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“Knowledge Transfer in Franchising”

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Abstract

The topic of Knowledge transfer in Franchising is a rather unexplored topic when talking about knowledge transfer as a field. Knowledge management as an integrated part of the economy represents an important theory which gives an insight in the world of knowledge sharing between companies. Knowledge stands for one of the most important issues which are of great essence for every legal entity in the world of business. This work represents a modest contribution to knowledge management and knowledge transfer in particular.

Theoretically it covers different types of knowledge transfer in different alliance types as well as the transfer of know-how in franchise networks. In the practical part it gives an overview of why, when and how companies from different industry fields transfer knowledge to its partners and with what benefits they end up with. It is also an attempt to analyze a rather undeveloped franchising market of Serbia, with a goal to understand all strengths and weaknesses and to propose possible solutions for improvement. The thesis might also be used for future research work in this field.

Table of Contents

Abstract	I
Table of Contents	II
Table of Figures	V
1 Introduction	1
1.1 Knowledge Management	2
1.2 Definitions of knowledge	2
1.3 Different concepts of knowledge management	3
1.4 Knowledge assets	4
1.5 Knowledge networks	4
1.6 Strategic management	5
1.7 The Knowledge management process	6
1.7.1 Organizational culture and cultural values	6
1.7.2 Knowledge culture	7
1.7.3 Organizational structure	7
1.7.4 Organizational behavior	8
1.7.5 Knowledge creation	9
1.7.6 Knowledge codification	11
1.7.7 Knowledge Transfer	12
1.8 Making knowledge work- action oriented knowledge management	13
1.8.1 The link between Knowledge and Action	14
1.8.2 The role of the Managers	16
2 Knowledge Management and Strategic Alliances	18
2.1 The actual nature of the relationship	18
2.1.1 The term of the relationship	19

2.2 Types of Alliances	19
2.2.1 Joint Ventures	19
2.2.2 Consortia	19
2.2.3 Licensing	19
2.2.4 Franchising	20
2.2.5 Strategic Supply Chain Partnership (SSCP)	20
2.3 Organizational learning and social network theory- Strategic alliances	20
2.4 Knowledge Tacitness and Ambiguity	22
2.5 Firm-level Learning Capabilities	23
2.6 Governance and Alliance Structures	24
2.7 Trust and Opportunism	25
2.8 Industry and Culture	26
2.9 Knowledge transfer in different type of alliances	28
3 Knowledge transfer in franchising	31
3.1 Introduction	31
3.2 The model of Franchising-brief theoretical overview	31
3.3 Knowledge transfer process	32
3.4 Analysis of knowledge transfer	34
3.5 Organization of Knowledge in Franchising Networks	37
3.6 Knowledge transfer in Franchising Networks	38
3.7 Performance of the Franchise Network and the influence of knowledge transfer	41
3.8 The influence of Ambiguity on Knowledge Transfer in Franchise organizations	42
3.9 Choice of knowledge transfer mechanisms in franchising networks	44
3.10 Knowledge transfer in Franchising- Analysis and Conclusions	47
4 Case study: Serbian franchising market	49
4.1 Interview with N. Romandic, CEO of Roma Company	49

4.2 Interview with N. Matanovic, Branch office Manager, Jolly Travel C.	52
4.3 Interview with R. Radojevic CFO Maxi, part of the Delta Holding	54
4.4 Interview with A. Slamic, Manager at Sojer Gmbh	55
4.5 Comparison across interviews	57
4.6 Key issues concerning knowledge transfer	59
5 Future Trends	60
6 Conclusion	62
7 References	64
8 Declaration of authorship	71

Table of Figures

Figure 1: Knowledge Management Process	6
Figure 2: Organizational knowledge creation process	9
Figure 3: Knowledge categories and transformation processes	11
Figure 4: Five types of knowledge transfer	13
Figure 5: Knowledge-action relationship Process	15
Figure 6: Knowledge Transfer Process	33

1 Introduction

Before dealing with any concrete issues concerning the topic, I want to give a brief introduction on the concept of the work.

The thesis will be divided into four major parts. The first part will be about the Knowledge management theory. It will focus on knowledge as an important part of today's economy. This part addresses topics such as the definition of knowledge, its creation and conceptualization. It also addresses the link between knowledge and action, or how to make your knowledge work for you.

The second part will deal with Knowledge transfer in Alliances in order to explain the theoretical steps of how and under which circumstances knowledge is transferred among and between alliance partners. I will refer to issues like Knowledge tacitness and ambiguity, knowledge influence and management, trust and opportunism, industry and culture.

In the third part the work will focus on the knowledge transfer in franchise networks, since such networks are a special type of alliances. Among other things there will be concrete explanations on how and which methods are used for knowledge transfer in franchise networks.

I will also address the process as well as the analysis of knowledge transfer in franchise networks as well as the information richness theory.

The fourth part will cover certain concrete information on how knowledge is transferred between a franchisor and a franchisee. It contains an investigation of the Serbian franchising market. It will focus on the methods and ways of knowledge transfer depending on the type of knowledge and the specific needs of the partners in the franchise network.

All four parts will contain many subparts which will explain major topics in more detail. The work will also include my personal comments on different issues.

I will try to explain why knowledge transfer has become increasingly important in the world of business. Why companies which pursue effective knowledge transfer can expect good results and enjoy a long lasting stay in the market.

1.1 Knowledge Management

Knowledge transfer is seen as an integrative part of knowledge management. Therefore I think it is appropriate to give an insight into the theoretical foundations of knowledge management. The goal of this part of the work is to define what knowledge is and why knowledge transfer is important. Knowledge management has become increasingly important over the past years. This started to affect all management structures in different companies. I will try to define knowledge and its use in practical ways and to introduce the importance of knowledge in today's economy. Before any in depth analysis one must define knowledge.

1.2 Definitions of knowledge

Knowledge is a fluid mix of framed experience, values, contextual information and expert insight that provides a framework for evaluating and incorporating new experiences and information (Baskerville & Dulipovici, 2006). In organizations, it often becomes embedded not only in documents or repositories but also in organizational routines, processes, practices and norms (Davenport & Prusak, 1998, p. 5). The authors are making a clear distinction between knowledge and information. Knowledge has some additional attributes like concept, perspective or belief. Despite such distinction knowledge can become information once it is codified in symbolic forms such as text, charts, or images, etc. (Alavi & Leidner, 2001).

The literature also distinguishes between different kinds of knowledge. Here are few examples. Technical knowledge is separated from tacit knowledge, personal skill and organizational routine (Tordoir 2005). Some other distinction includes the one between tacit knowledge from articulated knowledge (Nonaka & Takeuchi, 1995), this is useful for management processes and for the transfer of knowledge. Another interesting distinction is between professional and firm-specific knowledge (Tordoir, 1995) this is important when deciding whether to make or buy knowledge.

1.3 Different concepts of knowledge management

Authors claim that at least three concepts represent some kind of motivation for knowledge management. Two of those are connected with information economics namely intellectual capital theory and intellectual property theory and the third involves strategic management with its core competencies and dynamic capabilities. These and some other concepts explain why knowledge management is important.

So how we define intellectual capital and intellectual theory? Intellectual capital is seen as an evaluator of knowledge within the company or organization. It measures the intangible assets like know how, the so called human capital. Intellectual capital is defined as the difference between the book value of the company and the amount of money someone is prepared to pay for it.

On the other side Intellectual property theory deals with the legal and ethical issues of intellectual capital such as copyrights, patents, trade secrets and other property rights (Slater, 1998). It is important to say that poor knowledge management is a serious risk for organizations. Knowledge economy represents an extension to information economics. Knowledge economy observes the “product life cycle” of knowledge whether we talk about an internal market within an organization or the external marketplace, the so called commercial market where professional knowledge is exchanged. Knowledge economy deals with management decisions which try to answer dilemmas concerning knowledge. One such decision is whether to develop knowledge inside the organization or to acquire knowledge needed from outside experts. Another decision involves the dilemma when to combine internal and external knowledge and under which circumstances. The third decision includes the question when and how internal knowledge should be marketed externally.

Knowledge economy theory is about professional help and support in organizations. Knowledge economy theory is about production and distribution of knowledge as a commodity for consumption within the organizational value chain (Baskerville & Dulipovici, 2006). One potential mechanism for managing the knowledge economy

involves implementing a knowledge management life cycle. Knowledge management is divided into four iterative processes:

1. Construction, discovering or structuring of a class of knowledge, such as methodology
2. Embodiment, choosing a “container of knowledge”, such as a document
3. Dissemination, human or technical processes that make the embodied knowledge available in its market
4. Use, production of commercial value for the customer (Demarest, 1997)

1.4 Knowledge assets

Knowledge assets are firm specific resources that are indispensable to create values for the firm (Nonaka et al., 2000, p.20). They can be seen as inputs and outputs of knowledge activities. The management of knowledge assets builds on rather concepts such as knowledge economy and knowledge strategy (Nonaka et al., 2000; Teece, 2000).

1.5 Knowledge networks

Knowledge networks are a result of multiunit companies and partnerships for the purpose of knowledge sharing. It is proven in the theory that such knowledge sharing declines with increasing network length. Clusters are a good example of such networks. The production and distribution of knowledge is segmented within these clusters, and the transfer of knowledge assets between clusters is rather different than transfers of knowledge within the clusters (Baskerville & Dulipovici, 2006). Such clusters develop much more than knowledge capital. They develop learning capital. This has as a result an great upgrade in skills and knowledge. The result is that the movement of knowledge assets inside these economic clusters is growing faster than any other goods and services are growing in the economy.

Knowledge networks are often in a problematic situation if a critical individual leaves the network, without establishing an adequate replacement.

1.6 Strategic management

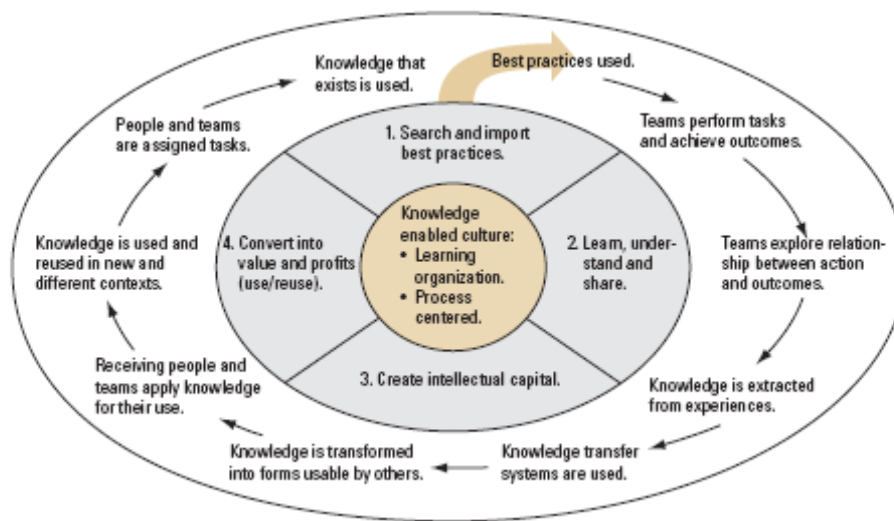
Strategic management represents another theory which has an influence on knowledge management. This theory regards knowledge as a fundamental resource that enables organizations to compete more effectively in their markets (Earl, 1997). Strategic management involves two key knowledge themes, namely core competencies and dynamic capabilities. On the other hand Knowledge management has extended the field of strategies and includes among others new concepts like knowledge alliances, knowledge strategy, knowledge marketplaces and knowledge capability. Core competencies are important for the competition between organizations. Since the environment is very competitive those days these competencies represent an important tool in gaining necessary advantages in the market. Dynamic capabilities are a necessity but are not sufficient to create a competitive advantage. The company needs other firm-specific assets like for example absorptive capacity in order to transfer knowledge successfully and effectively.

Knowledge alliances are created by companies for the sake of better knowledge dissemination among competitors and partners. Knowledge alliances are modern partnerships which intend to create new knowledge as well as to balance knowledge deficiencies or to gain knowledge from the partner side. Knowledge alliances are also motivated by inter-organizational synergy, the ability for organizations to couple their knowledge competencies, offsetting their knowledge deficiencies, thereby enabling new knowledge creation and diffusion processes (Inkpen, 1996). A new concept is a concept of knowledge marketplaces. In every market in which knowledge is traded you can define it as a knowledge market place. Strategic management also deals with the concept of knowledge marketplace. This concept is present in the e-commerce where buyers and sellers exchange products and services that are knowledge-based. Intellectual property like copyrights, patents etc. are often traded on line.

1.7 The Knowledge management process

The knowledge management process is necessarily loose and collaborative because knowledge is recognized to be fuzzy and messy (Allee, 1997). Despite that it is also a difficult process because the human qualities of knowledge, such as experience, intuition, and beliefs, are not only the most valuable, but are also the most difficult to manage and maximize (Davenport & Prusak, 1998). The process of knowledge management integrates four different fields. First there is a theory about organizational culture; this theory is used in the concept of knowledge culture. Organizations structure theory is the second one; this one is used for developing ideals for knowledge organizational structures. Third theory includes concept for new knowledge management. Fourth is the so called (KBS) knowledge-based system theory.

Figure 1: Knowledge Management Race



Source: http://www.asq.org/img/qp/ar_20414_figure1.gif, retrieval date 03.05.2008

1.7.1 Organizational culture and cultural values

Knowledge is human. Therefore knowledge management relies heavily on theories which are connected with organizational culture. The most important theories are those about the storage and transfer of knowledge. Cultural values represent an important mechanism for every organizational culture. Those values have an important influence on the behaviour of members of different organizations. It is probably easier to transfer

knowledge between members of similar organizational culture than between those who are coming from very different cultures. Other factors like power, control and trust also influence the knowledge management process. Trust is essential factor if you intend to strengthen your relationships in certain networks.

