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Determinants of a Successful Cross-Border Knowledge Transfer in Franchise Networks

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ABSTRACT

Previous research on service MNCs has mainly focused on the entry mode decisions in foreign markets. The purpose of this study is to examine the determinants of a successful cross-border knowledge transfer in franchise networks in Pakistan. The results of our qualitative inquiry suggest that both explicit and tacit knowledge are transferred in cross-border franchise networks. Specifically, the transfer of tacit knowledge from a franchisor to a franchisee is facilitated through a variety of transfer mechanisms, that is through both hard (e.g., documents) and soft mechanisms (e.g., visits from franchisor agents). The prior experience of the franchisee and the regional and local franchisors' agents,—especially in their role as knowledge transfer intermediaries, facilitates the acquisition and assimilation of knowledge. The franchisor's agent develops a relational infrastructure between the franchisor and their franchisees, thus enhancing trust and knowledge acquisition/assimilation from a franchisor to their franchisees. The ability and commitment of the franchisor to engage in the knowledge transfer helps the franchisee to acquire knowledge related to sales training, marketing development and promotion tools, quality control, and operating manuals.

Key words: Service MNCs, knowledge transfer, franchising, knowledge transfer intermediaries, developing economy

Introduction

In this paper, we investigate the determinants of a successful cross-border knowledge transfer from a franchisor to their franchisee networks, which has been established in developing economies. Service multinational corporations (SMNCs) are becoming important actors in the world economy, and have been large contributors of foreign direct investment (FDI). For example, the data compiled by UNCTAD in 2012 shows that FDI in services was \$570 billion, representing 40 percent of the total FDI during 2011 (UNCTAD, 2012). Developing and emerging economies have attracted the majority of this FDI (UNCTAD, 2012). Despite this impressive growth, the research on SMNCs has not kept pace within the mainstream IB field (e.g., Boddewyn et al., 1986; Dunning, 1989; Erramilli, 1990; Kundu and Lahiri, 2015; Kundu and Merchant, 2008).

Many SMNCs are entering into the international markets through franchise arrangements, and the subject of the knowledge transfer through the franchisor to their international franchisees has become an important empirical question to researchers (Gorovaia and Windsperger, 2013). Recently, it has been shown that emerging economies have become one of the most important destinations for franchising, as the middle class now represent one of the important segments in these markets. In particular, emerging markets

such as China, India, Pakistan and Russia are becoming extremely attractive for franchise firms from the USA (Paswan et al., 2001; Welsh and Alon, 2001). However, little is known currently how the franchisors transfer their valuable knowledge to their less experienced franchisees in these emerging economies. The ongoing growth and success of these international franchising models depend upon a successful knowledge transfer to these international franchisees in order to capture new market opportunities (Gorovaia and Windsperger, 2013; Grace and Weaven, 2011; Winter et al., 2012). The research suggests that even top line franchise oriented brands have lost their market position due to their inability to create and maintain "an environment of effective and easy knowledge sharing" (Paswan and Wittmann, 2009:178). Thus a successful knowledge transfer, from the franchisor to their international franchisees, remains one of the most important strategic challenges in franchising.

So far, limited research has been conducted around the determinants of a successful knowledge transfer in cross-border franchising arrangements (Dant et al., 2011; Gorovaia and Windsperger, 2013; Merchant and Gaur, 2008; Paswan and Wittmann, 2009). Above all, less attention has been paid to both the franchisor-related and franchisee-related factors that affect knowledge transfer in cross-border franchise networks, where the asymmetry of the information between a franchisor and a franchisee is pervasive, especially in developing and emerging economies (Doherty, 2009; Gorovaia and Windsperger, 2013; Paswan and Wittmann, 2009).

The present paper addresses the gaps above, and examines what the key determinants are for a successful knowledge transfer from the franchisor to their emerging economies franchisees? We chose Pakistan as our context to investigate this question, because

franchising is on the rise in Pakistan, and to-date there has been hardly any studies that have investigated knowledge transfer here from the franchisor to the local Pakistani franchisees.

Based on two franchise networks and using a qualitative methodology (i.e., semi-structured interviews conducted with two franchising networks in the Pakistani-fast food and hospitality sector), our study has found that the ability and commitment of the franchisor to engage in the knowledge transfer helps the franchisee to acquire knowledge related to sales trainings, marketing development and promotion tools, quality control, and operating manuals. The prior experience of the franchisee and the regional and local franchisors' agents, in their role as knowledge transfer intermediaries, facilitate the acquisition and assimilation of knowledge from the franchisor to a franchisee in the developing economies, and helps in addressing the issues of standardization and adaptation. The successful transfer of knowledge from a franchisor to a franchisee is facilitated through the use of a variety of transfer mechanisms, which are through both hard and soft mechanisms such as video conferencing, emails, phone calls, seminars, meetings, documents, quality control committees, and franchisor agents' visits.

