

The Role of Prior Knowledge in International Franchise Partner Recruitment

Levent Altinay, BSc, MSc and PhD
Senior Lecturer
Department of Hospitality, Leisure and Tourism Management
The Business School
Oxford Brookes University
Gipsy Lane Campus, Headington
Oxford, OX3 0BP
United Kingdom
Tel: + 44 (0) 1865 483832
Fax: + 44 (0) 1865 483878
E-mail: laltinay@brookes.ac.uk

&

Catherine L Wang, BA, MSc and PhD
Senior Lecturer
Department of Management and Strategy
The Business School
Oxford Brookes University
Wheatley Campus,
Oxford, OX33 1HX
United Kingdom
Tel: +44 (0) 1865 485661
Email: c.wang@brookes.ac.uk

Reference to this paper should be made as follows:

Altinay, L. and Wang, C. L. (2006). The role of prior knowledge in international franchise partner recruitment. *International Journal of Service Industry Management*, 17(5):430-443.

Biographic note:

Dr Levent Altinay is a Senior Lecturer in Hospitality and Tourism Management at the Oxford Brookes University Business School. His research interests include internationalisation, international franchising, intrapreneurship and ethnic minority entrepreneurship.

Dr Catherine L. Wang is Senior Lecturer in International Strategic Management at the Oxford Brookes University Business School. Her research interests include knowledge management, organisational learning, strategic management, the resource-based view of the firm and dynamic capabilities.

The Role of Prior Knowledge in International Franchise Partner Recruitment

Abstract

Purpose

To investigate the role of prior knowledge in the international franchise partner recruitment process and to evaluate how cultural distance influences the role of prior knowledge in this process.

Design/Methodology/Approach

A single embedded case study of an international hotel firm was the focus of the enquiry. Interviews, observations and document analysis were used as the data collection techniques.

Findings

Findings reveal that prior knowledge of the franchisor enables the franchisor to coordinate more efficiently with prospective partners. However, the case study firm experienced a great deal of cultural distance in different country markets. The greater the cultural distance, the more challenges the firm has to face in terms of upgrading and adapting its prior knowledge to local needs.

Research limitations/implications

The findings are based on a hotel franchise chain, and may not be generalisable to other firms or industry sectors, although the literature on international management does not indicate any substantial differences between hotel firms and other types of organisations. Despite this limitation, the findings shed light on the importance of critically evaluating a firm's prior knowledge in a complex, multinational context.

Practical Implications

This paper illuminates the challenges international franchisors face, and highlights the need to adapt their prior knowledge base to the local needs. The findings also reinforce the message that selecting prospective franchisees that are familiar to the franchise business format and willing to adopt the franchise system is crucial to the long-term success of the franchise system.

Originality/Value

This paper cross-fertilises literature of organisational learning and franchising and evaluates the interplay of prior knowledge, cultural distance and international franchise recruitment. The findings provide further evidence on the mixed influences of prior knowledge on international franchise partner recruitment, and caution firms to critically evaluate their prior knowledge in international expansion. The findings also contribute to the understanding of franchise partner selection and recruitment, and bring in new addition to the body of existing franchising literature which largely examines the operations of the franchise system.

Keywords: franchising, prior knowledge, cultural distance

Paper Type: Research Paper

Introduction

The highly competitive and volatile nature of today's global environment motivates organisations to seek collaboration with other firms. A major force that drives companies to work in partnership is that developing new products and penetrating new markets have become very costly for an individual organisation alone (Hitt et al., 2000). Therefore, there has been a growing interest in international co-operative ventures among firms. Originating in the USA, franchising emerged as a powerful new way of collaboration and is expanding faster and more vigorously than other forms of expansion both domestically and internationally (Castrogiovanni and Justis, 1998). International franchising offers an opportunity for market expansion particularly to firms whose services cannot be exported. It is also argued that international franchising involves less risk than some other means of internationalisation, notably direct investment (Aydin and Kacker, 1990).