1.7.2 Knowledge culture

Knowledge culture is important for understanding and evaluating knowledge management. The authors claim that top management should be dealing with such issues. Knowledge arrives to an organization at measurable cost, but it is very difficult to calculate the exact value of intellectual capital. It is once again important to state that the right balance between power, control and trust is of essential importance for a knowledge culture which is oriented towards success. In order to sum up the ideas which are hiding behind these concepts you can once again put trust in the middle of your thoughts. According to Allee (2003, p.619) “If people do not trust each other, they do not exchange knowledge and ideas”. Trust builds and maintains networks and relationships. On the other side lack of trust has a very negative impact on knowledge leadership, creation and transfer. After all in a power culture, “knowledge is power” and people are not very eager to share it. Thus factors like power, control and trust are very related not only with knowledge culture but also to knowledge alliances, knowledge strategy, knowledge organizations and processes.

1.7.3 Organizational structure

Knowledge management relies on theories of organizational structure and in that way creates new theories about such structures. Organizational culture suggests that in order to be successful, knowledge management should be closely linked to organizational strategy and goals (Davenport et al., 1998).

The basic idea behind the whole concept is that knowledge strategy will guide substantial parts of the organizational philosophy about its strategy and goals (Earl, 1997). Does a company always need a “chief knowledge manager”? Definitely not always but successful knowledge management depends very much on a individual manager who is in charge of the knowledge management process in the company. So what is the actual

process of knowledge management in a given company? The process begins with the formulation and implementation of strategies for the construction, distribution and use of organizational knowledge. Other important concepts include such as monitoring and measuring knowledge assets and processes (Quintas et al., 1997). The knowledge management concept includes two interesting aspects of knowledge organization. Knowledge organization is not necessary a knowledge intensive organization (Baskerville and Dulipovici, 2006). A knowledge intensive firm regards knowledge as the organizational input which enjoys the greatest importance (Starbuck, 1997). The second one is the role of the middle management. Middle management is responsible for the transformation of knowledge across organizational levels. It acts as an intermediary between top management and the lowest levels in the company. Middle management has to implement the ideas of the top management but also to correct them if this is necessary. After that the middle management has to transmit the ideas to the lowest levels where those tasks are being operated. So if we accept the theory of Nonaka and Takeuchi and their conclusion that middle management enjoys a central role in the knowledge organization then it is logical that such organizations are called “middle-up-down” organizations.

There is also another new theory and concept developed on inter-organizational knowledge. A case study at Toyota showed that organizational network is an important factor when analyzing competitive advantages. Transorganizations such as Toyota are more efficient than isolated companies in terms of creating, reusing and transferring knowledge, because there is greater diversity of knowledge. It is very important to have a coordinating mechanism in order to make such networks successful and efficient (Dyer & Nobeoka, 2000)

1.7.4 Organizational behavior

Organizational behavior has a substantial impact on knowledge management. It focuses on knowledge creation rather than on knowledge storage or transfer. Creativity is in a close relationship with storage or transfer of knowledge, namely storage and transfer involve human action which automatically implies certain level of creativity. Organizational behavior includes terms such as organizational creativity, innovation and

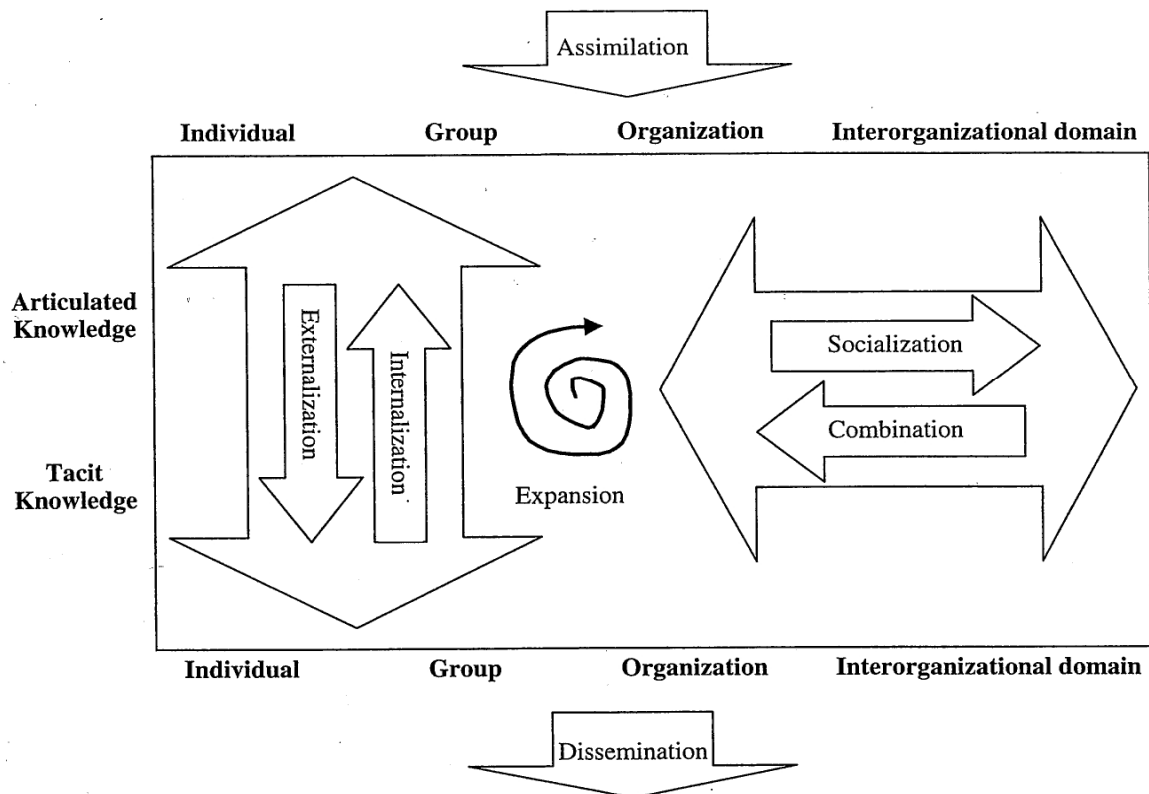
diffusion. Those terms are important in the knowledge management process as each of the influences the process in many ways. Creativity is important as organizations must stimulate creativity in order to have certain benefits. Creative employees can innovate in many ways and so introduce new solutions when it comes to knowledge management. Therefore companies must limit control on their staff and so ensure that creativity can flourish. Limited control even on top management improves the process of knowledge management in numerous directions. Innovation and diffusion relates to the knowledge management focus on knowledge transfer and transformation. Strategic alliances are very useful for such concepts as it will be shown in more detail later on in this thesis.

Organizational learning is also a form of knowledge creation that is closely tuned to the shared value system of people in a social setting, and is often only truly effective when there is a action orientation that motivates this learning (Argyris, 2004).

1.7.5 Knowledge creation

Knowledge management explains several models which deal with the knowledge creation process. One such model is the model of organizational knowledge creation process by Nonaka and Takeuchi (1995, p. 84).

Figure 2: Organizational knowledge creation process

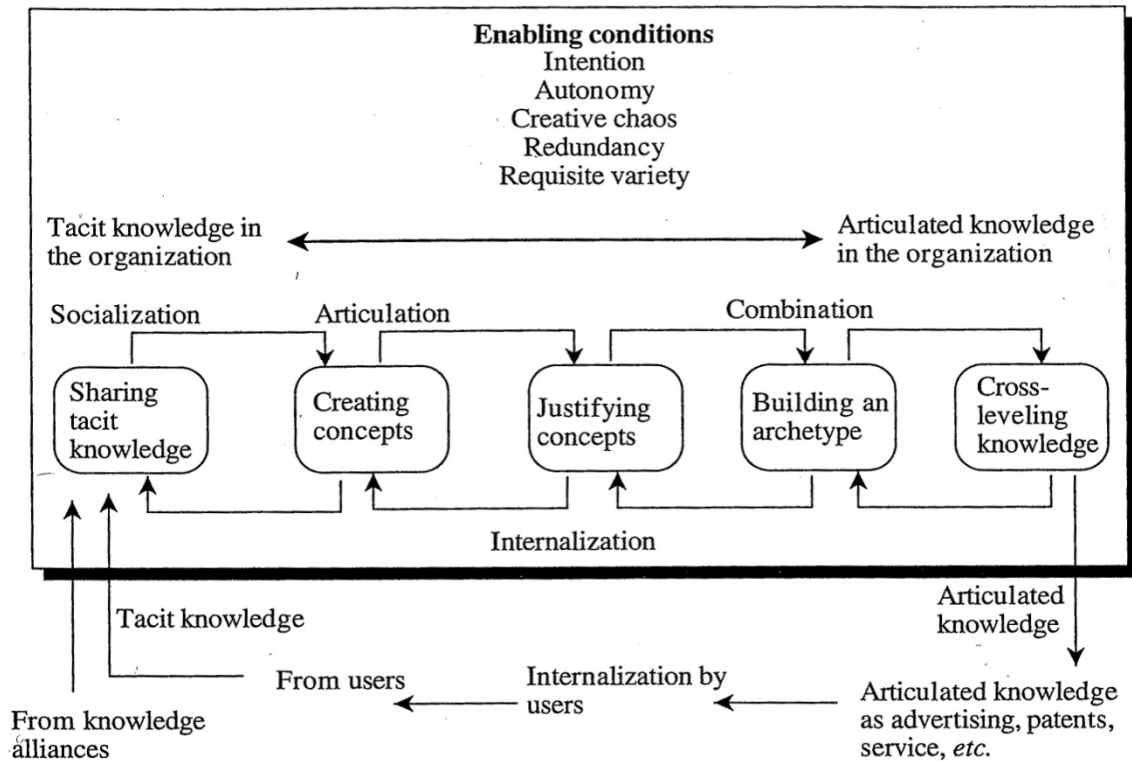


Source: Nonaka and Takeuchi, 1995

This model explains how tacit knowledge is socialized into the organization through its customers and alliance partners. This knowledge is processed iteratively through five processes as tacit knowledge is articulated or externalized and combined to support a product or service output of the organization (Baskerville & Dulipovici, 2006). Externalization stands for the phase when tacit knowledge is transformed into articulated knowledge. Internalization on the other hand is the exact opposite. To make this process work several conditions must be met. Individuals in an organization must be provided with a certain level of autonomy. Second condition is to provide a significant level of redundancy in the labor force and by doing so enable creativity. Inkpen (1996) suggests a “creative chaos” which is necessary to ensure innovation. Knowledge creation is dynamic, it occurs at different levels in the organization. Namely both tacit and articulated knowledge are held by individuals, groups, organizations and inter-

organizational forms. Figure 2 illustrates these categories and the transformation which occurs.

Figure 3: Knowledge categories and transformation processes



Source: Nonaka and Konno 1998; Nonaka et al., 2000; Nonaka and Toyama, 2003),

1.7.6 Knowledge codification

Knowledge codification involves the explicit organizational process of locating knowledge sets, facilitating knowledge articulation and enabling access to this knowledge (Sanchez, 1997). The goal is to put organizational knowledge into a form which eventually becomes accessible to everyone who need it (Davenport & Prusak, 1998). Knowledge codification can be seen as a process in which critical tacit knowledge previously created, learned or organized is discovered. After it is discovered it must be articulated and made available to all the other members in the organization who then are able to use this knowledge. Knowledge codification is a complex process. However many helping mechanism have been developed in recent years. Those mechanisms include

knowledge models, embedding knowledge systems etc. These systems proved to be helpful for those who seek for knowledge in prespecified fields or when they search for related knowledge.

1.7.7 Knowledge Transfer

Knowledge transfer as I mentioned at the beginning is an integrated part of knowledge management. Knowledge transfer is especially connected with knowledge reuse. In the IS and software engineering knowledge transfer is recognized as knowledge reuse. This is based on the assumptions that unique expertise or knowledge cannot be codified, but can be transferred in brainstorming sessions and in one-to-one conversations (Hansen et al., 1999), namely codification is a reuse strategy while personalization is a development strategy. Knowledge transfer is also highly dependent to the firm's absorptive capacity (Alavi & Leidner, 2001). The absorptive capacity is defined as the "ability to identify, assimilate and exploit knowledge" (Venkatraman & Tanriverdi, 2004, p.56) , (I will describe this dependency in more detail in the second part of this work). The absence of adequate absorptive capacity can transform the knowledge which has to be transferred into "sticky knowledge". Sticky knowledge is knowledge whose transfer is very problematic and the stickiness of the knowledge reflects very much on the cost of the transfer (Szulanski, 1996). According to Bush and Tiwana (2005) stickiness is not always a negative property, if one uses it in the context of knowledge networks, it describes a set of measures to avoid natural attrition. This was just a brief introduction on the term of knowledge transfer. In the second and the third part of this work, I will address concrete issues regarding knowledge transfer in a much more detailed way.

Figure 4: Five types of knowledge transfer

	Serial Transfer	Near Transfer	Far Transfer	Strategic Transfer	Expert Transfer
Definition	The knowledge a team gains from doing its task in one setting is transferred to the next time the team does the task in a different setting.	Explicit Knowledge a team gains from doing a frequent and repeated task is reused by other teams doing similar work.	Tacit knowledge a team gains from doing a nonroutine task is made available to other teams doing similar work in other parts of the organization.	The collective knowledge of the organization is needed to accomplish a strategic task that occurs infrequently but is critical to the whole organization.	A team facing a technical beyond the scope of its own knowledge seeks the expertise of others in the organization.
Example	U.S. Army squadron engages in Iraq and uses after action review knowledge when engaging in future combat.	A team in Detroit auto Plant figures out how to install breaks in 10 minutes. A team in Dallas uses that knowledge to reduce its time by one minute.	Peers travel to assist A team dealing with a unique oil exploration site. The collaboration provides new approaches.	General Electric (GE) Uses knowledge from Allied Signal to develop a Six Sigma system. Two years later Raytheon uses what was learned from GE to design its own Six Sigma system.	Technician e-mails the network asking how to increase the brightness on out-of-date monitors. Seven experts provide answers.