Conceptual Background

Knowledge Transfer in Cross-border Franchise Networks

The concept of knowledge transfer is difficult to capture. Scholars have equated knowledge transfer with knowledge creation and the application of knowledge (Spender, 1996). For the purpose of this study, we have used the definition of knowledge transfer put forward by Argote and Ingram (2000), which incorporates both the sender of the knowledge and the recipients of knowledge related outcomes. According to Argote and Ingram

(2000:151) “knowledge transfer in organizations is the process through which one unit (e.g., group, department, or division) is affected by the experience of another.”

Similarly Grant (1996), documents the attributes of the senders of knowledge and the recipients of knowledge, the characteristics of the knowledge, and the knowledge transfer process itself, as the main elements of developing capabilities that lead to long-term competitive advantage for organizations. This is somewhat similar to the argument put forward by Argote et al. (2003), who identifies the properties of knowledge, properties of units, and the relationship between units as the central elements for a successful knowledge transfer. Easterby-Smith et al. (2008) have also suggested that inter-organizational technological knowledge transfer entails at least two organizations, and therefore there is a need is to understand the inter-organizational dynamics between the parties involved in the transfer.

In a similar vein, Szulanski (1996), describes knowledge transfer as a process consisting of sender, channel, message, recipient and context. Szulanski (1996) also argues that knowledge transfer is difficult, and it may face many barriers to its transfer even within the same organisational units. The recipients of knowledge need the motivation to learn that knowledge, and the sender of the knowledge must have something worthwhile to offer. In this paper, we specifically investigate both the franchisor and the franchisee related determinants of a successful knowledge transfer.

Knowledge is considered to be an important resource for franchisors, as franchisors develop competitive advantage on the basis of a unique business concept (Gorovaia and Windsperger, 2013; Lindblom and Tikkanen, 2010; Paswan and Wittmann, 2009; Wu, 2015). For example, Paswan and Wittmann (2009) have noted that a franchisee’s success depends on their ability

to leverage the knowledge of their franchisors. Scholars have also identified the franchisor's capacity and willingness to transfer knowledge, and the franchisees' ability to utilize this knowledge for creating competitive advantage in these networks (Gorovaia and Windsperger, 2010; Grace and Weaven, 2011; Griessmair et al., 2014; Minguela-Rata et al., 2010; Winter et al., 2012). Researchers have focused on the different aspects of knowledge transfer in the context of franchising agreements (Jensen and Szulanski, 2004). For instance, Darr et al. (1995) have studied the acquisition and depreciation of knowledge transfer in the pizza franchising chains of the US, and have found that knowledge was easily transferred within the same store networks compared to non-network stores. Similarly, Argote and Darr (2000) have identified that the knowledge embedded in technology and structure was also easy to transfer in the franchise networks. Scholars, specifically investigating knowledge transfer in an international context, have focused on the choice of knowledge transfer mechanisms (Gorovaia and Windsperger, 2010; Windsperger and Gorovaia, 2011). This literature provides important insights about different factors that are important for understanding franchisor-franchisees relationships and performance. However, our understanding about the determinants of successful cross-border knowledge transfer to franchisees, based in the emerging economies, is still limited (Brookes, 2014; Gorovaia and Windsperger, 2010; Paswan and Wittmann, 2009; Weaven et al., 2014). In the cross border knowledge transfer, we do not know how the franchiser and franchisee related factors influence knowledge transfer, and moreover, the role of the knowledge transfer intermediaries is not well understood in this context. The intermediaries could play an important role for the transfer and assimilation of knowledge in the emerging economies.

Knowledge Characteristics and Knowledge Transfer in Cross-border Franchise Networks

The most widely cited distinction in the literature on knowledge transfer is between the two types of knowledge: explicit and tacit (e.g., Inkpen and Dinur, 1998; Polyani, 1966). *Explicit knowledge* can be put into documents, files, and then be codified, articulated and captured in the forms of text, diagrams and tables (Nonaka, 1994). This type of knowledge may be transmitted in a formal, systematic language, and it may include facts and symbols (Kogut and Zander, 1992). This type of knowledge can be codified, and relatively easily transferred to other organizations. The organizations may use more formal/hard transfer mechanisms, i.e., documents exchange and video conferencing to transfer this type of knowledge (Gorovaia and Windsperger, 2013; Windsperger and Gorovaia, 2011).

In contrast, *tacit knowledge* is difficult to capture in the form of text and it cannot be articulated. Reed and DeFillippi (1990:89) define tacitness as the implicit and non-codifiable accumulation of skills that result from learning by doing. As Polyani (1966:4), who coined this term puts it “we know more than we can tell”. Three decades later, Grant (1996:114) admits that 'research into organisational learning and management of technology ... has made only limited progress in addressing the fact that, if most of the knowledge relevant to production is tacit, then the transfer of knowledge between organisational members is exceptionally difficult.' In order to transfer this type of knowledge, organizations have to use informal/personalized high information richness transfer mechanisms, i.e. project committees, meetings, training and staff transfer (Chen et al., 2014; Gorovaia and Windsperger, 2013; Windsperger and Gorovaia, 2011; Wu, 2015).