Research on international collaborations highlights the importance of partner selection, since failing to select the 'right' partner is a major cause of failure of collaborative relationships leading to adverse monetary and strategic effects (Hitt et al., 2000; Madhok and Tallman, 1998; Todeva and Knoke, 2005). A central issue for the franchisors is also to select franchisees who will adopt more of a system-wide perspective for their individual activities and will contribute to the attainment of system-wide goals (Taylor, 2000). This is paramount to success of the franchise system because franchising essentially involves the transfer of a pre-established, standard business format from the franchisor to franchisees (Grant, 1985). Dewhurst and Burns (1993) emphasise the importance of 'franchisee recruitment' and highlight the consequences of poor franchisee recruitment such as the franchisee's low interest,

refusal to follow systems and inability to run the system. Altinay (2004) advocates that the extent of knowledge overlapping between the franchisor and the franchisee are important to franchise partner recruitment and recommends that further research investigate the role of prior knowledge in recruiting international franchise partners.

Prior knowledge is closely associated with *“a firm's specific routines which stabilise a certain body of knowledge that is accumulated over a specific period of time, and that is critical to a firm's efficient search and operations”* (Liyanage and Barnard, 2002, p.36). In the case of managing alliances, prior knowledge provides firms with a broader set of experiences to draw upon in managing collaborations and deciding what managerial practices work and what do not (Sampson, 2005; Schildt et al., 2005). Previous studies into the role of prior knowledge in alliances have mainly focused on joint venture partnership or alliances (see Geringer, 1991; Tatoglu, 2000; Sampson, 2005) and made little reference to the role of prior knowledge in managing franchise partnership. This paper, drawing on empirical findings from a leading international hotel chain, aims to investigate the role of prior knowledge in franchise partner recruitment. It particularly seeks to evaluate how cultural distance influences the role of prior knowledge in the recruitment process, which, it is hoped, will both illuminate the challenges franchise organisations face internationally and highlight the options that companies may consider as part of their franchising strategies.

Literature Review

The resource scarcity theory and the agency theory dominate the franchising literature (Fulop and Forward, 1997). The resource scarcity view places emphasis on the economic motivation of franchising. That is, organisations need resources such as financial capital, labour capital and managerial talent or local market knowledge to

become competitive and develop successful growth strategies (Norton, 1988; Minkler, 1990; Conner and Prahalad, 1996). Franchising, as a means of pursuing growth particularly for service organisations, is a response to a shortage of the necessary resources (e.g. capital, labour, managerial talent and marketing clout) required to gain competitive advantage and to successfully grow (Taylor, 2000).

In contrast, scholars such as Brickley and Dark (1987) and Elango and Fried (1997) who are informed by the agency theory argue that although franchising gives the franchisor the opportunity to reduce the level of risk inherent in a direct ownership activity, the agency problem arises because of a divergence of goals between the agents (franchisees) and the principals (franchisors). That is, franchisees will behave in an opportunistic fashion and pursue their own interest at the expense of those of the franchisors. The result is an ultimate tension coming from the franchisors aiming to achieve uniformity across the system on one hand, and the franchisees' seeking for autonomy and innovative ways of doing business on the other. According to Mendelsohn (1996) this is the dilemma all parties face as they attempt to establish a franchise partnership and finding a way to promote a co-operative environment is a challenge particularly for franchisors.

Recent literature on knowledge and learning offers further insights on dealing with the above dilemma. It is argued that prior knowledge helps partners to coordinate more effectively and ultimately improve collaborative benefits in alliances. For a firm to recognise the value of new, external information and assimilate it, and apply it to commercial use, at least a fraction of new knowledge needs to be related to the firm's prior knowledge (Cohen and Levinthal, 1990). In a study of R&D alliances in telecom

equipment industry, Sampson (2005) discusses the importance of prior experience to alliance success and concludes that firms can learn to manage alliances with experience. Prior experience provides firms with a broader set of experiences to draw upon in managing collaborations and deciding what managerial practices work and what do not. Sampson (2005) also argues that the prior experience is more important for alliances characterised by greater uncertainty. Judgement gained from prior experience is more likely to affect the collaborative outcomes for those alliances which require greater coordination challenges.

