possible collaborative activities in virtual settings, where the use of it as the primary means of connection has overcome geographical barriers. Collaborative activities in virtual settings have significantly expanded the knowledge network available, providing increased access to even more specialized knowledge more rapidly and at a lower cost (Alavi and Leidner, 2001; Te’eni, 2001). “Knowledge network communication [of franchise system] involves collaborative activities in virtual setting where two or more geographically separated [franchisor and franchisees] work together via IT to provide value-added performance” (Paul, 2006). For geographically separation, Taiwan FamilyMart Co. can engage in collaborative activities in virtual setting with the China franchisees via IT to deliver knowledge network value.

In the preceding discussion, the authors have structured the propositions within the framework of collaboration activities of franchise system in virtual setting via IT to communicate knowledge network. This study is focus on (1) the knowledge creation process of international franchise system; (2) the role of knowledge combination and sharing in knowledge creation process; (3) the relationship between knowledge creation of international franchise system and the system performance.

A FRAMEWORK OF PROPOSITONS

Knowledge Creation

“Organizational knowledge creation represents a process whereby the knowledge held by individuals is amplified and internalized as part of an organization's knowledge base (Inkpen 1996, p. 124).” Nonaka and Takeuchi (1995, p. 84) proposed five-phase model of the organizational knowledge-creation process: sharing tacit knowledge, creating concepts, justifying concepts, building an archetype, and cross-leveling of knowledge. This model views organizational knowledge creation as involving a continual interplay between the tacit and explicit dimensions of knowledge and a growing spiral flow as knowledge moves through individual, group, and organizational levels. Four modes of knowledge creation have been identified: socialization, externalization, internalization, and combination (Nonaka 1994). This knowledge creation process of international franchise system is focalized the role of knowledge combination and knowledge sharing as Figure 1.
Knowledge Combination and Knowledge Sharing

Business format franchising is a popular example of a hybrid organizational form that incorporates elements of both markets and hierarchies (Williamson, 1991). Shane (1996a) asserted that business format franchising provides a useful laboratory for examining the effect of hybrid organizational forms on the rate of firm growth and franchisors exploit the same retail markets using the same business concepts through both franchised and company-owned outlets. Bradach (1998) also proposed plural form composed of both company and franchise units can and do take advantage of the complementary attributes through a variety of processes that lead each side to influence the other. The plural form offers multiple follows of information within the international franchise system and can be seen as an integrated social system. Moreover, social context in virtual settings facilitates the open interaction and trust development needed for collaborative activities (Paul and McDaniel, 2004; Vangen and Huxham, 2003).

For geographically separation, Collaborative activities of Taiwan FamilyMart Co. and China franchisees in virtual setting can exchange information via IT. Taiwan FamilyMart Co. combines and transfer operation information (explicit knowledge) from top to the bottom of China franchisees. Furthermore, if given more incentive and trust through frequently interactions, China franchisees would share narrowly focused and rich information (tacit knowledge) from local market to Taiwan FamilyMart Co. Therefore, Taiwan FamilyMart Co. under the local learning amity (Bradach, 1998) is more likely to combine and transfer explicit knowledge to China franchisees; while China franchisees given much incentive and trust are a key motivator to share tacit knowledge to Taiwan FamilyMart Co. The following propositions would be suggested.

P1a: The greater the local learning amity, the more likely the Taiwan FamilyMart Co. is to combine and transfer explicit knowledge to China franchisees.

P1b: The more the incentive and trust, the more likely China franchisees are to share tacit knowledge to Taiwan FamilyMart Co.

Knowledge Combination and Knowledge Creation

From the past literatures, there were different viewpoint of knowledge combination. Kogut and Zander (1992) noted creating new knowledge are products of a firm’s combinative capabilities to generate new applications from existing knowledge. de Boer et al., (1999) indicated a firm developing new architectural knowledge can use system, coordination, and socialization capabilities to integrate component knowledge. Teece, et al. (1997) also emphasized that the dynamic capabilities is the firm’s ability to integrate, build, and reconfigure existing conceptual and empirical
knowledge to achieve new and innovative forms of competitive advantage.

Scholars have classified different kinds of combinative knowledge. For example, Kogut and Zander (1992) explored how knowledge may be recombined through internal and external learning. Henderson and Clark (1990) also indicated organizations for innovations must actively develop both knowledge about alternate components to implement in a particular application and knowledge of how these components can be integrated and linked together into a coherent whole. Grant (1996) inferred firms exist as institutions for producing goods and services because they can create conditions under which multiple individuals can integrate their specialist knowledge. Thus, if there was effectively knowledge network combination via IT, the franchise system of Taiwan FamilyMart Co. and China franchisees could create a complementary, complex, and inimitable knowledge in virtual setting to adapt rapidly changing business environment.