Tacit knowledge mainly resides inside the mind of the individual, and it is difficult to articulate and transfer. Therefore, the organisation cannot leverage this form of knowledge since it is not explicit. It can only be captured through close interactions between people, i.e. franchisor and franchisee working together and developing close interactions or through

knowledge intermediaries. For instance, Bresman et al. (1999) also found that tacit knowledge is best transferred through intensive communications between the partners; however, the articulable knowledge transfer requires a minimum of personal interaction.

Tacit knowledge remains slippery and elusive, limiting the degree to which it might be articulated and shared. For example, the study by Szulanski (1996) found that most of the difficulties that have been found in transferring largely tacit knowledge are a result of the recipient's lack of experience to make effective use of new ideas, and due to the arduous relationships (according to him that is laborious and distant) between the source and the recipient. In a cross-border franchising context, the franchisors need to transfer both explicit knowledge, such as product and pricing information and also tacit knowledge, for example about new products and process development, to enable their franchisees to operate their units successfully (Gorovaia and Windsperger, 2013; Griessmair et al., 2014; Lindblom and Tikkanen, 2010; Watson et al., 2005). These knowledge characteristics then affect the process and success of the knowledge transfer in the cross-borders franchise networks. Explicit knowledge can be transferred through documents, emails and manuals by relying on the use of low information richness mechanisms (Gorovaia and Windsperger, 2010; Paswan and Wittmann, 2009; Windsperger and Gorovaia, 2011), however, tacit knowledge can also be transferred through social interactions by means of conferences and franchise field visits, and through the use of high information richness mechanisms (Gorovaia and Windsperger, 2010, 2013; Windsperger and Gorovaia, 2011; Wu, 2015). When transferring a franchisor's knowledge, the individuals acting as knowledge intermediaries can play an important role in facilitating the successful transfer of knowledge to the franchisees. However, in the franchising knowledge transfer literature, we know very little about the role of the intermediaries in a successful knowledge transfer to the international franchisees based in the

emerging economies (Brookes, 2014; Gorovaia and Windsperger, 2010; Paswan and Wittmann, 2009). Below we, therefore, discuss the role of the knowledge intermediary in the cross-border knowledge transfer process.

The Role of Knowledge Transfer Intermediaries in a Cross-border Knowledge Transfer

The knowledge based view of a firm suggests that individuals play an important role in the transfer of knowledge, however, our understanding about these knowledge transfer intermediaries is limited, and especially in the international knowledge transfer context (Argote et al., 2003; Patriotta et al., 2013). These knowledge transfer intermediaries can play an important role in connecting the organization with external actors, and by facilitating knowledge transfer from experts to newcomers (Guechtouli et al., 2013). The knowledge transfer intermediaries are defined in this paper as individuals who collect external information and transfer it to the recipient firms (Alexander and Martin, 2013; Allen, 1977; Katz and Tushman, 1983; Patriotta et al., 2013; Rinkinen and Mäkimattila, 2015; Tushman and Katz, 1980). We argue that these knowledge intermediaries could play an important role in the context of the developed and developing economies knowledge transfer projects taking place under franchise arrangements, due to the knowledge asymmetry between the developed/developing countries exchange partners (Chen et al., 2013; Patriotta et al., 2013). Moreover, existing studies in the franchisor/franchisee context have ignored the role of intermediaries in the transfer of knowledge to an emerging economies franchisee. The knowledge intermediaries could also help with the learning capabilities of the developing economies franchisees (Parker and Hine, 2014).

Scholars who subscribe to a social network theory have indicated that the knowledge intermediary have facilitated an exchange of information between those organizations that are

lacking access to one another (Allen and Cohen, 1969; Marsden, 1982). The intermediary's role becomes even more important around the issues of standardization and the adaptation of international marketing programs in the cross-border franchising arrangements. So far there has been hardly any research that has investigated the role of the knowledge transfer intermediary in the context of the cross-border knowledge transfer under franchising arrangements (Gorovaia and Windsperger, 2013). Scholars have suggested that the knowledge intermediary should play two key roles, which are knowledge search and knowledge transfer, and that they should have a strong network connectivity with the external sources (Allen, 1977; Allen and Cohen, 1969; Gittelman and Kogut, 2003; Tushman and Katz, 1980). In this paper, we explicitly investigate the role of the knowledge intermediaries, and thus address the call for more research in understanding the role of actors in orchestrating innovation networks (Dhanaraj and Parkhe, 2006).

METHODOLOGY

Research Context and Data Collection Process

For this study we chose the franchising networks from the food and hospitality industry of Pakistan. This provides a unique context as the industry has recently seen a number of franchising agreements between the local and international franchisors. Pakistan had started its deregulations and liberalization based economic agenda during the 1990s, and several sectors including services were liberalized. During this period, FDI increased sharply, and due to this many well known service brands entered the market. Although some of the well known market leaders included Coca Cola, McDonald's, Subway, Next, and Marriott, the fastest growing sector in Pakistan appears to be banking, IT services, and fast food franchising due to the emerging middle class. The International Franchising Association

(IFA) highlights that significant franchising growth will come from emerging markets in China, India, Pakistan and Russia (Welsh and Alon, 2001).