Sampson (2005) refers prior knowledge to prior alliance management experience only. In the international context, prior knowledge may also take various forms such as institutional, market, technological know-how and business and management knowledge. Institutional knowledge is information about the governance structures in specific countries and their rules, regulations, norms and values (Eriksson et al., 2000). Firms need to accumulate a wide range of institutional knowledge that is often distinct from that acquired from its home country operation in international franchising. The degree of distinction depends on the degree of dissimilarity of their political, legislative, regulatory systems and cultural characteristics. Second, market knowledge relates to present and future demand and supply, competition, distribution channels and payment conditions, which may vary significantly from one country market to another (Johanson and Vahlne, 1977). Third, technological know-how is the tacit form of knowledge, and refers to the embedded skill or expertise (Kogut and Zander, 1992). Fourth, business and management knowledge concerns competitive offerings and positioning in specific markets and

how the firm should operate in the environment. This includes both strategic and functional management.

Prior knowledge of a firm is path-dependent, guided by various internal and external forces that act upon it (Liyanage and Barnard, 2002). For example, the sophisticated knowledge and capabilities of the entrepreneurial founders of the firm reduces the psychic distance to specific markets (Madsen and Servais, 1997), and boosts the firm's ability to absorb new knowledge about internationalisation (Chetty and Campbell-Hunt, 2004). However, when the organisational routines that constitute a set of prior knowledge become organisational inertia or rigidities, prior knowledge may be a deterrent to incumbent new knowledge (Leonard-Barton, 1992; Sampson, 2005). This can be particularly the case in successful organisations which firmly believe that their knowledge base is built on winning experience and overlook seemingly unrelated and new knowledge even when the market environment has changed (Miller, 1993).

Cultural differences between national markets can also magnify the problems of prior knowledge (Altinay, 2004). Cultural distance (the degree to which the culture and language of home and target country market are different) influences the way of doing business in different countries and increases the perceived risk of internationalisation (Eroglu, 1992). Therefore, understanding local culture and cultural similarity between partners are imperative (Fey and Beamish, 2001; Calantone and Zhao, 2001). The greater the knowledge in common between partners, the better that knowledge can be put to productive use (De Clercq and Sapienza, 2005).

Given that the extant literature recognises the importance of prior knowledge in managing alliance partnership, and the importance of partner recruitment in attaining success of international franchising, whilst lacking in-depth empirical insights in these areas, this paper sets out a task to investigate the role of prior knowledge in the international franchise partner recruitment process. In particular, this paper aims to answer the following two research questions:

- What is the role of prior knowledge in franchise partner recruitment?
- How does cultural distance influence the role of prior knowledge in franchise partner recruitment process?

Research Design

An embedded case study design that allows multiple levels of analysis within a single case study (Yin, 1994) was adopted in this study. The case data were collected within a hotel chain, which was widely known as one of the most international hotels in terms of its geographical coverage, and one of the largest hotel franchise operator worldwide. It was owned by a conglomerate, which was a publicly listed company on the London Stock Exchange. The firm was structured into three geographical divisions: the Americas, Asia Pacific and the Europe, Middle East and Africa region (EMEA). This study focuses on the EMEA regional division. This region appears to offer enormous development opportunities for hotels with international brands: only 24% of the hotels in the region were branded, a much lower rate than 60% of branded hotels in the United States (Knabe et al., 2000). Having recognised this, the organisation recently set itself the target of becoming established as a major force in Europe without significant mid-market investment, mainly through franchising and

management contracting. It is, however, worthwhile to note that markets in this region tend to lack a 'franchising culture' which hindered the growth of some hotel groups (Finnie et al., 1999). The brand of the studied hotel firm had broad representation across the US and, albeit on a smaller scale, internationally (Knabe et al., 2000). The original founder of the organisation was the inventor of the hotel franchise concept and, as a result, the company brought mass accommodation to America (Clark, 1993).