Source: Dixon M. 2000

1.8 Making knowledge work- action oriented knowledge management

Knowledge has a significant impact on the overall performance of a company in the modern economy. This statement stimulated many organizations to set up Knowledge management structures in their companies. All those organizations have the same goal, to use the knowledge they poses in a best possible way. As one can presume this is not always the case, it happens too often that companies simply don't get any benefits from what they know. A study which was conducted by Ernst & Young in 1997 found that most firms' initiatives in KM are not likely to do much good and may even be counterproductive regarding turning knowledge into organizational action (Ruggles, 1998). According to Pfeffer and Sutton (1999a) there are a number of problems with current KM initiatives. Such initiatives have a very negative impact on the performance of KM functions in many organizations. They listed some of the problems; there is an overemphasis on technology as well as codification of information, difficulties in storing and transferring tacit knowledge, lack of understanding of the context in which

knowledge is used and a focus on specific practices over underlying philosophies. They had a following conclusion:

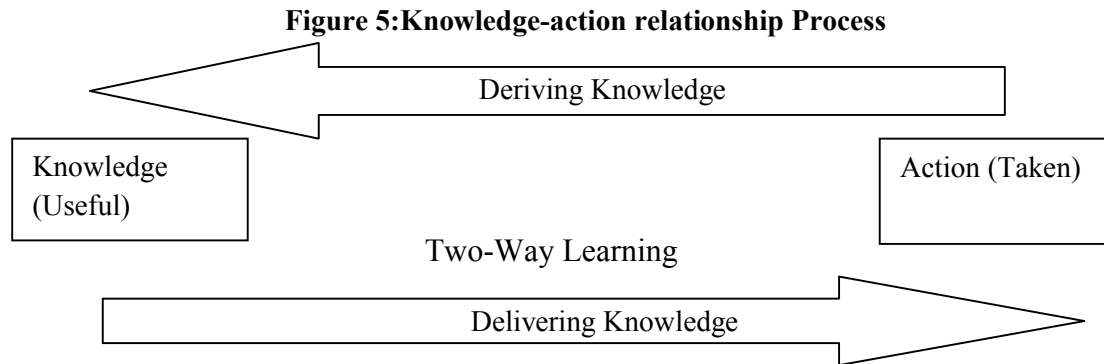
Because of the importance of values and philosophy in the management processes of many successful companies, the emphasis on the tangible, explicit aspects of knowledge that characterizes most knowledge management projects is unlikely to provide much value and may be, at worst, a diversion from where and how companies should be focusing their attention.

What is the actual relationship between knowledge and action? Knowledge and information equals power. This is a very controversial statement because it is not quite that way. Information and knowledge must be turned into action if they are to be powerful. (Smith, McKeen and Singh, 2006). There are different views when speaking about what 'action' is. The authors have different opinions on this topic. Baird and Hendersson (2001) say action should be synonymous with business performance; others like Cohen (1998a) suggest that action means continuous improvement or organizational transformation. Actions which are in correlation with the use of knowledge could also be cost-saving, problem saving or improved innovation. One approach is to connect action with outcome, and the other is to perceive action as behavior which is independent from outcome. The second concept allows you to focus on people or organizations that use knowledge for some reason irrespective of the outcome. A successful strategy requires determining what specific action an organization wishes to support with knowledge. In such case it is easier to determine what knowledge is needed to fulfill the action. If one is not following this strategy it is extremely difficult to determine what knowledge is needed and it is also very problematic to link knowledge and action under such circumstances.

1.8.1 The link between Knowledge and Action

In an ideal situation there should be no gap between useful knowledge and action taken (Smith, McKeen and Singh, 2006). In small organizations and companies where these two attributes are linked in a small team this is very realistic. On the other hand in large organizations people with knowledge and those who can take action based on that knowledge are very often separated from each other. Because of such facts many

organizations created knowledge management department in order to close the gap. Knowledge-action relationship is or should be a two- way learning mechanism as shown in the figure below.



Source: Smith, McKeen and Singh, Knowledge Management Research and Practice (2006) 4, 116-124

Knowledge management functions should focus on delivering useful knowledge for action. According to Baird and Henderson (2001) there are four activities which are crucial for delivering useful knowledge: focus, acquire structure and target.

Focusing on the core capabilities in the organization ensures that knowledge transfer will concentrate on areas which are of great value to the company. Knowledge management engages in a process where knowledge is captured. In most cases this is done through consultation with all potential users of the knowledge and through an analysis of the goal and the action that will produce this knowledge. In order to transfer this knowledge easier the company has to structure the knowledge to make attractive, usable and accessible for the users. This does not mean that the organizations must create a database. The literature suggests a creation of a mechanism which enables the acquisition of such knowledge. Structuring can involve cooperation with external knowledge brokers in order to identify what information is needed. When this step is finished knowledge is automatically available to the end user. Even tacit knowledge can be structured in this way. One company identified a number of “human portals” who can identify third parties in the organization with specialized knowledge or skills and make connections between knowledge seekers and holders (Hansen & von Oetinger, 2001). Structuring involves recognizing the critical role these individuals play and ensures that they have the time to

undertake it (Smith, McKeen and Singh, 2006). There will always be a need for different type of knowledge. The solution for managers to meet all the different requirements is to create links between action and the knowledge that can facilitate it. The challenge for knowledge managers is to build linkages backwards from a specific desired action in a core capability towards the acquisition and packaging of structured, targeted knowledge to a specific group in ways that it finds useful (Smith, McKeen and Singh, 2006).

Knowledge management became increasingly important over the years. The functions which knowledge management has to fulfill in organizations became crucial for the overall success of the company. Therefore it is important for companies to invest in knowledge management in order to enjoy the return on investment which could be quite big if they pursue KM correctly. Further on it is necessary to find the right linkage between knowledge and the action which has to be taken for making the knowledge useful for its users. This is also an important function of the knowledge management. Working with knowledge is a very complex process as it involves both human and technical resources. Companies have to create and follow very careful strategies in order to achieve maximal performance which results from effective use of their own knowledge. They should also enter into knowledge alliance without prejudice because such partnerships might bring them an extra portion of knowledge which they could use for their own benefit. According to some authors successful KM initiatives will eventually evolve from clear and detailed understanding of the actions and results that might be facilitated by knowledge. Poor implementation of the knowledge involved especially if technology is used can ruin many efforts which are made by KM. Companies need to follow the evolution of knowledge which they create and which they get from external sources if they expect this knowledge to secure them successful results.

1.8.2 The role of the Managers

Managers are key figures in the world of knowledge oriented companies. Their task is to enable people and employees to use the knowledge they have for achieving companies' goals. Successful managers establish the philosophy which promotes action oriented knowledge management. They have to monitor the complete process of knowledge management in the organization. From the first step which is to encourage people to use

the knowledge to the phase where this knowledge is applied on concrete issues in the company and eventually to the phase where the results achieved must be evaluated in order to see if the maximum value is being realized. According to Pfeffer and Sutton (1999a), Organizational performance often depends more on how skilled managers are at turning knowledge into action than on knowing the right thing to do. Managers definitely play a central role in turning knowledge into action.

2 Knowledge Management and Strategic Alliances

Strategic alliances represent an agreement between two or more organizations to cooperate in a specific business activity, so that each benefits from the strengths of the other, and gains competitive advantage. The formation of strategic alliances has been seen as a response to globalization and increasing uncertainty and complexity in the business environment. Strategic alliances involve the sharing of knowledge and expertise between partners as well as the reduction of risk and costs in areas such as relationships with suppliers and the development of new products and technologies. A strategic alliance is sometimes equated with a joint venture, but an alliance may involve competitors, and generally has a shorter life span. Strategic partnering is a closely related concept. (<http://dictionary.bnet.com/definition/Strategic+Alliance.html>, retrieval date 28.4.2008.)

The study of strategic alliances has become increasingly popular over the past several years. It was simply because of the number of different alliance types which are offered and the motivation behind. In this part, the work will focus both on the types of alliances and the motivation why to enter such forms. Before that it would be appropriate to briefly present the term and the potential validities of the alliances.

2.1 The actual nature of the relationship

It has to be distinguished if it is actually a partnership, joint venture or some form of licensing or cross licensing. If it is determined as one of these, then the parties have certain rights and obligations regard to survivorship, liabilities to third parties for the debts of the relationship. Even if the agreement does not highlight these issues, the law of the partnership will fill in these gaps.

2.1.1 The term of the relationship

As already said, a partnership or joint venture goes on for a very long time unless there is a contract provision dealing with the rights of the parties to terminate the same.

Partnership law says one thing; a license or the copyright and trademark law may say something else. If the parties call something a “strategic alliance” what is the term?

2.2 Types of Alliances

There are different types of alliances existing in the world of business partners. Your choice depends on what goals you want to achieve with your partnership. Every type has its advantages and disadvantages. Needs of the partners determine the type they will use for their business goals? We can distinguish between following types: joint ventures, consortia, contract or partnership in specific function, licensing, franchising, strategic supply chain partnership.

2.2.1 Joint Ventures

These are the results of agreements based on which the partner companies remain independent and decide to create a new organization that is legally distinct. The share of participation in capital can be 50/50, 49/51, 30/70. Most joint ventures limit collaboration to specific functions. This type is expected the broadest interchange between allies NAD to be the long-term. Joint ventures that cover all possible functions of a company are rare.

2.2.2 Consortia

Consortium is an entity which involves two or more organizations, both private and public. Consortia are created to follow a specific project or initiative. Some of the most significant examples are in construction or large infrastructure business. One of the most famous ones is the Airbus aerospace consortium.

2.2.3 Licensing

Licensing is a business arrangement in which one company gives another company permission to manufacture its product for a specified payment. It is an agreement which is based on a contract for a specific period of time. During this period the licensee is obligated to pay a certain amount, the so called royalty to the licensor. For an innovative

company with limited resources, licensing offers the possibility of presence in multiple markets and recuperating investment capital quickly.

2.2.4 Franchising

I will define the term just briefly in this part of the work, since I will deal with the term franchising more detailed in the second part, which covers knowledge transfer in franchising.

Franchising is an agreement in which a company (Franchisor) allows another company (Franchisee) to sell its products or services.

2.2.5 Strategic Supply Chain Partnership (SSCP)

According to The Global Supply Chain Forum... "Supply chain management is the integration of key business processes from end user through original supplier that provides products, services, and information that add value for customers and other stakeholders." (Lambert et al., 1998)

2.3 Organizational learning and social network theory- Strategic alliances

Organizational learning like the one concerning strategic alliances has become increasingly important over the years. According to some authors' organizations are adaptive learning systems where operating procedures drive action and determine the decision making process in the firm. Such perspective suggests that firms enter into a learning process by scanning their local environment in order to create and find new routines which might improve the functioning of the company. These processes do not include necessarily knowledge transfer as one of the basic elements of organizational learning. On the other hand questions such as inter-organizational learning and knowledge transfer may lead to new routines. The literature puts emphasis on how organizations actually select information to be shared across firms in strategic alliances.

Argote (1999) in his framework defines four characteristics that influence knowledge transfer in general. These features include how knowledge transfer is affected by characteristics of the relationship among organizations and of the individual organizations concerned, features of the knowledge being transferred and the process

itself (Fischer et al., 2000). An important fact about this framework is the potential usefulness for the integration of the literature which talks about learning and knowledge transfer in the context of strategic alliances. A conclusion which might be drawn from the framework is that the understanding of how and why knowledge is transferred between companies which are organized into an alliance can be developed by more detailed analyses within the literature which is dealing with organizational learning.

On the other hand the alliance literature bears a lot on learning perspectives. Argote (1999) finds in a study on franchise service organizations that knowledge transfer between connected organizations is greater than transfer between independent organizations. Another accepted view is that firms enter formal alliance agreements for the sake of learning directly from partner firms.

Further on Argote (1999) argues that organizations which are embedded in a superordinate relationship have greater potential to increase their learning capacities and improve knowledge transfer. Firms which are embedded in a Network have an improved organizational performance.

Gulati (1998) in his work puts an emphasis on how social network influences some key factors in a partnership. Social networks provide strong cognitive and emotional base for trust, but they also serve as important mechanism for deterrence-based trust where the anticipated utility from a tie with a given partner motivates good behavior (Powell, 1990).

Gulati (1998) distinguishes between two types of network embeddedness. The first type of embeddedness is Relational which is the cohesion or strength of ties between actors as affecting the sharing of fine-grained information. This form is characterized by shared understanding, the diminishment of uncertainty and the promotion of trust among partners in such a way that information flows are positively enhanced. Structural embeddedness is the second form which is analyzed. This form moves beyond the level of direct ties between companies. Within the form the pattern of strategic alliance has an important place.

It is important for the companies to create intellectual capital from the knowledge they poses. Intellectual capital can be converted into value and profits which is crucial for the companies in order to achieve their goals.

2.4 Knowledge Tacitness and Ambiguity

The crucial question when discussing knowledge transfer in alliances is to define to which extent knowledge is tacit or ambiguous. More precisely how various dimensions of knowledge affect the learning process? Polanyi (1966) classified human knowledge as either “explicit” (codified knowledge which is readily transferable via formal communications or mechanism) or “tacit” (personal knowledge which is difficult to formalize and communicate because it is embedded in a specific context). Spender (1966) on the other hand defines explicit knowledge as that which may be stored in databanks, standard operating procedures and manuals. Tacit knowledge however is expressed more comprehensively based on individual and social levels, which may or may not be readily available or transferable to other individuals or groups. Authors like Inkpen and Crossan (1995) rely on Spender’s framework by theorizing that the critical processes of transforming knowledge from an individual to a collective or shared state vary by level, from interpretation at the individual level to integration and institutionalization at the level of the collective. Nonaka (1994) states that knowledge creation is sought to move upward the organization, becoming more structurally embedded through the ongoing processes of sense making and codification. As we sum up these theoretical frameworks one can conclude that tacit knowledge is more difficult to access and communicate but on the other side the most desired knowledge in all types of alliances.