We selected McDonalds and Subway in Pakistan as the two most highly visible franchising networks-. These two networks have on average 5-10 stores across Pakistan; therefore, it is important to study the knowledge transfer taking place from the parent franchisor to these local-Pakistani owned and managed franchise networks. To the best of our knowledge there has not yet been any research conducted on exploring the issues of knowledge transfer in cross-borders franchising networks in the context of Pakistan. In addition, Pakistan is the 27th largest economy of the world in terms of purchasing power, with a population of 187m people (Dawn News, 2013). Therefore, Pakistan represents an appropriate case study for exploring cross-border knowledge transfer in franchisee arrangements.

Semi-structured interviews were used as the primary sources of data collection to investigate the knowledge transfer from the parent franchisor to the locally-owned franchisee. The owners and managers' operations, and the parent firms' international agent based in Pakistan were interviewed. In total, we conducted 18 interviews. Seven interviews were conducted with the owner and manager operations of the McDonalds's franchisee, and four with their local franchisor's agent based in Pakistan. Five interviews were conducted with the Subway franchisee, and two with their local agent based in Pakistan. The background information of the two franchisee network is listed in table 1.

[Insert table 1 about here]

We covered a range of questions in these interviews, including the types of knowledge being transferred, how the franchisor transferred different type of knowledge to

the local franchisees, the key factors that contribute for the successful transfer of knowledge from a franchisor to the local franchisees, the use of different transfer mechanisms, the franchisees' previous industrial background and experience, the franchisor's willingness and motivation to transfer knowledge, the parent franchisor's role in knowledge transfer and helping the franchisee to successfully operating their units, the type of training the franchisor provides to the local franchisee, how the franchisees utilize the transferred knowledge, and finally the future business plans of the franchisees; these were all covered in these interviews. Interviews were conducted in both English and Urdu, which is the national language of Pakistan, with the help of an interview guide (e.g., Miles and Huberman, 1994). The interviews which were conducted in Urdu were subsequently transcribed and translated into English. In order to overcome bias, we also collected data related to these two networks through secondary sources, including their websites, research papers and Pakistani and English newspapers articles. Where possible we tried to triangulate both the primary and secondary sources of data to enhance the validity and reliability of the present study.

Data Analysis

The analysis adopted the standard case by case procedures for a qualitative data analysis. Data was analyzed by following the suggestions of Miles and Huberman (1994) and Eisenhardt (1989). We followed the established norms for a qualitative data analysis, such as data display, data reduction and verification. The individual interviews were first transcribed and coded into various themes and categories. During the analysis certain questions were continuously posed when coding the interview transcripts, for example, the types of knowledge transferred, the franchisor's role in the knowledge transfer, the local franchisees role, and transfer mechanisms, etc.

During this entire process, the coding scheme was kept as flexible as possible. The cross-case analysis was then applied to compare the main categories. During the cross-case analysis, we also utilized pattern-matching and explanation building thematic techniques (Yin, 2009). The cross-case analysis resulted in establishing five main categories, namely: the types of knowledge transferred, the transfer mechanisms, the ability and commitment of the franchisor, and the prior experience of the franchisee and franchisor's local and regional agent role in the acquisition and assimilation of knowledge.

Throughout the analysis stage, we adopted the concepts of credibility, dependability, transferability, and confirmability of the qualitative research (Denzin and Lincoln, 1994). For credibility, we used the existing literature on franchising and knowledge transfer to structure the research. The selection of the two most highly visible franchising networks, and by interviewing the most knowledgeable individuals helped to ensure the external credibility of our findings, and moreover, during the data collection stage we relied both on primary and secondary sources of data in order to establish a clear chain of evidence (Yin, 2009). We used a semi-structure interview guide for enhancing the dependability of the research. Lastly, we employed an independent knowledgeable coder to ensure consistency of the coding schemes, and this also enhanced the confirmability of the research. We also shared a one page summary of the interviews with the interviewees to get their feedback, and asked them to comment whether the summary represented a true reflection of their views. This also enhanced the validity and reliability of this study.

FINDINGS

The Ability and Commitments of the Franchisor to Engage in Knowledge Transfer

The ability and commitment of the franchisor to engage in the knowledge transfer was found to be an important factor which facilitates a cross-border knowledge transfer. Both franchisees have highlighted the importance of their franchisor's ability and commitment in the transfer of knowledge to their cross-border franchisees. One of the franchisees explained:

Knowledge can't simply be moved across borders by putting into documents, the knowledge transferor's ability and commitments are important conditions for the successful transfer to take place, especially in socially distance markets. Our franchisor has been very keen in the transfer of franchise-related knowledge whether it is in the areas of sales training, product promotion and food wastage control (Local McDonalds Franchisee).

These views were also supported by the Subway franchisee in Pakistan by acknowledging the ability and commitment of the franchisor as one of the key factors for the successful transfer of franchisor-related knowledge.