Qualitative data were collected primarily through semi-structured interviews. Our sample intended to cover both the EMEA divisional level (where the franchise partner recruitment decision was made) and the country market level (where the potential franchisees were identified by country managers – also called Development Directors). At the divisional level, our sample included Business Support Managers, Legal Counsels, Franchise Managers, Operations Managers, Technical Services Managers, Vice President (VP) Sales and Marketing, VP Development and Investment, VP Mergers and Acquisitions, and other senior people who were involved in the international expansion process. At the host country level, our sample included Development Directors (based in Germany, France, Benelux, Turkey, UK and Ireland, Spain, Italy, Central Europe and Middle East and Africa, respectively). Development Directors are host country-based organisational members who were either local nationals or people who have lived long enough in the related country/region to know the local culture and the business context in different hotel markets. Their organisational entrepreneurial role in developing and implementing the international expansion strategy contributes to the growth of international hotel group within a designated geographic area.

A total of 45 semi-structured interviews were conducted, each for one to one and a half hours. Open-ended questions were used to explore and probe the external and internal factors pertinent to the franchising recruitment process. A list of interview questions is in Appendix I. In particular, issues related to franchise proposals recently accepted or rejected in countries including England, Ireland, France, Germany, Italy, Spain, Turkey and the Central European region were explored with informants. This approach allowed the consideration of case data from a number of divergent angles (Eisenhardt and Bourgeois, 1988). Moreover, since different proposals were traced from the perspectives of every informant, it was possible to construct ‘stories’ about each of the decisions. This served to confirm or disconfirm the inferences drawn from previous ones thus improving the likelihood of accurate and reliable data. In addition, this approach enhanced the probability of capturing the novel findings existing in the data from different perspectives, thus adding rigour and richness to the findings.

Observations were used to check if interview data accurately reflected the real-time experience of participants involved in the process (Schein, 1996). Twelve meetings were observed in several host countries (i.e. Belgium, Germany, Spain and Turkey) and at the corporate level. Shadowing a number of key informants (Yin, 1994) took place to get closer to the phenomenal world of the key actors. Notes were taken to provide a condensed version of events. Document analysis was also used as a complementary data collection method. This involved reviewing the job descriptions of the organisational members, international expansion proposals, annual reports, letters, memoranda, agenda, minutes of meetings, formal reports, publications and press releases about the case study firm, brokers’ reports by investment and research organisations, publications of trade journals and newspaper articles about the case

study firm. The data were compared and analysed in conjunction with the findings from interviews and observations. Such triangulation of data was useful in increasing the richness of the case data and constructing the 'full picture' of the organisation's international franchise practice and the role prior knowledge plays in this process.

Data analysis techniques used included 'coding analysis' which allows for constant examination of conceptual interactions and relationships, and the conditions under which they occur (Strauss and Corbin, 1990). A coding scheme was derived from the literature which reflected the research framework, highlighting key elements that emerged. This coding scheme was a two-by-two matrix encompassing challenges in international franchise partner recruitment process (i.e. franchise business format, cultural distance between markets) as one axis and the two components of the theoretical framework as the other axis (i.e. prior knowledge needed by the franchisor and the prior knowledge of the franchisees). Much of the data analysis consisted of breaking down the interview and observation transcripts and notes manually, as well as documents into manageable blocks in order to classify them under each code/grouping. This approach helped to cross-classify logically the variables, generate themes and illustrate interrelationships. More specifically, the coding scheme illustrated the relationship between cultural distance, prior knowledge and international franchise partner recruitment. Following this, themes, concepts and relationships emerged from the data were compared and contrasted with the extant literature on franchising and prior knowledge. The similarities and the contradictions identified were recorded as memos, which were then sorted into batches and linked so as to create a theoretical outline of the connections across the categories.