Simonin (1999a) suggests that the fundamental starting point to examining knowledge transfer in strategic alliances centers on the notion of casual ambiguity which has been a central tenet of the resource based view and strategic management literature for some time.

Ambiguity among other things involves barriers to imitation which makes it difficult for competitors to understand which competencies might present a potential source of

competitive advantage. Simonin conducted a study which involved 150 major U.S. firms. The goal of the study was to measure the level of knowledge ambiguity in a given alliance. Respondents were asked to assess the ease of transferability of their partners' know-how. Tacitness was tested by asking the respondents whether know-how is codifiable and whether it is more tacit or explicit. The findings show a positive and significant effect of tacitness on ambiguity and a negative and significant effect of ambiguity on knowledge transfer.

Issues Like characteristics of alliance partners such as complementarities of firms' assets or governance mechanism have some influence on knowledge transfer outcomes.

What can be concluded from the study and the theory behind is that ambiguity and or tacitness have under specific circumstances a big influence on knowledge transfer in strategic alliances.

2.5 Firm-level Learning Capabilities

While knowledge ambiguity seems a potentially important factor in developing a model of knowledge transfer, learning capacity represents another important factor for efficient knowledge transfer. Cohen and Levintahl (1990) argue that an important condition for a given firm's successful exploitation of new knowledge outside its own frontiers is the development within the firm of the capability to assimilate new information. This capability depends among other things on the firms' ability to link and recognize new knowledge to its existing in-house expertise.

Learning capabilities increase as the assets and processes of firms in an alliance are more complementary. A study conducted for 800 alliances has shown that a firm's ability to absorb capabilities from its partners depends very much on the technical overlap between partner firms. Lane and Lubatkin redefine the definition of absorptive capacity argument by reconceptualizing the firm level construct as a learning dyad which they term "relative" absorptive capacity. This attempt to redefine the concept is based on prior construct which suggested that a given firm is able to learn from all other organizations on the same level. A similar argument is stated by Shenkar and Li who claim that the ability of partner firms to learn from each other depends on the extent to which they share similar

assets. The arguments presented by these authors are extended as they claim that formalization, centralization and compensation practices also influence firm's ability to absorb information.

The overall conclusion which can be drawn is that complementarities of knowledge processing systems and similarity of some social context features such as research decision centralization and compensation practice have a great impact on alliance partners ability to learn from each other.

This conclusive statement on the other hand does not deny the fact that firms with dissimilar technical or functional features cannot transfer knowledge. Knowledge transfer under these conditions may be more effective in some cases in comparison to knowledge transfer between similar companies.

Understanding the condition under which dissimilar knowledge can be assimilated may be quite important since such knowledge is likely to be more unique and valuable to a focal firm than that which is closely related to a firm's existing knowledge base (Fischer et al., 2000).

While neither conceptually nor empirically explored in great detail, the potential interactions between knowledge tacitness or ambiguity and absorptive capacity characteristics of alliance partners might serve to enhance and better specify a model of knowledge transfer in this context (Fichsr et al.,2000).

2.6 Governance and Alliance Structures

The choice of an appropriate alliance structure depends on what type of knowledge is sought to be transferred. Different type of information requires different type of alliances. As knowledge is tacit or ambiguous in most of the cases simple contracts governing their transfer are typically inadequate and alternate forms of organization are more suitable.

Potential types of alliances which are used when it comes to knowledge transfer have been explained in more detail above. According to Kogut (1988) equity based joint ventures represent an effective governance type for the transfer of tacit knowledge between alliance partners. Others like for example licensing alliances are effectively

ruled out due to the difficulty associated with transferring organizationally embedded knowledge. Equity based alliances also prove more efficient when it comes to the transfer of a higher level. Licensing is more appropriate for a lower level of transfer.

2.7 Trust and Opportunism

Gulati (1998) proposes that the choice of governance structure is partly determined by the degree of uncertainty among potential partners.

Relatively new or young alliances require a more formal and strict governance structure in order to minimize concerns for distrust and potential misconduct by any of the partners.

Finding the right partner is a strategic concern according to Dogson (1992). This implies that a great emphasis should be put on developing a high level of trust which in turn will minimize opportunism. Dogson conducted a study of six experienced R&D alliances. The results show that companies which spend a great effort on finding the right partner tend to enjoy relatively successful and long lasting alliances.

There is an illustrative example which shows the situation in which one partner is using the other partner in the alliance to maximize its own individual payoff. In such cases opportunistic learning strategies undercut the collective knowledge development in the alliance, and so affect the success of the alliance.

Hamel argues that the firm which is able to learn the most from its partners during the alliance benefits the most in the long run. In his article Hamel suggests that many US firms were left at a competitive disadvantage relative to their Japanese partners who often learned as much as they could and then terminated alliance agreements to exploit newly learned knowledge independently.

Gulati, Nohria and Zaheer (1998) suggest that in principal any relationship between two firms can be observed as a learning race in which one partner will capture the greater share of economic returns because of superior learning skills.

2.8 Industry and Culture

When international alliances were formed some time ago, it was a method to exploit natural resources. Nowadays motivation reasons changed, as the number of alliances increased dramatically. Knowledge transfer between partners became one of the crucial reasons why companies enter such partnerships. This process of transfer occurs differently in different industries.

Appleyard (1996) in his study where he compares preferred knowledge transfer mechanism in the steel and semiconductor industries and confronts us with some interesting facts. In the steel industry the technological change is very slow and knowledge transfer is predominantly facilitated by private know-how trading. On the other hand in the semiconductor industry the main channel for trading the know-how is the public one.

Another interesting part of the literature discusses about alliance agreements between firms which are not of the same national origin. Culture comes up as an important issue when forming international partnerships. Culture affects preferred modes of learning, governance and trust.

All sorts of conflict step up as the process of knowledge transfer is executed between companies coming from different cultures. On one hand the cause is arising from individual characteristics of partners or employees in the alliance and on the other there are problems occurring during the process itself. The last ones are also highly correlated with cross-cultural barriers. There are always some possible solutions to minimize these conflicts. Briefings about the partners' culture could prove helpful in avoiding conflicts arising from ignorance. More tolerant and cooperative way of working together could improve the atmosphere.

EXAMPLE: Knowledge transfer process in the synergic international alliances: how to overcome cultural differences.

General Motors Corporation and Toyota Motor Corporation formed NUMMI as an experiment. NUMMI was formed in 1984 and it is still operating. For Toyota, the joint venture was an opportunity to test its ability to use its production methods in an American setting. For GM, it provided a way to learn how to build cars more efficiently using Toyota's "lean" production system. Since GM also wanted to manufacture a small, high-quality car, Toyota seemed like the perfect partner. GM initially undervalued the learning opportunity given by the alliance, so, in order to create a successful climate to knowledge transfer, the American partner had to shift its behaviour and its managerial philosophies. Former GM workers were invited to apply for jobs and told of the need for employees willing to contribute to an atmosphere of trust and cooperation. Potential production employees went through a three-day assessment that included production simulations, individual and group discussions, and written tests and interviews. Once hired, team members attended a four-day orientation covering the team concept, production system, quality principles, attendance policies, safety policies, labour management philosophies and the competitive condition of the auto industry. About 450 group leaders and team leaders travelled to Toyota's Takaoka plant in Japan. For three weeks of classroom and on-the-job training. This training is now conducted almost exclusively at the NUMMI plant in a two to four week program referred to as "Foundations in Training" or FIT. Classes include an introduction to the Toyota production system, team building, union-management relations and safety. These are followed by on-the-job training with team members working side-by-side with experienced trainers. The first NUMMI team, approximately 700 team members, built the Chevrolet Nova in December of 1984. Automotive writers compared its quality to similar cars being produced in Japan. From a learning perspective, the knowledge transfer process is often defined as slow and painful, since Toyota Knowledge system was deeply embedded (tacit) in the Toyota history and culture and it was difficult for GM to change its attitude and behaviours. By its side, Toyota needed to learn only how to transfer an existing manufacturing process in North America, so that the knowledge Toyota needed was more explicit than that GM one. In any case, the synergic approach developed in the alliance allowed each partner to overcome cultural differences and to reach own strategic object.

Source: Database "Il sole 24 ore"

Minoru (1995) further expresses the need to attend to culture and awareness thereof, as at many levels culture interacts with other factors and can either promote or hinder inter-organizational learning effects.

This implies that the cultural aspect can't be neglected when investigating how firms from different countries learn from each other.

2.9 Knowledge transfer in different type of alliances

In this part different types of alliances will be analyzed in order to compare how effective are those different types in transferring knowledge. It's assumed that this dilemma depends very much on the characteristics and attributes of the knowledge to be transferred.

The four principal knowledge attributes are

1. Codification
2. Newness
3. Complexity
4. Teachability

Together with characteristics of the alliance firms

- a) Absorptive capacity of the knowledge-recipient firm and
- b) organizational/sectoral embeddedness of the knowledge base,

Affect the selection of the type of alliance formed,

This way of examining the right alliance type is suggested by F.J. Contractor and W. Ra in their article "How knowledge attributes influence alliance governance choices" (2002).

The first characteristic of knowledge which is analyzed is codification. Authors claim that less codified knowledge requires equity based partnerships. A high degree of codification enables alliances of shorter duration and less interaction. Codified knowledge was

compared to tacit knowledge, and the authors came up with the conclusion that tacit is on average more valuable than codified knowledge and so equity based alliances are more suitable for tacit while those which are more of a contract type are thought for transfer of codified knowledge.

Newness of the knowledge is the second factor to which a proper alliance type should be assessed. Some authors argue that new knowledge is at once more valuable and less likely to be codified, and therefore requires a high degree of personal interaction. Only high involvement of the parties guarantees an effective transfer of new knowledge. Equity alliances which are formed for a longer period of time are the best solution for transfer of new knowledge. If knowledge gets more mature over time contractual alliances are appropriate for the transfer.

Complexity is defined by Simonin (1999a) as “the number of independent routines, individuals, technologies and resources linked to a particular knowledge or asset” (Contractor and Ra, 2002).

The greater the complexity of knowledge the more likely it is that equity based alliances are used to complete the transfer. This is also described in the transaction cost theory by stating that complex technologies are more valuable and so encouraging more opportunism. There is also the risk factor involved with the complex technologies and alliances like Joint-Ventures simply offer a better risk sharing strategy for both partners.

And the last attribute mentioned by the authors is teachability of knowledge. The attribute is related, but not identical with observability and imitability of knowledge. The more teachable is the knowledge the more it is easier to transfer it across alliances. Therefore it is enough to do it under contractual terms with less interaction and over a shorter period of time.

Apart from the characteristics of the knowledge itself, much depends on the character and ability of the alliance firm that wants to absorb its partner's knowledge. The recipient's “absorptive capacity” can be a constraint to knowledge transfer (Contractor and Ra, 2002). High absorptive capacity of the knowledge recipient allows the entity to be flexible and to choose a contracting type of alliance.

The opposite situation analyses the knowledge supplying company. The splitting of those terms is only for practical reasons, as it is easier to describe both of them separately. In everyday situations it is common that knowledge transfer goes in both directions although there are situations where one company is the sole or larger contributor of knowledge in an alliance.

The key issue in this context is to understand how embedded is the knowledge in the alliance firm which is the supplier of the knowledge. There are several definitions by different authors. Von Hippel (1994) describes this kind of knowledge as “sticky” and difficult to extract for the benefit of the new alliance partner. Maskell and Malmberg (1999) confront us with a similar definition. They state that this type of knowledge is the most difficult to identify, extract and learn. What does it suggest for the alliance context? There is a need for intensive interaction between the personnel of the supplying and receiving company as well as there is a need for more time and assistance on the receiving side of the alliance. The theory proposes equity alliances in order to solve the transfer of knowledge in an optimal way.

The goal of this part of the work was to illustrate how different type of knowledge affects the choice of different alliance forms. We can come up with the conclusion, that complex knowledge requires intensive partnership between companies in order to be transferred successfully, while less complex knowledge can be transferred under simple contractual terms.

Managers and scholars need to be aware of the varieties of alliance types, how they differ from each other in terms of strategic consequences, duration, reversibility, risk such as technology leakage and other opportunism, all kinds of interactions and contract completeness. Factors which are crucial are the characteristics of the knowledge, the absorptive capacity of the knowledge recipient and the appropriation and risk concerns of the supplier. After all these factors are considered and analyzed a suitable alliance mode should be chosen.

3 Knowledge transfer in franchising

3.1 Introduction

Knowledge is one of the main resources for creating a competitive advantage in the market. The transfer of knowledge is recognized as a strategic issue for the competing firm. Cohen and Levintal (1990) argue that knowledge transfer is critical factor for a firm. This factor must rapidly respond to changes, it has to have an innovative note and so achieve competitive success. Knowledge transfer is important both in the firm and between different firms. In the case of franchising this is an important statement because franchising in a way includes both situations of transfer. If the franchise network is more centralized we could assume that knowledge transfer takes place in the firm but also between autonomous units which are a part of the network. There is however a leading firm, in the case of franchising it's the franchiser who is responsible for major knowledge transfer operations. Knowledge transfer is observed as a factor which influences the success of many organizations in a significant way. The success is very often based on the ability of the company to transfer knowledge from one organizational unit to the other.