Franchisor's commitment to support and facilitate their franchisees is important factor for the transfer of franchisor knowledge to franchisees. Without their [Franchisor] commitment a franchisee cannot be successful. From store layout to product promotion and point of sale systems, the commitment of the franchisor is an important element for the transfer of knowledge. A reluctant franchisor who is only interested in receiving royalty fees is of no use to a franchisee (Local Subway Franchisee).

These findings highlight the importance of a franchisor's ability and commitment for the effective knowledge transfer in cross-border knowledge transfer projects. A lack of ability and commitment on the part of the franchisor may hinders the knowledge transfer, and the success of the cross-border franchise networks (Gorovaia and Windsperger, 2013).

Prior Experience of the Franchisee in the Acquisition and Assimilation of Knowledge

The findings suggest that prior experience of the franchisees is important for the acquisition and assimilation of knowledge. Both the McDonald and Subway franchisees have highlighted the important role that a franchisee's prior experience has in running a franchise-related or service oriented business in the acquisition and assimilation of knowledge from their franchisors. In the case of the McDonalds franchise network in Pakistan, the manager operations indicated that the local McDonald's franchisee is a well established conglomerate in Pakistan, and that they have a wealth of experience in running various manufacturing and service businesses in Pakistan. This experience is proving to be useful to successfully acquire and assimilate the knowledge. This quote illustrates the important role of the franchisee's prior experience in the acquisition and assimilation of knowledge from their franchisor:

We are a big conglomerate in Pakistan and we have various business concerns in the country. Our management knows how to run both manufacturing and service businesses and this experience has been helpful for us to manage the McDonalds franchise in a successful manner. By using our previous experience we spot the knowledge that we need from our franchisor to run our [franchise] successfully and integrate this knowledge in our operation. We know when to acquire standard knowledge about food temperature and store layout and when to acquire customizable knowledge that is relevant to our local conditions (Local McDonalds franchisee network).

Our interview with the local McDonalds franchisor's agent also mentioned the important role of having prior experience in running a franchise business or multi-type of business for the successful acquisition and assimilation of knowledge from a franchisor to its franchisee.

Our franchisee in Pakistan is an experienced franchisee and the management of this [local franchisee] knows how to acquire knowledge from us [franchisor] and they are good in utilizing this knowledge in their business (Local franchisor McDonalds agent).

These views were also supported by the Subway franchisor agents and according to the subway franchisor's agent, the international franchisees' prior experience is important when it comes to transferring know-how about food safety and security. The agent indicated:

It is not only the franchisor whose experience is important in dealing with overseas franchisees, but the franchisees prior experience is also useful in dealing with their outlet operations. It becomes difficult to educate and transfer knowledge about food safety and quality related knowledge to a franchisee who has very limited understanding about the food industry (Subway local agent).

These findings indicate that in cross-border franchise networks certain tradeoffs exist between standard knowledge and locally customized knowledge, as the taste and food consumption patterns are different across countries. In order to overcome these issues, the experience of the international franchise is important. One of the managers suggested:

Franchisor faces the dilemma of transferring standard knowledge vs. locally customized knowledge and at the end of the day the international transfer of knowledge becomes complicated between the franchisor and a franchisee. We have to customize the knowledge according to our requirements and the prior experience of both the sender [franchisor] and recipient [franchise] becomes very important to overcome this dilemma (Local McDonalds franchisee network)

These findings highlight the importance of the international franchise's prior experience in adapting the knowledge to the local market requirements. The master franchisor possesses a highly standardized knowledge that needs to be adapted to the local market conditions, and the international franchise has to utilize this knowledge and make necessary adjustments to fit in with the local market's needs.

The Role of the Franchisor's Regional and Local Agents as a Knowledge Transfer Intermediary in the Acquisition and Assimilation of Knowledge

Our findings point towards the important role of the franchisor's regional and local (host) country agents in the cross-border transfer of knowledge to their franchisees. By identifying the important role of the franchisor's agent as a knowledge transfer intermediary to the host country franchisees, our data suggest that the franchisor's local and regional agents locate and transfer knowledge from the franchisors to the local franchisees, helping them in the adaptation of the menu to the local context. The findings also indicate that the agent, acting as knowledge transfer intermediary, creates a bridging social capital between the franchisor and its international franchisees.

The results suggest that the regional and local agents of the franchisor create trust and develop a good will relational infrastructure between the franchisor and their franchisees, and this overcomes the issues of mistrust and opportunism on the part of the franchisors and their franchisees. The data suggest that the franchisors' agent acts as knowledge transfer intermediaries between the franchisors and their local (host) country's franchisees, and also help in the local adaptation of knowledge. One of the interviewees mentioned:

Our regional and local agents help us in resolving issues related to the store operations. The regional and local franchisor agent role is important for making the franchisee successful not only in boosting sales, but also these agents help us in acquiring the knowledge from our parent franchisor and adapting that knowledge to local context, as the issues of standardization and adaption are the main concerns in our type of businesses. The agents also promote trust and goodwill between the franchisor and this helps in acquiring useful knowledge (Franchisee network 1- McDonalds).