P2: The more the knowledge network combination, the more likely the franchise system of Taiwan FamilyMart Co. and China franchisees is to create explicit and tacit knowledge.

Knowledge Sharing and Knowledge Creation

Knowledge sharing has been defined in many literatures. For example, Hendriks (1999) indicated knowledge sharing is something related to communication or information distribution. Knowledge is not like a commodity to delivery freely. Knowledge sharing takes place between two parties. The possessing knowledge party should have a willingness and consciousness to communicate the knowledge to the other party by act, speech, or writing etc. The receiving knowledge party should be able to recognize and comprehend the meaning by imitating the acts, listening or reading etc. Knowledge sharing defined by Lee (2001) as activities of transferring or disseminating knowledge from one person, group or organization to another. Holtshouse (1998, p. 277) noted “The tacit knowledge that is shared and exchanged is accomplished through direct first-hand observation, interaction with others, subtle body language, and so on.”

Nonaka and Takeuchi (1995) asserted knowledge creating process initiates from the sharing tacit knowledge and knowledge sharing is based on organizational context, and thus that knowledge can easily be transferred among organizations with similar cultures, structures, and goals. Collaboration of Taiwan FamilyMart Co. and China franchisees with the similar culture, structures, and goals can easily to share the knowledge, especially the tacit knowledge, each other in virtual setting via IT and finally create the core value knowledge in the franchise system.

P3: The greater the knowledge sharing with the similar culture, structures, and goals, the higher likely the franchise system of Taiwan FamilyMart Co. and China franchisees is to create explicit and tacit knowledge.

System Performance

Two major performance measurements suggested by Bourgeois (1985) are objective performance such as growth in earnings per share (EPS) and subjective performance such as market share. It is difficult to obtain data from the business entity to measure objective performance. This article adopts the latter based on the literatures of knowledge-based view (Boardman et al., 1997; Geringer et al., 1989; Reuer & Miller, 1997; Venkatraman & Ramanujam, 1986; Zaheer & Mosakowski, 1997). Nonaka & Takeuchi (1995) believed organizational knowledge creation originate to share the tacit knowledge of individuals and this new concept, which has been created, justified, and modeled, moves on to a new cycle of knowledge creation at cross-leveling of knowledge, takes place with both intra-organizationally and inter-organizationally.

The valued-added performance of international franchise system can be in terms of subjective performance (Bourgeois, 1985) and customer service performance. (Netemeyer & Maxham, 2007). Taiwan FamilyMart Co. collaborated with China franchisee in virtual setting can create cross-level knowledge via IT. This new knowledge combined with existing knowledge (Grant, 1996; Kogut & Zander, 1992; Nahapet & Ghoshal, 1998) can create sustainable competitive advantage and system performance.

P4: The greater the cross-level knowledge creation within the franchise system, the higher likely Taiwan FamilyMart Co. and China franchisees create sustainable competitive advantage and system performance.
MANAGERIAL IMPLICATIONS AND CONCLUSIONS

This research examines past literatures of knowledge management and propose a conceptual framework of collaborative activities in virtual setting from a knowledge-based view in order to better understand how collaborative activities of international franchise system such as Taiwan FamilyMart Co. and Chinese franchisees enable to achieve better outcomes that the parties would find difficult or impossible to achieve on their own. The study reveals that social context plays an important role to collaborative activities of international franchise system which engaged in remote site knowledge network communication in virtual setting.

Chinese franchisees when given more incentive and trust would like to share social, local, and tacit knowledge to Taiwan FamilyMart Co.; while the latter combine and transfer the formal operation information and explicit knowledge to the formers. This social context also supports the knowledge combination and sharing that are important to effective knowledge creation. The authors would suggest that tacit knowledge combined with explicit knowledge could successfully deal with complicated problems faced on international retail franchise system through collaborative activities of knowledge network communication (Paul, 2006).

The contribution of this paper proposes a conceptual framework on collaborative activities of international franchise system in virtual settings by applying a knowledge-based view. This research has provided insights into how remote site knowledge network communication can help international franchise system to manage different facets of collaborative activities in the form of knowledge combination, sharing, and creation. Hence, the initial step has been made, but much work still needs to improve the framework, and future empirical is critical to helping understand how collaborative activities of Taiwan’s franchise system in China to improve system performance through remote site knowledge network communication in virtual setting via IT.

REFERENCES