3.2 The model of Franchising-brief theoretical overview

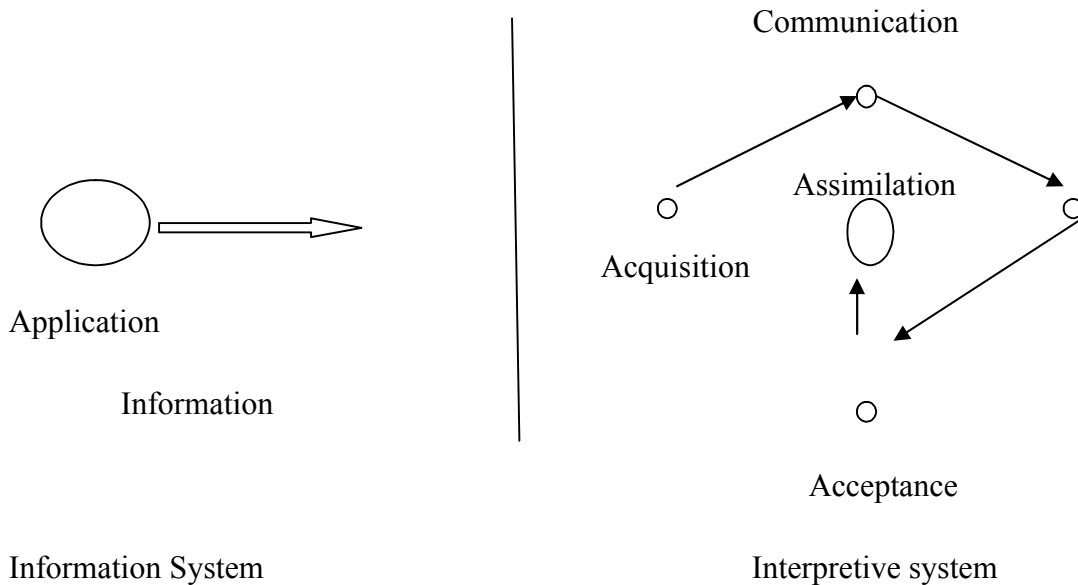
Franchising became increasingly interesting model for doing business in recent years. The model spread especially in the retail and service sector. According to some statistics in the US 40% of all retail business in the year 1996 went through organizations which franchise in some way. Franchising is particularly popular among chain organizations where this model takes the form of "business format franchising" (Sorensen, 2000). Under this type of franchising entrepreneur purchases a license for the chains business concept, including the right to use the chains brand name and access to its marketing strategies, organizational routines and operating manuals (Caves and Murphy, 1976). In return for these resources, the franchisee is obligated to pay the franchiser both initial franchising fee and ongoing royalties, but retains the rights to establishment's earnings (Hunt, 1972; Rubin 1978). There are many examples of this organizational form. Some of

the most famous ones are McDonald's, Holiday Inn, Richard Ellis real estate Company etc.

Companies which are in the franchising business usually have brand names which are very well identified by their customers. Brand name is their most important asset which is used to attract new customers. However franchisers also have problems with maintaining a respectable brand name because franchisees are not always following the interest of the headquarters. There is a conflict of interest between the two sides when it comes to some concrete issues. One of these issues is also knowledge transfer. Franchisee simply doesn't want to adapt all of the innovations which are coming for the franchisor if he doesn't see a personal interest behind this. This will be explained in more detail in the following part which will be about the knowledge transfer in franchising.

3.3 Knowledge transfer process

Knowledge is an asset which allows you to enter in agreements where you can offer the knowledge you own as a good which can be a part of certain trade off. Knowledge has three characteristics. Namely structural, the process and functional and all three are much interconnected. In the structure of knowledge there is information. However this aggregate information does not define knowledge as such. It is said that knowledge is a set of information which is associated to a meaning which has concrete implications on individuals or organizations. On hand of this information individuals and companies develop knowledge. This is the process characteristic of knowledge. The function of knowledge is to enable individuals and organizations to define their skills and competencies and carry out tasks which are related with the competencies. If the process of knowledge transfer is analyzed special attention must be paid to the transferred-knowledge related task (Wathne et al., 1996). The knowledge transfer between two or more actors (individuals and organizations) can be defined as the process by which the knowledge of one actor is acquired by another (Cutler, 1998). The process involves two components: the "information system" and the "interpretative system". See the illustration below.

Figure 6: Knowledge Transfer Process

Source: Albino et al., 1998

Knowledge transfer is a communication process. Knowledge which is in possession of an organization or individual is transferred to a recipient with the help of appropriate media. The type of communication and the effectiveness depend on the media which is used for the transfer. It is important to distinguish between already existing knowledge and new knowledge. Authors Cohen and Levinthal (1990) suggest that learning performance increases if the knowledge to be acquired is related to some prior knowledge which is well known inside the organization. The process of knowledge transfer is characterized by various stages. Gilbert and Cordey-Hayes (1996) proposed a framework to follow the process of knowledge transfer within the organization. The framework proved to be of great assistance when following the development of new knowledge within the organization. The concept includes five different stages which characterize knowledge transfer.

1. Acquisition- simple information acquisition from a partner organization
2. Communication- means distributing the information acquired
3. Application- the acquired and communicated information is applied in the organization and afterwards retained
4. Acceptance- which refers to individual acceptance of applied information

5. Assimilation- stands for the process of learning which involves changes in individuals abilities and organizations routines as a direct result of the use of acquired knowledge

Each stage represents a rooting phase, which is a level of knowledge acquisition by the organization (Steensma, 1996).

The success of knowledge transfer is influenced by two aspects which are complementary. The first aspect is uncertainty. The uncertainty is related with information processing activity. In simple terms, this means that the transfer is pretty much uncertain if the information transferred does not respond either qualitatively or quantitatively to effective communication methods. For example if knowledge is affected by noise or is not appropriate to represent the transferred knowledge. The second aspect is called equivocality. This is tightly connected with the ambiguity of interpretation of the transferred information. The equivocality depends on the characteristics of the individuals involved in the transfer process. If these so called actors operate in the same context and share a common cultural background the equivocality is lower. Of course in an opposite case it automatically gets higher.

3.4 Analysis of knowledge transfer

In order to analyze knowledge transfer we must identify the factors which have the biggest influence on the transfer itself. More precisely there is need to define components which are an inevitable part of knowledge transfer. First of all you need at least two individuals or organizations which engage in the transfer process. The literature refers to those subjects as actors. They need a place and a product for the transfer. And last but not least there is a media which is chosen to carry out the transfer.

The so called actors of the knowledge transfer process are perceived as either individuals or organizations. The authors Albino, Garavelli and Schiuma (1999) apply the social cognitive approach in which the organization is considered as a social system made of individuals who process information and develop knowledge. The knowledge transfer process itself is viewed from a perspective which focuses on the ways different members of the organization deal with knowledge. One of the main factors in the process is the

effectiveness of the transfer. The effectiveness itself depends on the actors who are involved in the transfer process. Wathne et al. (1996) proposes three main characteristics which each actor should have for an effective knowledge transfer to take place. These characteristics are “openness”, “trust”, and “prior experience”. According to the organizational learning literature openness is defined as the partners’ willingness to share knowledge in a collaborative interaction (Stata, 1989; Badaraco, 1991; Hamel, 1991). High level of openness guarantees a more effective knowledge transfer. Openness is tightly connected with trust. Actors trust is seen as a crucial characteristic for the success of strategic alliances, and so even more for the success of knowledge transfer. Trust has a direct and positive influence on actors’ openness (Wathne et al., 1996). The third factor which influences the actors’ ability to transfer knowledge is his prior experience. The prior experience has an influence in two directions. In one way it influences the capability of the actor to transfer knowledge to partners but also to internalize new knowledge. The larger the prior knowledge is the greater the capability of the actor to deal with new knowledge and the ability to recall and reuse this knowledge. A comprehensive prior experience enables the actor to deal more easily with the situations in which new knowledge is acquired and used. A concluding remark could have the following context; there is a strictly positive correlation between prior experience and the effectiveness of knowledge transfer. If your prior experience is big the effectiveness of the transfer is even bigger.

I already mentioned the word context in my previous sentence. Context is the second large component which influences the knowledge transfer. The literature distinguishes between two kinds of context; the internal and external context. The internal context refers to the organizational culture and all the factors influencing the organizational culture. Assets, attitudes, values technical skills are all components of the internal context. Members of an organization incorporate these components. The internal context is characterized in two ways. Firstly it is the absorptive capability of the organization and secondly the ability to convey tacit knowledge into explicit and to codify all the informal knowledge which is moving around the company.

The external context is somewhat different. It describes the conditions under which the transfer takes place. It influences the nature of the knowledge exchanged and is characterized by two dimensions: the environment and the atmosphere (Lamming, 1993). The environment is actually the market in which all the transactions take place. It refers to the characteristics of the market such as the structure its national or international scale etc. The atmosphere describes the relationships in the market. It involves variables like firm cooperation, closeness, expectations and socio-cultural aspects. The external context is influencing the internal context in some aspects. Firms which operate in the same atmosphere usually present similar cultures. This is especially important for the equivocality which is associated to the knowledge transfer. If the actors share the same atmosphere and if they belong to the same culture and have similar technical capabilities, than the equivocality can be reduced.

The content of the knowledge transfer is the component which describes the ability to perform a specific task. The knowledge transfer is then successful when the ability associated with the transferred knowledge (owned by the transferring actor) is assimilated by the receiving actor (Albino, Garavelli, Schiuma, 1999). There are two types of content which are connected with the transferred knowledge: one is called the instrumental and the other is cultural content. The instrumental content represents all the knowledge which is necessary to do a certain job. The goal of this kind of transfer could be to improve the operational capabilities of the organization. On the other side the cultural content stands for organizational and cultural values within the company such as the individuals' cultural background or the "language" which is used in the organization. The goal of the cultural content is to improve to understanding capability of the actors who are involved in the transfer. With the use of common language the company increases the efficiency of communication and creates circumstances where knowledge transfer is performed easier.

The last component which makes the knowledge transfer process complete is the media. Media is representing the channels through which knowledge transfer takes place. Channel is also one element which characterizes the media as a component. The other one is code. Code is the actual information which needs to be transferred. The channel is the way through which this information will be transferred. There are some

characteristics which describe the channel: its capability of immediate feedback, the number of cues etc. The media itself also has important characteristics. The two most important ones are capacity and richness. Those two have the biggest impact on the efficiency and the effectiveness of knowledge transfer. The media capacity is defined as the ability of the media to process information from the qualitative and quantitative point of view, which is without noise or information lack (quality) and with transferred information redundancy (quantity) (Albino, Garavelli, Schiuma, 1999). The media richness is the capability of making the change of mental representations of the actors involved in the knowledge transfer process within a specific time interval (Daft and Lengel, 1986).

Media richness is responsible for the reduction of equivocality while on the other side media capacity allows one to deal better with the uncertainty. High capacity media are used for the transfer of information which is rich in quantity and quality. These media are characterized by rules, forms and procedures. E-mail, telephone, fax, etc represent such media. Media with a high level of richness are much more personal and require a face to face contact. If the knowledge transfer content is equivocal, the use of rich media is preferred because this reduces the equivocality of the task. In the opposite case if the content is uncertain than it is suggested to use less rich media for the transfer. In this case the transfer goes through more formal structures.

3.5 Organization of Knowledge in Franchising Networks

According to the property rights theory the decision rights in franchise networks depend on the distribution of intangible assets which are responsible for the firm's surplus. Intangible knowledge assets are those assets which are not easily transferred to the partner company as those assets have a very strong tacit component. If we consider franchising these assets refer to the specific know-how or knowledge of the franchisor also known as brand name assets on one side, and on the other side it's the local know-how of the franchisee. These assets on the side of the franchisee are also known as outlet-specific assets. The more specific is the knowledge on the side of the franchisor the more centralized is the franchise network.

Hayek (1935, 1940) suggested that successful centralization of a network is efficient only if the central planner is in possession of adequate knowledge. Other authors also analyzed the allocation of decision rights in connection with knowledge. Most of them argue that organizational efficiency requires a situation in which those who make the decisions also possess the knowledge which is needed to make those decisions. Such efficiency can be achieved if the decision rights are transferred to the person who has the knowledge or if knowledge is transferred to the decision maker.

Such way of achieving organizational efficiency suggests that knowledge transfer cost determine the degree of centralization of decision making. This means that the person who has the specific intangible know-how should have the decision rights in order to maximize the surplus which might potentially come up as the result. This should be especially the case for local knowledge that cannot be easily communicated and transferred due to high transaction costs. On the other hand explicit knowledge is always in some contractible form, it can be easily written down and transmitted.

If we analyze the distribution of intangible assets, the conclusion is that such assets are finding themselves in optimal circumstances if the decision rights are allocated to the person who knows to make best use of such assets.

3.6 Knowledge transfer in Franchising Networks

Argote (2006) claims that franchise networks are an ideal example for analyzing knowledge transfer. The key is to replicate the routines which were already applied successfully. Knowledge transfer is an important component for the evaluation of the overall performance of a company. This statement is also applicable to franchise networks. According to the literature managers of franchising units have to choose between two types of organizational learning: exploitation and exploration. This is a strategic choice for them as franchised units operate in various geographic locations. This fact implies that there is a huge need for adaptation to local market conditions in order to maximize the performance. Because a common set of operating procedures cannot optimize performance across these diverse locations (Bradach 1998; Kaufmann and Eroglu 1999). Both strategies whether it is the local adaption or standardization demand a

different type of organizational learning. Exploitation stands for the standardization of all practices across units. It helps the company realize economies of scale and consistency. Exploration on the other hand is the development of new routines and enables the company to adapt to different conditions in different local markets. Managers of franchised units have certain incentives to engage in organizational learning. Organizational learning assumes two phases, in the first phase there is generation of knowledge. Afterwards the generated knowledge is transferred across units. Franchised units might face problems when transferring knowledge because of free-riding by franchisees. Free-riding means that the franchisee is ignoring the prearranged terms considering the quality of goods and services as well as about strategic issues like advertising campaigns. A typical example for such behavior is offering products which have a lower quality if the chance of a repeat sale is rather small. This might be the case in a fast food restaurant which is located badly. Another example is the franchisees reduced will to advertise if he is aware that part of the benefits goes to other units. All those problems inevitably damage the brand name and create losses for the franchise network.