These views were highlighted by the Subway's franchisee in the following way:

We stay in touch with the franchisor's agent based in Pakistan and from time to time we acquire useful knowledge through our agent. The local agent visits our outlets every month and share best practices of the fast food industry including new offerings and marketing knowledge and how we can better customize our offerings. The local agent also promotes trust and builds confidence with our franchisor. The agent role becomes important for building a relational infrastructure between the franchisor and their international franchisees (Franchisee network 2- Subway).

These quotes point to the important role of the knowledge transfer intermediaries (i.e., local and regional franchisors' agents) in facilitating the acquisition and assimilation of knowledge amongst franchisees locating in the developing economies. The agents by acting as a knowledge transfer intermediary also help the local franchisees in adapting the knowledge to their local context. The franchisor agents coordinate and align the franchisees' business objectives with their franchisors, and through an intermediaries' role the franchisor's agent also develops close interactions between the franchisor and their franchisees. The franchisor's agent helps in the understanding of the franchisees knowledge-related needs, and communicate these needs to the franchisor, thus facilitating the transfer of knowledge to the franchisees.

Type of Knowledge transferred

The findings indicate that the franchisees have received explicit and tacit knowledge from their franchisors. The data suggest that both of these franchisors, McDonalds and Subway, have transferred knowledge related to sales trainings, marketing development and promotion tools, quality control, and operating manuals to their franchisees in Pakistan. Our interviewees indicated:

We have received knowledge about operating manuals, sales trainings and product promotion and marketing (Local Subway Franchisee).

McDonalds has a well-established brand name around the world and it is an experienced franchisor. Our franchisor helps us in our store layout, product promotion, sales, quality and inventory control-related knowledge (Local McDonalds Franchisee).

Our interviews with the local franchisor agents also indicated that the parent franchisor have been transferring both explicit and tacit knowledge. However, the findings suggest that the franchisors face difficulty in transferring their quality controls and marketing

related knowledge and tacit knowledge to their franchisee in Pakistan. This issue was observed in a less experienced franchisee network.

Local understanding about these issues [quality control and intensity of marketing] is not well developed, we also believe that the previous experience of the franchisor and their franchisee is important to get around with the transfer of tacit knowledge to the franchisee (Subway Franchisor local agent).

The above quote seems to suggest that the prior experience of both the franchisor and their franchisee is an important factor that could facilitate the transfer of tacit knowledge in cross-border franchise networks. The findings also indicate that there is a lack of institutional support for training local staff about quality issues, and there is limited awareness about the technicalities involved in understanding quality control. These were the main reasons for the difficulty in transferring the quality controls related knowledge to the local franchisee networks. These results indicate the importance of understanding the country level contextual factors for the effective cross-border transfer of knowledge.

Knowledge Transfer Mechanisms

The results indicate that the franchisors have been relying on a variety of knowledge transfer mechanisms with both hard and soft mechanisms to transfer knowledge to their franchisees. The findings suggest that the franchisors will use their local franchisor's agents, and their personalized transfer mechanisms such as informal quality control committees, emails, video conferencing and seminars in order to transfer tacit knowledge, whereas meetings, trainings and documents are utilized to transfer explicit knowledge. Extant research also indicates that tacit knowledge is difficult to transfer and is sticky (Dyer and Hatch, 2006). The use of the combinations of personalized informal mechanisms and formal

mechanisms were important to transfer knowledge to franchisees. One of the interviewees explained:

We receive documents related to the overall operations of a franchise business, but we also have seminars and monthly and annual meetings with our franchisor and the purpose of these meetings is to overcome the problems associated with the operations and how we can better adopt the menu to the local culture and tastes (Local McDonalds Franchise Network)

The results indicate that the franchisor specially linked the transfer mechanisms with the type of knowledge in order to effectively transfer their knowledge to their cross-border franchisees. For example, more informal and personalized mechanisms are used to transfer tacit knowledge, whereas formal mechanisms in the form of training and documents are used to transfer explicit knowledge to the franchise organizations. These findings highlight the importance of linking the right mechanism with the type of knowledge being transferred (Gorovaia and Windsperger, 2010, 2013). The use of appropriate mechanisms hold greater importance in the context of developed/developing franchisor/franchised dyad, and knowledge transfer is challenging in the context of emerging economies due to knowledge asymmetries. Scholars have pointed out the need to understand the mechanisms used in the cross-border knowledge transfer in franchising (Gorovaia and Windsperger, 2010; Martinkenaite, 2011; Paswan and Wittmann, 2009). Table 2 highlights the key factors for the successful cross-border knowledge transfer in franchise Networks.

[Insert table 2 about here]

DISCUSSION AND CONCLUSIONS

In this paper, we investigated the determinants of a successful cross-border knowledge transfer in franchisee networks operating in the developing economies. So far limited research has taken place in the context of international franchising arrangements, and especially, on the determinants of successful cross-border knowledge transfer in franchise networks operating in the emerging economies (Gorovaia and Windsperger, 2013; Paswan and Wittmann, 2009). Research has indicated that transferring knowledge within the organization is not that trivial compared to transferring knowledge between different organizations (Easterby-Smith et al., 2008; Windsperger and Gorovaia, 2011).

