A CONCEPTUAL MODEL OF MARKET ORIENTATION AND KNOWLEDGE TRANSFERRING IN THE FRANCHISE SYSTEM

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ABSTRACT

In the fast-paced and turbulence environment, the context of dynamic capabilities view which entrepreneurs should strategically figure out how to select and develop the capabilities and competencies needed for succeed in the marketplace is a must for most organizations. A number of studies showed the positive influence of market orientation on firm’s performance, however, this very heart of modern marketing is rarely applied in the franchising. The purpose of this conceptual framework was to investigate the organizational antecedents and performance in which market orientation was proposed to be the key market-based asset and knowledge transferring as a know-how transfer capability in the franchise system. With a superior responsiveness and know-how transferring, it then enhances franchise performance outcome. Future research can test these propositions to enrich the understanding of market orientation and knowledge management in the franchise industry.

Keywords: franchise, market orientation, knowledge transferring capability, dynamic capability.

1. INTRODUCTION

Franchising is an organizational form based on a legal agreement between a parent organization (the franchisor) and a local outlet (the franchisee) to sell a product or service using a process, operating system, and brand name developed and owned by the franchisor for a specific period of time in a specific location (Shane, 1996; Elango & Fried, 1997; Castrogiovanni et al., 2006; Gillis & Combs, 2009). Franchising is expanding faster and more forcefully than other forms of expansion both domestically and unfamiliar foreign markets (Welsh et al., 2006; Altinay & Wang, 2006) as it provides flexibility and economies of scale to worldwide operations (Baena, 2015).

The organization's interaction with its environment, together with the means by which it creates and distributes information and knowledge, are more important when it comes to building an active and dynamic understanding of the organization in order to maintain competitiveness and to successful performance (Nonaka, 1994; Nonaka et al., 1998; Teece, 2007, 2014). Studies showed the success of business format franchising is highly dependent on the capability to create and transfer knowledge to franchisees and among all members in the network such as suppliers, customers and other organizations (Watson et al., 2005; Paswan & Wittmann, 2009; Gorovaia & Windsperger, 2010; Brookes, 2014) but the studies are still limited. In addition, market orientation (MO) that
plays a critical role enhancing an entrepreneur’s ability to recognize opportunities, and positively related to the performance (Jaworski & Kohli, 1993; Narver & Slater, 1990; Morgan et al., 2009; Lee et al., 2015), there is little understanding of how this market-based asset is deployed to achieve competitive advantage (Morgan et al., 2009), particularly in franchising.

To response the call for shifting the study to the relationship of franchise’s performance and competitive advantage (Elango & Fried, 1997; Dant et al., 2011; Combs et al., 2004), this study aims to develop a framework that intend to explain the relationship of organizational capabilities (market orientation and knowledge transferring) and business performance in franchise system. The development of the conceptual framework will be guided through the following research questions:

RQ1: How does MO facilitate the transfer of knowledge in the franchise system?
RQ2: How does MO increase franchisor’s business performance?
RQ3: How does the process of knowledge management (creation and transfer) influence the franchise’s performance?

The proposed framework offers important implications for franchise professionals. It suggests that franchisor should look and leverage the knowledge coming from both internal and external sources i.e. franchisees and the customers to the network. For franchise scholars, this study examines the influence of MO and knowledge transferring capability constructs on performance that will expand franchising research to integrate marketing, and knowledge management concepts which are rarely applied in franchising research.

2. THEORETICAL AND LITERATURE REVIEW

This study is grounded from the perspectives that have been discussed namely; dynamic capabilities, resource-based view, knowledge-based view, market orientation, and the knowledge management process (creation and transfer) in the franchise system.

a. Dynamic Capabilities, Resource-based View, and Knowledge-based View

Dynamic capabilities are the source of firm's competitive advantages that requires both the existing internal and external firm-specific capabilities to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments (Teece & Pisano, 1994; Teece et al., 1997; Barreto, 2010). Building on resource-based view (RBV), the firm’s resources include all tangible and intangible assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness that can lead to high profits (Barney, 1991; Peteraf, 1993). In 1996, the knowledge-based view was founded raising the issue: what is knowledge? and the importance as internal capabilities of a firm (Grant, 1996).

b. Market Orientation (MO) and Franchising

Based on the theory of resources and capabilities, Kohli and Jaworski (1990) use the term “market orientation (MO)” to mean the implementation of the marketing concept. More formally, a MO refers to the organization-wide generation of market intelligence from customers, competitors and
trade partners, dissemination of the intelligence across departments and individuals in the organization to create something new or different in response to the market changes, and the organization-wide responsiveness to it (Jaworski & Kohli, 1993). Companies that are better equipped to respond to market requirement and anticipate changing conditions, in other words, business that increases its MO are expected to enjoy long-run competitive advantage, performance, and superior profitability than its rivals (Narver & Slater, 1990; Day, 1994; Atuahene-Gima & Ko, 2001; Hakala, 2011; Grinstein, 2008 Lee et al., 2015). From the earlier definition, I argue that MO is the capability facilitating knowledge creation in the knowledge management process. Therefore, I propose the following:

\[ P1: \text{MO is positively influenced the overall performance of the franchise.} \]

\[ P2: \text{The greater MO, the greater knowledge is created in the franchise system.} \]

c. **Overview of Knowledge**

The terms "information" and "knowledge" are interchangeable. According to Dretske (1981), information is the commodity capable of yielding knowledge and what information a signal carries is what we can learn from it (Nonaka, 1994). Information is a flow of messages (Marchlup, 1983) or a necessary medium or material for initiating and formalizing knowledge (Nonaka, 1994). That is information is commonly viewed as a preliminary stage of knowledge (Paswan & Wittmann, 2009). Traditional epistemology, knowledge is defined as justified true beliefs (Nonaka, 1994) and bodily acquired skills (Nonaka et al., 1998). Paswan and Wittmann (2009) defined knowledge as information produced belief that is anchored by the commitment and beliefs of the individuals and organizations that possess it.