Exploration has a negative influence on the knowledge transfer. The variability of operations which are resulting from the exploratory learning imposes a strong limitation on the transfer of information between the units. Another obstacle which has to be managed is concerning local adaptations. Such adaptations are connected with a risk that units will generate knowledge which is not of a big value to franchise units which tend to operate in different environments. If the franchise network cannot usefully apply the knowledge gained at one unit to its other constituent units, it loses the ability to benefit by spreading the costs of learning across its multiple units (Sorensen and Sorensen, 2000).

Under some circumstances the knowledge generated within the network could be beneficial to units inside the network. However this doesn't make the knowledge transfer between the members of the network who operate in different locations an easier task. The so many times mentioned "absorptive capacity" of organizations plays a major role in the transfer. The concept of absorptive capacity suggests that acquiring of new knowledge is easier if the new knowledge has a strong bond to the organizations existing

knowledge base (Cohen and Levinthal 1990). This means that knowledge transfer will be successful in the franchise network if both the franchisor and the franchisee operate from the same knowledge base. The difficulties arise when managers of franchised units take the necessary step of adapting to local market conditions and so decrease the possibility of successful knowledge transfer. This happens because with the adaptation they automatically distance themselves from the same knowledge base. Further on franchise managers tend to develop routines which are not applicable to fellow units in the chain. Even if they do develop routines which might be beneficial to other members of the network they might have problems with transferring the information to other units.

The opportunistic behavior is very present in the franchise network. Especially franchisees are engaged in such form of behavior. Franchise agreements on one hand minimize irresponsible behavior but on the other hand stimulate free-riding (Shane 1998a). Franchisees have no interest in investing in the development of the whole network but have a big interest in improving their own business. The solution to improve the transfer process is to mix the governance structure, to have company owned units and franchised units. Further on innovation must be stimulated and applied in the processes. Franchisors usually have greater incentives to diffuse knowledge around the company and improve the performance of the company than franchisees.

Franchise companies are competing primarily through growth indices. The first index is the number of stores which are opened during the expansion period. When the number of stores which is adequate to the demand of the area is achieved the competition turns to store revenues growth. Knowledge transfer is important for both types of growth. A franchise network is characterized through many autonomous units which are all legitimate parts of the system as a whole. Authors agree on the fact that, franchisers usually are not able to have a complete control over the transfer of knowledge. It is very difficult for them to enforce franchisees to receive and use the knowledge transferred. Franchising distinguishes between two models of doing business. One is a direct agreement between the Franchisor and the Franchisee. The other model includes the so called Master Licensee who purchases an exclusive right to develop a network in a certain geographic area. It is not likely that enforcement occurs between Franchisor and

the ML because the type of knowledge transferred to MLs are often more tacit and less critical for the identity of the brand (Szulanski and Jensen, 2006).

3.7 Performance of the Franchise Network and the influence of knowledge transfer

When observing several different networks, the most appropriate conclusion is that different networks bring different outcomes and require different knowledge transfer strategies. An American company which wanted to open a network in Israel through a Master license had the following experience. After they found the partner who bought the license from them they started with a series of intensive training which was lasting for several weeks. During the training sessions the ML was briefed on how to build and run a Network in his area, and how to run a store. The sessions also included in-depth field experience. Afterwards the ML received extensive manuals which were full of details on how to build and run a franchise network and stores which are a part of the network. The franchisor transferred all the knowledge he thought is necessary to the ML. The ML now equipped with the knowledge needed engaged in several activities to build a network. The ML had the opinion that there is a strong need for adaptation in the market since the cultural backgrounds of both countries were not the same. Although he was able to copy the successful concept of the franchisor he immediately started with adaptation to the local market. In some form it can be said that he didn't use the knowledge he was provided with from his franchisor but instead started to implement his own solutions. His strategy was to adapt quickly to the local market and so achieve good performance. Problems started when he became aware of the fact that his strategy brings no results. After such experience he consulted the franchisor, who told him to pursue the exact strategy he was introduced to in the training session. The franchisor advised him as well to use all the knowledge he got transferred during his trainings. The ML began to replicate the strategy of the franchisor. This strategy quickly resulted in growth of the network and in good overall performance of the network. The lesson learned from the example is to be careful with adaptations if the local market doesn't show an explicit need for such adaptations. Franchisors very often warn franchisees to avoid such steps because of negative outcomes like bad performance. This example suggests that copying

the original leads to transfer success while adapting to the local conditions leads to transfer failure.

Generally said for a successful performance of a franchise network the exchange of information is very important. Especially the exchange of tacit knowledge seems to be important for the success of the network. Knowledge transfer can be defined as a sort of tradeoff between the franchisor and the franchisee. The franchisor offers his brand name to the franchisee while on the other side the franchisee offers his local know-how. It is very important further on that the relationship between both parties is filled with trust because this enables a greater exchange of information and also an interaction and a flexible orientation. Under such circumstances the knowledge transfer process is almost always a success. Successful transfer influences the performance of the company in many positive ways. There is a positive influence on economies of scale, growth is achieved easier as well as the overall benchmarks of the company.

3.8 The influence of Ambiguity on Knowledge Transfer in Franchise organizations

Individual firms enter into multi-organizational networks in order to improve the overall performance of their entities in numerous ways. One of the most important reasons for entering such networks is knowledge transfer. It must be said that a simple membership in such forms of network does not guarantee a successful knowledge transfer to each individual member. A lot of conditions have to be fulfilled for optimal knowledge transfer which results in benefits for every member engaged in such operation. One of the possible constraints is ambiguity or uncertainty which is in direct connection with knowledge transfer. Ambiguity makes the process of knowledge transfer difficult and shrinks the potential benefits of the transfer itself. Knowledge is an asset and is supposed to be transferred at no cost within and among organizations. However according to Szulanski (1996) knowledge is “sticky” and difficult to transfer. Ambiguity represents one of the difficulties which influence the success of the transfer. Simonin (1999) is one of the authors who were dealing with ambiguity but not with different forms of ambiguity. His conclusion was that a high level of ambiguity influences the firms’ absorptive capacity which might have negative impact on knowledge transfer. There are

two types of ambiguity, casual ambiguity and outcome ambiguity. Both types have an influence on knowledge transfer.

When knowledge is characterized by causal ambiguity the transfer is difficult if not impossible. Casual ambiguity has been used to explain the ambiguity related to the inputs and factors used to generate a known outcome. Here, the outcome is known but the causes are ambiguous, increasing the difficulty associated with knowledge transfer (Priestley and Samaddar, n.a.). Knowledge, when causally ambiguous but already known to be useful to the source, will tend to be specified to the source, thereby contributing to the difficulties associated with inter-organizational knowledge transfer within a network (Priestley and Samaddar, n.a.).

The other ambiguity type is the outcome ambiguity. This ambiguity refers to the level of uncertainty within the multi organizational domain. It is important to say that for this concept it is less important to which level the knowledge is tacit or explicit, as the concept is strictly focusing on the difficulties related to the transfer of knowledge. Outcome ambiguity is characterized by two factors. The first is the “Knownness” of the knowledge. It is interesting to mention that Szulanski (1996) developed a concept of “Unknownness” where he referred to factors which influence knowledge transfer and the difficulties related to the transfer. “Unknownness” is used for knowledge which was not used in the past or there is no record about the use of this kind of knowledge. Some new formula can be described as such knowledge because it is not easy to determine to how many different situations this formula can be applied. When knowledge is unproven and the set of possible applications is unbounded, a higher degree of outcome ambiguity, and therefore of knowledge transfer difficulty, would be expected (Priestly and Samaddar). The second factor is the uncertainty in the relationship between the source organization and the recipient organization. This is especially important in the case of multi organizational context. The basic idea behind this concept is that the recipient organization is able to use the knowledge received in more than one situation. This means that the organization can decide which situation is the most appropriate for the use of the knowledge previously acquired.

Trust and partner protectiveness are two factors which have a huge impact on the uncertainty in the relationship between the organizations which are involved in the process of knowledge transfer. Simonin (1999) describes partner protectiveness as the degree of protectiveness a knowledge source assigns to its knowledge base including contracts, patents and rules. Others like Hamel (1991) argue that some partners in alliances or networks tend to make their knowledge less transparent and so create situations which are predominantly asymmetric. Knowledge transfer is also very negatively influenced by the fear of losing ownership or due to the lack of motivation to engage in transfer situations. Trust plays a major role in the process of knowledge transfer. Trust in comparison to the price and authority is seen as a most effective mechanism to facilitate the knowledge transfer within and between organizations as the presence of trust decreases uncertainty (Adler, 2001). Trust can be observed as a trigger which enables good and successful cooperation between partners when it comes to all kinds of agreements including as well knowledge transfer. Trust also eliminates potential threats like opportunistic behavior. Such behavior very often prevents firms from knowledge transfer because firms tend to be very careful and to avoid risky situation where their own knowledge could be used against them.

This is an important topic to investigate as ambiguity influences knowledge transfer in many ways. The concept is also applicable to various networks including the franchise network. Since a franchise network is a highly structured network of similar organizations with many partial interest it is easy to assume that ambiguity has a very negative influence on the knowledge transfer processes within the network. I will try to explain the impacts of the ambiguity later on in the part which will deal with different case studies.

3.9 Choice of knowledge transfer mechanisms in franchising networks

In their pioneering paper on Knowledge Management, (Alavi and Leidner) defined knowledge as “a justified personal belief that increases an individual’s capacity to take effective action.” According to this definition, knowledge becomes “working” when the action produces results. In the context of franchising, a working knowledge profile is

developed when the working knowledge of a certain task has been repeated many times with good results.

The key factor in order to achieve success in a franchise network is the ability of the franchisee to replicate the business concept of the franchisor. To do so the franchisee must meet some local market demands under certain environmental conditions. The franchisor on the other hand has the task to transfer the knowledge which is valuable to the franchisee. A successful replication of the concept by the franchisee is crucial for network efficiency. It also provides local outlets with some competitive advantages. The franchisor has a large number of different methods of knowledge transfer which he can apply, such as; Training, conference meetings, councils, committees, outlet visits, telephone, fax, intra- and internet and other electronic transfer mechanisms.

When talking about the right choice for a mechanism, we have to mention that different types of knowledge require different transfer mechanism. Explicit knowledge requires mechanism which is less personal like e-mail, or phone calls, while on the other side tacit knowledge prefers mechanism which is intensive and personal like meetings or training. There is also a criterion known as the Information Richness which differentiates knowledge transfer mechanism according to their information processing capacity.

In franchising, knowledge transfer mechanism with a relatively higher degree of information richness are training, conference meetings, councils and committees, visits of the outlets; and knowledge transfer mechanisms with a relatively lower degree of information richness are fax, phone, intra- and internet and other electronic transfer mechanisms (Windsperger, Gorovaia 2007).

IR-theory examines the question, which communication (knowledge transfer) mechanisms are effective under different degrees of ambiguity (or equivocality) of the communication task (Daft et al. 1987).

The information processing requirements directly vary with the task ambiguity. 'Richness' consists of four attributes of the communication mechanism: feedback capability, availability of multiple cues (voice, body, gestures, and words), language variety, and personal focus (emotions, feelings). The more of these attributes a

mechanism possesses, the higher is the degree of IR of the mechanism, and the greater is their capacity to handle ambiguity and hence the knowledge transfer capacity (Windsperger, Gorovaia, 2007).

Knowledge transfer mechanisms with a high degree of IR refer to face-to-face interactions and team-based mechanisms (meetings, trainings, seminars, workshops, visits) and knowledge transfer mechanism with a low degree of IR refer to written media, manuals, reports, data base and written instructions (Windsperger, Gorovaia 2007). Face-to Face is considered to be the richest communication mechanism because it offers a capacity for direct experience immediate feedback and other things which may be very useful for the parties enjoying such contacts. On the other side impersonal contacts like computer reports or databases are media with the lowest level of information richness.

The information richness theory can be summarized by the following proposition: The higher the task ambiguity, the more rich knowledge transfer mechanisms are needed for an effective knowledge transfer. (Windsperger, Gorovaia, 2007).

If the knowledge is explicit and hence codifiable, all relevant information on actions and environment can be written down in contracts. In this case, knowledge can be efficiently transferred by using low-IR-knowledge transfer mechanisms. (Windsperger, Gorovaia 2007).

If the knowledge is tacit and hence difficult to codify, contracts are incomplete because not all relevant knowledge and actions can be written down. In this case, higher-IR-transfer mechanisms are needed to process and transfer the noncontractible component of knowledge. (Windsperger, Gorovaia, 2007).

3.10 Knowledge transfer in Franchising- Analysis and Conclusions

The knowledge transfer literature deals with various issues concerning the transfer itself. I will try to give a brief overview on the most important conclusions which explain the process of knowledge transfer. Knowledge transfer as a process takes place in a very complex environment. This environment involves both cultural and contextual factors which must be taken into consideration when engaging in the knowledge transfer process. It is widely known in the literature that different cultures require different approaches. The process itself depends on the nature of the relationship between the franchiser and the franchisee. When talking about this issue the literature differentiates between centralized and decentralized franchise networks. Decentralized networks allow the franchisee to act with a bigger level of autonomy but carry the risk of opportunistic behaviour on the side of the franchisee. Therefore trust plays an important role in the franchise networks and many authors such as Gorovaia deal with the concept of trust and how trust affects the performance of the franchise network. In technical terms the process of knowledge transfer depends very much on the transfer mechanism which is used for the transfer. The transfer mechanism itself depends very much on the type of knowledge which is supposed to get transferred. Here the literature distinguishes between explicit and tacit knowledge. Explicit knowledge requires less complicated mechanism as it is easier to define and it is more contractible than tacit knowledge. Tacit knowledge on the other hand requires more rich transfer mechanism as it is very difficult to define such knowledge in an understandable way.