The findings indicate that both franchisor and franchisee related factors, i.e. the ability and commitment of the franchisors and prior experience of their franchisees are important factors that facilitate the transfer of knowledge in cross-border franchisee arrangements. The prior experience of the franchisees was found to be important for the successful adaptation of a franchisor's knowledge to the local market conditions. This finding is important in the context of emerging economies as there exists a greater knowledge asymmetry between the franchisor and their franchisees, so the prior experience of the franchisee becomes an important determinant for the successful acquisition and assimilations of knowledge.

Our results suggest that the franchisors' local and regional agents act as intermediaries, which facilitate the acquisition and assimilation of knowledge from a franchisor to a franchisee operating in developing economies. These results seem to support a boundary spanning theory (Allen, 1977; Allen and Cohen, 1969; Katz and Tushman, 1983), that intermediaries play an important role in connecting the organization with its environment and in the process of innovation. The intermediary role of the franchisor's agent is important in the context of the developed-developing economies knowledge transfer dyad where greater knowledge asymmetries prevail.

Our results indicate that both explicit and tacit knowledge are transferred in cross-border franchisee networks. However, tacit knowledge was found to be difficult to transfer and especially in less-experienced franchisee networks. This finding support the views of scholars in the field of organizational learning that experience is an important factor for knowledge transfer and learning (Szulanski, 1996).

The prior franchising related or diverse experience in managing both manufacturing and services businesses was important for the franchisees to acquire and assimilate knowledge. The findings suggest that the franchisor utilized both formal and informal personalized transfer mechanisms to overcome a knowledge transfer barrier to their emerging economies franchisees. The use of appropriate mechanisms is important to facilitate knowledge transfer to the emerging economies franchisees, as there exists a knowledge asymmetry between the franchisor and the franchisees. The results highlight that the franchisor aligns the knowledge transfer mechanisms with the type of knowledge being transferred to their international franchisees, for example the franchisor utilizes emails, documents and manuals to transfer explicit knowledge whereas more informal and personalized mechanisms (e.g., franchisor's agent visit, franchisees' conferences) are used to transfer tacit knowledge. These findings are consistent with previous studies documenting that the franchisor will usually rely on low-information richness mechanisms to transfer explicit knowledge, and will use high-information richness mechanisms to transfer tacit knowledge to their franchisees (Gorovaia and Windsperger, 2010, 2013; Windsperger and Gorovaia, 2011). Based on these findings, we developed a cross-border knowledge transfer framework in figure 1. The framework highlights the key determinants in the successful cross-border knowledge transfer in franchising.

[Insert figure 1 about here]

Contributions

This study contributes to the field of knowledge transfer in general and cross-border franchise networks operating in the developing economies in particular (e.g., Kundu and Merchant, 2008; Paswan and Wittmann, 2009; Paswan et al., 2004; Quinn and Doherty, 2000). The study shows that prior experience of the franchisee and the role of the franchisor's local agent, acting as knowledge transfer intermediary, are important factors for the acquisition and assimilation of knowledge. The importance of a franchisee's prior experience for the successful acquisitions and assimilation of knowledge are important findings as previous research has not paid sufficient attention on the role of a franchisee's prior experience in the acquisition and assimilation of a franchisor's knowledge (e.g., Gorovaia and Windsperger, 2013; Paswan and Wittmann, 2009; Paswan et al., 2004).

Our study also suggests that knowledge intermediaries play an important role in the cross-border knowledge transfer process, and in helping to address issues around standardization and adaptations of international marketing programs. These knowledge intermediaries enhance the acquisition and assimilation of knowledge to the recipient firms. The moderating role of the franchisor's local and regional agent as knowledge transfer intermediaries is important, and a unique contribution to the cross-border knowledge transfer networks (Dhanaraj and Parkhe, 2006), and also provides additional insight to the knowledge based view of the firm. The franchisor's agent develops a relational infrastructure between the franchisor and their international franchisees, thus enhancing trust between the franchisor and their developing countries franchisees.

Our findings indicate the importance of franchisors agents acting as knowledge transfer intermediaries for the successful knowledge transfer to local franchisees (Allen and Cohen, 1969; Katz and Tushman, 1983; Patriotta et al., 2013), in the context of the developing economies. We also contribute empirically by conducting the first study on the

determinants of successful cross-border knowledge transfer in franchise networks operating in Pakistan.

Limitations and Future Research

Despite the contributions of this study, and being the first empirical investigation of the determinants of cross-border knowledge transfer in franchisees networks in Pakistan, we also acknowledge some of the limitations of this study. One of the major limitations is that the research is focused only on two franchise cases, and on a unidirectional knowledge transfer from the franchisor to their two Pakistani franchisee networks. Future studies need to extend these findings to other service industries, for example, legal and insurance, or to conduct cross-comparative studies on cross-border knowledge transfer in services that would also provide more useful insights for corroboration. Future research based on a large scale survey employing quantitative research design, and using different industry and country settings could be conducted to test the relationships identified in this paper. Lastly, these findings may resonate with other regions as well, and it would be interesting to conduct similar research for other countries and regions, such as Asia, Africa and Latin America, as the service sector role is becoming increasingly important for these regions as well, for example knowledge transfer in franchising networks in China, India, Brazil, Ghana, or Nigeria should be studied.