Drawing on the work of Polanyi (1966), knowledge was classified into two categories, according to Nonaka (1994). First, the knowledge that can be expressed in words and numbers which is transmittable and codified in formal, systematic language from one individual or organization to another, the explicit knowledge. Second, tacit knowledge, the subjective insights or experiences, involves a personal quality, which makes it hard to formalize and communicate. Tacit knowledge is based intensely on commitment, action, and involvement in a specific context. It is obtained through individual or organization’s experience and may be extremely difficult to codify and transfer from one individual or organization to another (Nonaka, 1994; Nonaka et al., 1998; Alavi & Leidner, 2001; Paswan & Wittmann, 2009).

d. **Knowledge Creation and Franchising**

Organizational knowledge creation refers to the development of new knowledge or replacing the existing knowledge which is associated with the extent of social individuals that share and develop knowledge (Nonaka, 1994). A spiral model views the knowledge creation in an organization as a continual interaction between tacit and explicit knowledge and a growing spiral flow as knowledge moves through individual, group, and organizational levels (Nonaka, 1994; Nonaka et al., 1998;
In the franchise system, franchisors must provide the knowledge or know-how to franchisees in order to operate the business and successfully manage the use of proprietary knowledge. In return, franchisees provide managerial skills and local market knowledge (Watson et al., 2005). A franchisor, before franchising, starts with owning and managing one or more units and practices repeatedly to understand processes more fully and to develop a more effective prototype and operating procedures. This experience then translates into original, valuable, and proven knowledge. The valuable knowledge, gradually created and improved before franchising the concept and then sold to franchisees (Lafontaine & Shaw, 1998; Paswan & Wittmann, 2009; Paswan et al., 2014; Akremi et al., 2015). Specifically, the franchising context, knowledge emerge from the development of tacit experience accumulation process with explicit knowledge expression and codification activities (Akremi et al., 2015). Moreover, franchisors can gain information and knowledge from the interaction with a variety of internal and external sources, including customers especially franchisee and suppliers then make this knowledge available to others (Lindblom & Tikkanen, 2010).

P3: Knowledge creation has a significant influence on knowledge type (i.e. tacit, explicit).

P4: The greater franchisor interact with various sources, the greater knowledge is developed.

Knowledge Transfer and Franchising
Knowledge transfer is often referred as a complex process that converts individuals’ tacit knowledge into explicit knowledge and further into the common knowledge shared by a group (Alavi & Leidner, 2001; Tsai et al., 2017). The successful franchising involves intense knowledge or know-how that has to be flawlessly transmissible between franchisor and franchisee (Contractor & Kundu, 1998; Brookes, 2014; Brookes & Altinay, 2017). The transfer mechanisms extensively used in franchise network are operation manual, training, conference meetings, outlet visits, telephone, intranet and internet and other electronic transfer mechanisms (Gorovaia & Windsperger, 2010; Minfuela-Rata et al., 2010; Khan, 2016). Hence, I propose the following:

P5: Knowledge transfer (sharing, transmitting, exchanging) has a significant influence on the franchise performance.

P6: Knowledge type is positively related to knowledge transfer mechanisms.

Performance Outcomes
Franchise performance is a multidimensional concept. The relationship between MO, knowledge transfer and performance may depend upon the indicators used to assess performance including: (1) enhancing an organization’s competitive advantages (Teece, 2007, 2014), (2) innovation (Atuahene-Gima & Ko, 2001), and (3) overall performance (Jaworski & Kohli, 1993; Bhuian et al., 2005; Lee, et al., 2001; Minfuela-Rata et al., 2010; Lee et al., 2015).
The preceding discussion has resulted in the development of the study propositions and conceptual framework in Figure 1.

![Conceptual framework](image)

**Figure 1 Conceptual framework**

3. **DISCUSSION**

In this study, the framework is developed through the dynamic capabilities perspective originated from resources-based view. It integrates organizational capabilities; market asset and knowledge transferring into the franchise system. This conceptual framework allows a franchisor to go beyond the common practices in knowledge management by creating the linkages between action and reflection, and trigger the dynamic process of accumulation, creation, exploitation, and dissemination of knowledge (Nonaka et al., 1998). This is the first paper offering MO as the knowledge facilitator. I hope that this study stimulates additional research on these issues and test prepositions offered in this paper.

4. **LIMITATIONS**

This study has some limitations. First, it aims to examine only the relationship of MO, knowledge transfer and performance, not the whole knowledge management process. Second, the antecedents of MO and knowledge transfer that may have an indirect influence on the overall performance are not included in this study. Lastly, it is courageous to argue that MO is the knowledge facilitator and key market-asset in franchising when there is very limited prior studies.

5. **CITATIONS AND REFERENCES**