To pursue successful knowledge transfer companies must in first place create an environment of trust and partnership for the actors and stimulate them to engage in the process of knowledge transfer as often as possible. In franchising conditions have to be set which enable the franchisee to replicate the business concept of the franchisor in a manner which is not representing a heavy burden for the franchisee. The goal should be to find the right mix between the characteristics of the network itself and on the other side to create a trustworthy relationship between both parties in the network. Such approach could easily minimize the potential for opportunistic behaviour and the level of ambiguity which also influences the knowledge transfer process. If all actors in the environment

succeed in these tasks there should be no major problems for the process of knowledge transfer to be beneficiary for all sides who are involved. The literature should continue to focus on how all of the issues mentioned might improve and to search for new solutions and tools which eventually will be of a great help to the interested parties to overcome potential problems. Smart companies and managers are not afraid of knowledge transfer because they always see a win-win situation at the end of the game. Therefore it is important to come up with many more positive examples which clearly speak about successful knowledge transfer in order to stimulate and motivate companies to understand the importance of this process. In franchising business only successful and effective knowledge transfer guarantees an overall performance of the company which makes all the employees proud. If they pursue a somewhat different strategy they will certainly fail. The literature clearly stands on the point that knowledge transfer is essential for the success of the enterprise, especially in franchising where it represents a tool which takes a central place in the business relationship between the franchisor and the franchisee.

4 Case study: Serbian franchising market

I chose the Serbian Market because I was eager to find out, how a developing market is dealing with issues of modern economy like knowledge transfer.

Before analyzing concrete issues such as knowledge transfer between the franchisor and the franchisee I wanted to find out something about the volume of the Serbian market. The findings can be summed up in the following way. The Serbian franchising market is a rather small market comparing even with the neighbouring countries. Following numbers underpin this statement in a very strong way. In Serbia about 20 domestic firms operate with the franchising method. Those firms are coming from different fields of the business world. The range of businesses in which they operate goes from clothing, IT, grocery, real estate, tourist agencies, and language schools to supermarkets. The market is relatively new, most companies started to do franchising few years ago. Comparing to the Serbian market, in Slovenia some 70 firms operate as domestic franchising companies. In Croatia some 30 companies of domestic origin are involved in providing its partners with a franchise contract. Hungary is the biggest market of all mentioned with about 200 domestic companies in franchising business. I have to say that I contacted nearly all companies in the market for an interview but just four of them were cooperative. I also managed to get an interview from a Slovenian company which is very good because I can possibly draw a regional comparison.

4.1 Interview with N. Romandic, CEO of Roma Company

Roma Company was founded in Belgrade in the year 1992. They distribute wall and woodwork paints, lacquers, polishes glues and other products and tools needed for housing needs of many customers. The turnover of the company in the year 2007 was 16 million euros. The number shows that the company is performing quite well in the Serbian developing and rather unstable environment.

The interview was divided in two parts. The one part consisted of an open discussion in which Mr. Romandic talked about strengths and weaknesses of the franchising business as well as about knowledge transfer as an integrated part of the business. In the second

part he answered some questions from the franchising questionnaire. On hand on these questions we can draw a conclusion how knowledge transfer is actually happening in the company.

At the beginning he says that franchising is the fastest way to cover the market you are in. It offers you a possibility to give as many franchises as you think are necessary for your company to perform well.

The choice of your franchisees is the key thing in the business. He puts it the following way, if you make the right choice you enjoy the benefits, if you make the wrong choice it opens different kind of problems which are not easy to handle. It's always difficult to terminate the contract if you already got involved with a franchisee which proved not to fulfil your expectations. He points out that it is very difficult to control the services of the franchisee and his behaving toward the clients although there is a strict handbook of standards in the company which is to be respected and fulfilled by all franchisees.

When it comes to knowledge transfer the company pursues following methods. For the exchange of information they organize partner meetings which are hold annually. There are also obligations for the franchisees to provide the headquarters with monthly reports on how the business is developing. The company's handbook of standards represents a central tool when it comes to information sharing within the franchising system. The handbook describes all the processes which are important for the ongoing performance of the franchise system. The franchises are able to learn from the handbook about all central processes and so implement them very effective in their everyday business. All the new developments regarding the system are immediately put in the handbook and distributed to the franchises so they can implement the changes. The company also uses its company magazine for providing new information. The magazine is distributed on no less than 5000 addresses (this includes; clients, customers, business partners, franchises, company friends etc.).

There is also different type of training which takes place for the franchisees annually and is organized by the franchisor. Mr. Romandic introduces me with two types of training which they pursue in the firm. There is a sales training as well as technical training which

helps the franchisees learn about the product lines as well as about the characteristics of the production. This is basic knowledge which has to be acquired if one wants to be a franchisee at Roma Company. There is also ongoing training which is important if things change and new standards became necessary for doing business.

The next issue involves the question, how knowledge is actually transferred from the headquarters to the franchisee. The answers are quite obvious. Intranet and Internet play a major role in the transfer. E-mails are integrative part of every day exchange on information. Knowledge is transferred in many different ways via telephone but also with visits of the franchisor at the franchisee stores as well as through formal meetings which are held between both parties. He says the franchisees have to learn a lot of different skills in order to apply know how successfully. For example they have to learn how to treat the customers how to organize their branch and also they have to learn a lot about the products which they have to sell. The field of different tasks they have to accomplish is very heterogeneous.

At the end we talk about the relationship between the franchisor and the franchisees. He points out that the relationship is very trustful and open. The work is done on a partnership basis. The franchisor is very open for all suggestions which come from the franchisee and discussed them very detailed before making the decision on whether to implement them or not. To underpin his statements Mr. Romandic says that the exchange of information sometimes even goes beyond the previously agreed to the benefit of both sides. Such cooperation results in very good numbers for the company when the financial reports are made at the end of every fiscal year.

He concludes with the opinion that they as a company started to early with the franchising business model. As he puts it “we are 5 years to early” because at the time when they started the market was not developed enough to follow the business ideas of single companies. For example there were no big retail chains which today carry the business as they are a major buyer of the products Roma offers.

Knowledge transfer influences your and your companies’ performance in numerous ways. In a sense it has a specific role in business models like franchising. What you have

to accomplish is the following two things. You as a company have to transfer your knowledge to your franchisees because this condition must be fulfilled if you want your system to function. The franchisees must transfer the knowledge among themselves because they need to build a respectable network which is compatible with franchisors expectations. It is important to understand if the network is centralized or not. If a franchisor keeps the network centralized his franchisees are extremely dependent on his decision. And therefore knowledge also flows from one place to many other places. So how can you achieve a more decentralized network? Decentralization goes together with an honest and trustful relationship. This interpretation of mine would suggest that decentralization is possible after a period of time in the network. The partners in the franchise network must work on that.

4.2 Interview with N. Matanovic, Branch office Manager, Jolly Travel C.

Jolly Travel was founded in the year 1989 under the name Jolly Tours. As the company was growing as well as opening new businesses like rent-a-car, hotel reservations and exchange businesses it also changed its Name to Jolly Travel in 1999 because they thought that the new name describes better all the fields they operate in. Jolly Travel is a family company. The Company operates for six years in the franchising business. The franchisees are mainly people who are not from the tourism business. Those people invest their previously earned money in the business as they expect it will bring them profit. Therefore they usually need up to two years to learn how to run a branch office in this business. In the first years the franchisor is obligated in a way to maintain very close contact with its franchisees in order to provide them with necessary know-how which allows them to become more and more independent over the years.

As a Franchising company Jolly is active in Serbia with more than 20 branch offices as well as in some neighbouring countries like Macedonia.

The company organizes up to 4 obligatory annual meetings with their franchises where they discuss and exchange the information relevant for work. Apart from these type of communication internet represents a central tool which is used for the transfer of know-

how. Mrs. Matanovic says that the biggest part of the information is transferred via e-mail.

All franchises attend some sort of basic teaching program when they start with the business. During this time they get to know the company software and basic products which are of great importance for the work. Holding on going meetings between partners at Jolly is a standard way of exchanging information. There is no such thing as a standardised handbook in which all relevant processes are described. And this fact represents a big difference between Roma and Jolly. Why is that so, probably because managements at both companies came up with different solutions of how to run the franchising business? It's difficult to analyze such facts, but if we assume that the management of one company is making proposals of how to run a business we can probably say that one company thought it's important to have a handbook and other company thought of other ways to transfer know-how to its franchisees. I wouldn't say this has something to do with the fact that the companies are operating in different business fields. Because no matter what business you are in it can be always useful to have a company handbook which gives an insight in the crucial processes. The approach is sometimes different but they share a common goal, to enable their franchises to implement the knowledge in a right way and to create profit for the firm. The product can influence the approach. At Jolly a destination is a product so franchisees sometimes have to travel to those specific destinations in order to collect as many information as possible about a concrete city or country. Afterwards it is easier for them to meet the requirements of the customers as they have a specific know-how. It also represents a part of the learning process.

Both Roma and Jolly agree that there is a human resource problem. They have certain projections of how the potential franchisee should be. But not all meet the requirements, so if you get involved there does always a high conflict potential exist. Sometimes you manage to get over certain situations and sometimes you have to search for new partners. Time is essential to achieve some level of partnership and trust. In the Roma Company they are very satisfied with the relations between them and the franchisees. At jolly they seek for improvement. They say they need two to three years to build solid partnerships

which are acceptable for both sides. Why are ones more successful than the others? Maybe at Roma the headquarters are more flexible and more patient with its franchisees. Or they simple provide them with more space to create their own ideas. It's very unthankful to analyze, the management has to have capabilities to make people trust them and to eliminate opportunistic behaviour. After all both sides need to respect all parts of the contract and also all sorts of agreements which are made during the partnership. It is simple essential for the success of the company.

4.3 Interview with R. Radojevic CFO Maxi, part of the Delta Holding

Maxi is a retail chain like Bila or Spar in Austria. Maxi is an integrated part of the Delta Holding which is Serbia's largest private company. Maxi is the largest retail chain in Belgrade and probably in Serbia as well. It has an approximate market share of nearly 40 %. The company was created when Delta Holding acquired two of the already existing retail chains Pekabeta and C-Market. Those companies are both functioning as franchise networks. They created a network in which they started to give franchise to its own employees which already had the knowledge needed of how the company is running. The goal behind the whole project was to outsource to its own employees due to some financial difficulties which were occurring at that time in the company. On one hand it should make the company more flexible and on the other give the employees an opportunity to have additional benefits. The contract allowed them to label all stores with the name of the franchisor and obliged them to buy 60% of all merchandise from the franchisor. They were free to purchase additional 40 % where ever they thought it was optimal for them. All franchisees where involved with the system already so they could easily open up stores and start the business. They didn't have to attend any additional meetings where they would get to know the system, as they were all coming from the company which gave them franchise. One of the major issues was the legal relationship between the franchisor and the franchisees. Unsatisfied customers were always raising lawsuits against the franchisor because they were unaware of the fact that the shops of the franchisees were separate legal entities. The franchisor needed years in court to prove that they were the wrong address to sue.

The point is that companies have different intentions when they form franchise networks. Each one of them has its own interests. This example of franchising is completely different from the previous two where companies decided to enter such networks in order to expand. In this case the company had an interest in overcoming an internal crisis by forming a different way of doing business. Theoretically it represents a good approach since there was no particular need for extensive knowledge transfer to the franchisees. On the other side it created some other unexpected negative side effects which remained unsolved until today (some lawsuits from disappointed customers are still in process on court). This means that a company which enters into new projects must take into consideration all possible obstacles which have to be managed carefully. In the mean time some of the shops were closed down because the franchisees were unable to fulfil some of the requirements and the franchisor is thinking of cancelling the possibility of giving franchise.

4.4 Interview with A. Slamic, Manager at Sojer GmbH

Sojer is a Slovenian company which owns two trade marks, Simple and Mic Styling. The company provides Franchise for hairdressing saloons. This is the only company whose headquarters are not in Serbia and therefore the interview is interesting as it can provide a regional comparison. The company was founded in 1991 which is a period when most private companies were founded in the region as this was a period of new era of capitalism in former Yugoslavia. Her answers provide some interesting insights in key issues concerning knowledge transfer. If we observe the difference between the transfer of tacit and explicit knowledge we can clearly see a distinction. The task of the franchisor is to provide the franchisee with all necessary knowledge which is needed to achieve good results. In this case there are two important segments. One is that all saloons must fulfil certain criteria's in order to satisfy the franchisor. Such requirements are discussed in meetings or information is sent to the franchisees via e-mail. Such knowledge is explicit and can be easily learned through every day communication between the franchisor and its franchisees. On the other hand all hairdressers must have a level of knowledge which meets the expectations of the customers. They as a hairdressing saloon offer an amount of services and therefore are responsible for the outcome. It is widely

known that no company can survive if it has disappointed clients. In the case of a hairdresser it means that they guarantee certain haircuts. So how do hairdressers acquire such tacit knowledge of how to make a haircut? According to Mrs. Slamic the company has its own Academy for Hairdressers and each hairdresser has to attend the academy for at least one week. If some need additional education then they receive additional lessons on pre specified demands. In the academy they use methods like look and learn, working on dolls but also on live models where they can make sure they implement the knowledge in a correct way. This is a good example of how tacit knowledge is transferred. You need high- IR- transfer mechanism (like face to face or training) in order to transfer tacit knowledge which is not codifiable. When you want to transfer more contractible information like for example the exact look of the salon, you can use low-IR- transfer mechanism like e-mail or fax. The Company also organizes an annual congress for all leaders of the saloons where they discuss all relevant issues. I think this example clearly determines the difference between transfer of explicit and tacit knowledge and explains why different mechanisms are used for the transfer of know-how. Why is this so important to understand? Well there are always some problems which can harm the business if acquired knowledge is not implemented well enough. If the franchisee misunderstands how to charge the client or the respective hairdressers cannot master some new cutting techniques. So there is again the factor HRM. Because of that knowledge transfer gets even more on importance. Namely the right approach in KT can overcome such misunderstandings and save the company from potential damage. On the other side management can make decisions to divide the field of work or to modernise the facilities. If you computerize the saloons to a certain level you might be able to control they way of charging as well as the expenses. All modern saloons have managers who are running the business and are only in charge of administrative issues.