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TABLE 1: SAMPLE INFORMATION

Franchisees	Year of establishment	No. of employees	No. of network stores
McDonalds Pakistan	1998	1350	27
Subway Pakistan	1999	975	7

**TABLE 2: KEY FACTORS FOR THE CROSS-BORDER KNOWLEDGE TRANSFER
IN FRANCHISING ARRANGEMENTS**

Important factors	Illustrative quotes
Franchisor ability and commitment to transfer knowledge	<p><i>Franchisor ability and commitment beyond royalty fees are important ingredients for a franchisee to acquire knowledge related not only to the stores layout, but also staff trainings, products promotion and market the brand in the host market- Franchisee network 1- McDonalds</i></p> <p><i>If a franchisor is happy and willing to share knowledge this would help the franchisee to get the required franchisee-related knowledge from the franchisor. After all knowledge transfer commitment and ability from the part of a franchisor determined the successful knowledge transfer to a franchisee- Franchisee network 2- Subway</i></p>
Prior experience of the franchisee	<p><i>In order to acquire and utilize knowledge the prior experience of managing or working for a similar business is helpful for a franchisee to acquire key knowledge whether that knowledge is in the area of operations of the store or cost and inventory control- Franchisee network 1- McDonalds</i></p> <p><i>Sometimes, it is difficult for us to judge what kind of knowledge we need for our business operations, as this is the first time we are managing this business. We do feel that on some occasions we have missed the opportunity to acquire key knowledge from our franchisor. This experience is also handy for the successful integration of the acquired knowledge- Franchisee network 2- Subway</i></p> <p><i>Prior experience of the franchisee is important for successfully managing the stores and we have observed that our local [Pakistani] franchisee is an experienced franchisee and has been managing various businesses including services, so our franchisee is quick to spot knowledge and adopt that knowledge from us [parent franchisor] according to the market conditions in Pakistan- Local Agent of McDonalds Franchisor</i></p> <p><i>Our franchisee is quite new in managing a service business as both hard and soft issues services are important, these could range from quality control, right product mix and promotion and friendly customers service. After all we are selling a concept and sometime we do find it hard to transfer quality and marketing related knowledge to our franchisee in this market [Pakistan]. Franchisee experience of managing a similar business comes handy as it becomes easy for a franchisee to see what kind of knowledge he requires and how to internalize that knowledge. For example, keeping to baguettes in a right temperature before backing it will enhance the overall quality of the sandwich, so the previous experience of not only the franchisor but also the franchisee is important for the successful cross-borders knowledge sharing. Local Subway franchisor's Agent</i></p>
Franchisor-franchisee communications	<p><i>Day to day sharing of customers' issues and product promotions tools and open communications are important for successfully managing problems in a franchise business. We communicate with our parent franchisor's local and regional agents on daily basis through emails, phone calls and video conferencing. Franchisee network 1- McDonalds</i></p> <p><i>Service dominant logic can only materialize when both the franchisee and franchisor share their knowledge and have open communications channels in place where a franchisee is willing to share her problems and get an honest feedback from their parent franchisor. We communicate with our franchisee on daily basis to get an idea how the franchisee is</i></p>

	<p><i>performing and whether our franchisee has any customers or product lines related stories to share with us. Franchisor’s Local Agent</i></p> <p><i>Franchisor-franchisee day to day communications are important to sort out quality related and production promotion issues. We have good systems in place where we do provide and discuss our sales figures and annual sales targets with our franchisor. Through this exercise, our franchisor guide us how to improve our sales and products quality. Franchisee network 2- Subway</i></p>
<p>Role of the Franchisor’s regional and local agents as knowledge transfer intermediaries</p>	<p><i>Our regional and local agents help us in resolving issues related to the store operations. The regional and local franchisor agent role is important for making the franchisee successful not only in boosting sales, but also these agents help us in acquiring the knowledge from our parent franchisor and adapting that knowledge to local context, as the issues of standardization and adaption are the main concerns in our type of businesses. The agents also promote trust and goodwill between the franchisor and this helps in acquiring useful knowledge- Franchisee network 1- McDonalds</i></p> <p><i>We stay in touch with the franchisor’s agent based in Pakistan and from time to time we acquire useful knowledge through our agent. The local agent visits our outlets every month and share best practices of fast food industry including new offerings and marketing knowledge and how we can better customize our offerings. Local agent also promotes trust and build confidence with our franchisor. The agent role becomes important for building relational infrastructure between the franchisor and their international franchisees. - Franchisee network2- Subway.</i></p>

FIGURE 1

**A FRAMEWORK OF CROSS-BORDER KNOWLEDGE TRANSFER IN
FRANCHISEE NETWORKS**