So how important is knowledge transfer in franchising? I will quote Ana Slamic ,
Manager at Sojer GmbH

“This is one of the most important things. Especially in the franchise system, since the units need to be operating as one.” End quote

4.5 Comparison across interviews

What I would like to do know is to compare the interviews I conducted on their similarities and differences concerning relevant topics on knowledge transfer. Although I tried to analyze and compare the results in each interview, this should be a brief summary on all previous explanations. One can observe that all the companies which gave me an interview are coming from different business fields. This sort of heterogeneity is quite helpful if you want to get a broader overview on how different entities cope with one issue like knowledge transfer. On the other hand this doesn't mean that you can automatically expect different results concerning the topic you are interested in. My point is that although companies are coming from different fields of the business world the results from the interview are pretty much the same. I can hardly say if I expected such outcome or not. I think I can compare the companies on two levels. One is, why they decided to do Franchising as a business model, and the second one is dealing with methods and ways of knowledge transfer between the franchisor and the franchisees. When talking about why they entered the business model I understood there can be many reasons behind that decision. Roma did it because the management wanted to expand the business and franchising proved as the fastest way to do so. Maxi's retail chains were in a difficult situation and wanted to overcome the situation by changing the business model. Start up companies can choose their model based on their estimations and expectations. Companies which are already operating in the market decide to enter new strategies only if they see a beneficiary result. So why do they decide for franchising. They get a clear contract situation with the partner side where all relevant issues are specified in the contract. For example the franchisee must fulfil certain criteria when it comes to knowledge and awareness of his obligations toward his franchisor. The franchisor gets a fixed amount of royalties (the method of payment is usually pre specified in the contract) which does not depend on the performance of the franchisee. In a way he can satisfy his potential needs even if the franchisee is under performing.

When talking about methods of knowledge transfers all of my interview partners gave me similar answers. All of them use tools which are widely known and used, such as e-mail, meetings, trainings etc. This is simply unavoidable if a company wants to play by the

rules and to achieve good performance. If somebody doesn't pursue such way of doing business he is out of mainstream. Most of the companies I interviewed agreed that there is a problem with human resources. It is just very difficult to find the right people to do your franchise. That's way knowledge transfer gets even more on importance. With right and comprehensive knowledge transfer you are able to educate your franchisees in a way that guarantees you solid partnership and good results. That is way in my opinion companies should put a great effort in transferring knowledge to all relevant factors which influence companies performance. Another important topic is the centralization of knowledge in franchise systems. I got the impression that all companies want to keep the knowledge centralize. They think that such strategy gives them the opportunity to control the network in a more effective way. I think that one of the main reasons why they do it is that the franchisors usually don't trust the franchisees enough. They are afraid that the more they provide them with independence the more their behaviour will become opportunistic. I already analyzed some aspects of this topic in the interview with Roma Company because they gave me a good example on how more decentralization can be abused. To allow your franchisees to create knowledge which can be used for improving your business is one thing, but if they start to use it solely for their own interest than it can harm the network. The franchisor is obligated to intervene if the franchisee starts playing bad. There is no prosperity without knowledge not in life or in business. My interview partners agreed with me that knowledge transfer is a very important part of their business, especially because knowledge transfer is an integrated part of their business. The methods how they do it differ just slightly based on the needs of their companies.

4.6 Key issues concerning knowledge transfer

Two key issues which emerged from the interviews and were also mentioned by my interview partners are free-riding of the franchisees and trust among partners in the franchise networks. CEO of Roma Company emphasized free-riding as one of the major problems he is having with franchisee partners. He also said that such behaviour influences the knowledge transfer process and the overall performance of the franchise network. The problems start when franchisees abandon the strategy which obligates them to replicate the business strategy of the franchisor and to apply all relevant knowledge which is necessary for success but instead engage in individual actions which harm the network. Franchisees usually start free-riding following their best interest and neglecting the interest of the network as a whole. Free-riding disables successful knowledge transfer as franchisees apply their own routines and strategies and not those coming from the franchisor. CEO of Roma says, innovation is very welcome but not at the cost of the whole network.

At Jolly they experienced similar problems concerning the trust between partners. Trust is very important for the exchange of information. According to Gorovaia (2003) trust encourages the disclosure of useful information. Trust keeps the partners together for a longer period of time but also creates conditions under which knowledge transfer is much easier to perform. It also enables partners to share a large portion of information because there is less fear that opportunistic behaviour could occur.

However it is difficult to control the actions of the franchisee in the franchise network, because they operate as very autonomous partners. This means that the franchisor cannot control easily if the franchise replicates the routines and applies the knowledge coming from the headquarters or instead follows its own routines. Such facts imply that mutual trust is of great importance especially for the exchange of information but also for the overall performance of the network. Great level of trust allows flexibility and so the potential for innovative action which would not harm the franchise network but improve the performance.

5 Future Trends

Even though the literature specifically addressing knowledge transfer continues to grow, several interesting areas concerning these topics still remain unexplored. Zajac (1998), Podolny and Page (1998) all share the view that there is insufficient literature dealing with questions, why alliances fail or why they underperform in the functions for which they were designed.

The most strategic issue why alliances come together is the knowledge transfer issue. Therefore, one perhaps obvious area for future inquiry includes detailed analyses of how the processes governing learning and knowledge transfer in alliances ultimately affects their success (Fischer et al., 2000). Another issue which should be emphasized more in the future is the mechanism of knowledge transfer among organizations. Galbraith (1990) found out in one of his studies, that productivity was positively improving when the team responsible from the donor unit was moved to the recipient side. These finding suggests a solution how transfer of knowledge both tacit and explicit can be more efficient if a personnel movement is executed. Another argument which recommends an improvement of knowledge transfer is based on the theory by Simonin (1999a). He suggests that firms should hire personnel which are familiar with the partner's organization and culture. Exchanging personnel between companies or moving it up the organization is becoming a tendency in the alliance business. Therefore authors should put more emphasis on this issue when researching the functionality of alliances. As Zajac (1998) argues some firms fragment their knowledge across several business units, while other prefers to keep their information more centralized. He also pinpoints that not all firms have developed a competency to enter alliances. All organizations implement certain work philosophy and over time this becomes routine. This fact also affects knowledge transfer. A possible solution for these issues was examined in a study on organizational changes, conducted by Amburgey, Kelly and Barnett (1993). As they concluded at the end of the study companies have to learn to change by changing.

Experience is often discussed to be a key issue when implementing complex processes, which knowledge transfer certainly is. The concept of learning through experience

proved to be one of the most effective in mankind history. It is argued that this concept and the concept of learning by doing in the presence of knowledgeable partners is becoming a sine qua non for successful and qualitative knowledge transfer. One of examples which illustrates these hypothesis quite straight forward, is the one in which expatriates learn directly from their counterparts in the partner company. In my opinion one statement is the quintessence of knowledge management as an independent field. “Managing knowledge is expensive but the cost of not managing knowledge is enormous.”(Lank 1999)

On the other hand authors admit that concepts such as absorptive capacity, knowledge ambiguity and even whether an alliance is deemed to be “successful” are inherently difficult to measure; one potential task in the future would be to take a more fine-grained approach to the study of knowledge transfer by focusing on specific competencies (Fischer et al., 2000).

Simonin suggests that for example one could concentrate only on transfer of marketing knowledge across international strategic alliances.

In franchising the literature should focus on how to improve the knowledge transfer and as well the relationship between the partners. Further on the research should focus in issues like, how to minimize the free-riding of the franchisee or how to improve the control mechanism to avoid such opportunistic behavior. New solutions should be proposed for knowledge transfer mechanism and how the knowledge transfer affects the performance of the network. Future works should also put emphasize on finding the right strategy for successful knowledge transfer.

We can conclude that the field of strategic alliances and the transfer of know-how within these organizations is a field which requires further research. Smart proposals will certainly boost research initiatives.

6 Conclusion

Franchising is an integrated part of the international economy. The problem of knowledge transfer within the franchise network however remains unexplored. I have to admit that finding literature for this work was a very tough task. Most of the literature is covering issues like knowledge transfer in general but only few papers concentrate on knowledge transfer between franchise partners. I hope that my work provides an in depth look, theoretically and practically in the world of knowledge transfer in the franchise network. The goal was to give an overview on how knowledge is transferred among partners and which methods are used for the transfer. It was also important to show that different types of knowledge require different methods of transfer.

Practically it is important to say that companies which pursue successful knowledge transfer can achieve and expect better results than those who don't. Companies have to become aware that transforming information into knowledge can become and is already one of the crucial issues when talking about high class business. I decided to investigate a rather undeveloped market in Serbia, because I was eager to find out if the companies over there put emphasize on knowledge transfer like companies in the western world. My findings tell me that those few franchising systems which are operating in the market really try to follow western trends when it comes to knowledge transfer. For this purpose I interviewed a company from Slovenia, which is a far more developed market. I have to say I haven't spot major differences which surprised me. The Serbian market still has to develop and it has a lot of space for improvement and enlargement. I am positive it will. It will be certainly interesting to see how this development will proceed. In Serbia there are numerous companies which use international franchises like McDonalds, Costa Coffee, etc. Domestic companies must develop in order to be able to give their own franchises and even to expand regionally. The market development must be an integrated part of this process.

I think the literature should definitely put a greater focus on how this processes are managed in the franchising systems and give concrete examples of firms which have efficient knowledge transfer inside their systems. This is especially important for

franchising systems. More practical examples provide a better insight on how the whole process is functioning. I must admit that it was challenging to explore a topic which is not extensively covered in the literature. I tried to find out as much as possible from my interview partners. It wasn't easy to get the interviews but once I got them I was eager to find out as much as possible from the people which actually influence the process of knowledge transfer. The questionnaire which was provided to me by Professor Windsperger was a good orientation on how to navigate the discussion with my interview partners. The discussions offered me the possibility to acquire new knowledge about the topic which I hopefully transmitted correctly in the practical part of my work

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8 Declaration of authorship

I hereby declare

- that I have written this thesis without any help from others and without the use of documents and aids other than those stated above,
- that I have mentioned all used sources and that I have cited them correctly according to established academic citation rules,
- that I shall not pass on any copies of this thesis to any third parties without the President's consent, with the exception of fellow students or persons who have provided me with essential information for this thesis, to whom I may pass on copies of this thesis after the procedure has been concluded."

Belgrade, 18th February 2009

Boran Kerim

Zusammenfassung

Diese Magistararbeit hatte zum Thema den Wissenstransfer im Franchising Netzwerken. Die Arbeit ist in vier große Teile dividiert. Der erste Teil befasst sich mit der Problematik des Wissensmanagements und bearbeitet das Wissensmanagement durch diverse Theorien und Literaturbeispiele. Das Ziel war die Wichtigkeit vom Wissensmanagement darzustellen aber auch diesen Begriff detailliert zu definieren weil bekanntlich Wissenstransfer ein wichtiger Teil vom Wissensmanagement ist. Der zweite Teil ist eine Art Einführung in den Wissenstransfer. Hier wird der Wissenstransfer zwischen Strategischen Allianzen näher dargestellt weil Franchising als ein System eine Art Strategische Allianz zwischen mehreren autonomen Einheiten darstellt. Es werden ausserdem die Faktoren erklärt die einen durchaus beachtlichen Einfluss auf den Wissenstransfer haben. Es wird auch über die Stärken und Schwächen des Wissenstransfer gesprochen wie auch über die Art und Weise wie dieser Transfer vollzogen wird. Der dritte Teil befasst sich dann ganz konkret mit dem Wissenstransfer in den Franchising Netzwerken. Anhand von verschiedenen Theorien und Beispielen wird versucht den Transfer so deutlich wie möglich zu erklären. Theoretisch wird der Prozess des Wissenstransfers erklärt, und anhand von Beispielen wird versucht die Wichtigkeit des Transfer darzustellen. Es wird beschrieben wieso der Wissenstransfer so eine wichtige Rolle im Betrieb einnimmt und was für Vorteile ein erfolgreich und effizienter Wissenstransfer mit sich bringt, beziehungsweise was für negative Konsequenzen ein schlechter hat. Darüberhinaus wird analysiert anhand von welchen Kriterien die Firmen die Auswahl treffen welche Mechanismen für verschiedene Arten von Wissen gewählt werden sollen um einen erfolgreichen Transfer zu gewähren. Der Vierte Teil ist der praktische Teil der Arbeit. Der Autor hat den Serbischen Franchising Markt gewählt und versucht so gut wie möglich die Problematik des Wissenstransfer in einem eher unterentwickelten Markt was Franchising betrifft darzustellen. Fünf Firmen aus verschiedenen Branchen waren die Interviewpartner, die Antwort auf Fragen vom Fragebogen vom Professor Windsperger und auf die Fragen des Autors gaben. Um vergleichen zu können wurde auch eine Firma aus Slovenien befragt weil dort der Franchising Markt durchaus mehr entwickelt ist als der Markt in Serbien. Es wurden die Ergebnisse präsentiert mit dem Schwerpunkt auf den Wissenstransfer wie auch eine Komparation zwischen den Firmen um die Ähnlichkeiten und die Unterschiede zu untermauern. Danach gab der Autor einen kurzen Überblick über die zukünftigen Aussichten was den Wissenstransfer in Franchising betrifft sowie ein Schlusswort.

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