Findings and Discussion

The hotel company was the largest, most experienced hotel franchisor on a world-wide basis and had a franchise system which could be defined as ‘proven success’. The informants perceived their organisation as a sizeable and knowledgeable franchisor. In the franchising process, the key resource that the organisation had at its disposal was the team it could bring to the franchising process in order to meet potential franchisees’ concerns and needs. The importance given to this collaboration was well captured by one of the informants: *‘We invite the other disciplines such as Technical Services people, the Franchise Manager or the Operations Manager when I want them to provide the background information to help support the argument in the market.’* Indeed, these people with the expertise in a variety of relevant areas provided information and advice to franchisees. This was observed in a meeting at the host country level, during which the Operations Manager was able to dispel the concerns of the investors regarding the operations of the hotel. During meetings, it was also observed that potential franchisees were supplemented with company documents illustrating the outline of feasibility studies. Moreover, the Technical Services Department provided brand standards manuals to the prospective franchisees. Such a coordinated approach was believed to build up trust in prospective partners about the capabilities of the company. This was further confirmed by one of the senior people who indicated that: *‘Our presence demonstrates to the prospective partner that we know what we are doing and that helps. It brings trust and credibility both to the organisation. We get our contract signed.’*

The above findings indicate that interactions between organisational members and prospective franchisees were particularly important in terms of developing a

common understanding and establishing a franchise partnership. Since it was important for the organisational members to identify new franchisees who could understand the business format, during these interactions they assessed the prospective partners' technological know-how and business and management knowledge. During this process, the organisation determined the resource and specific task-related skills (such as hotel operations skills) needed by the partner, as well as the relative priority among these needs. This was important in terms of deciding what extra task-related capabilities may be necessary for the franchise partnership. In line with the arguments of Sampson (2005) findings of this study illustrate that prior knowledge helped the franchise organisation coordinate more effectively with prospective partners. Use of prior knowledge in training programmes, provision of comprehensive details in the franchise manual and regular communication with franchisees could bring the franchisees into the alignment with the established franchise system even before the establishment of the partnership.

As the key to franchising is to maintain a standard business format (Grant, 1985), informants believed that corporate brand standards should be well understood by the partners. One of them stated: *“If we are here to earn money for both of us, investors have to understand the brand in order to meet our standards and not to try to change the brand. I do not want clients to ask me to give them a brand name and promptly change it because they are Czech, Russian or Albanian.”*. These findings and the concern raised by an informant that *‘the prospective partners do not always understand the logic of franchise partnership, the importance of brand and the brand standards’* were further evidence of what Elango and Fried (1997) defined as a possible ‘agency problem’. This also supports the views of Sampson (2005) who

advocates that prior alliance management experience is more important for alliances characterised by greater uncertainty. The ability of the franchisee to deliver products and services according to the brand standards clearly possessed a risk factor for the organisational members and in particular, for the franchisor who aimed to ensure that organisation-specific advantages were appropriated and preserved by franchisees after the establishment of partnerships. The intangible issues were driven by marketing concerns and ultimately customer perception. During informal discussions informants stated that the organisation aimed to deliver products with worldwide standards, such as those achieved by McDonald's and Coca-Cola, which would allow international customers' expectations to be met. Brand inconsistency among hotel properties was believed to damage corporate image. Such a failure was believed to lead to a loss in market share and thought to detrimentally impact future developments.

What is interesting in this research is that the firm-specific determinants of sophisticated knowledge, experience and capabilities posited by Madsen and Servais (1997) appear not to offer a 'smooth run' of the internationalisation of the investigated franchise system. Although the largest, most experienced hotel franchisor on a world-wide basis and a franchise system with a growing commitment of resources to the foreign markets, the study firm faced strong challenges in the international franchising across Europe. Both the primary and secondary findings clearly illustrated the extent of the challenge. Informants stated that the implementation of franchising was a difficult organisational activity, particularly in markets such as Italy, Spain and Greece where family-run companies did not understand the concept or logic of a franchise contract. An informant particularly commented that "*In Italy or Spain, when you go to the market and propose a franchise and say 'I have an international*

brand...’ most of the reaction is ‘How much money are you paying to put your brand on my hotel?’” This indicated the lack of a ‘franchising culture’ in the related markets. In addition, in Germany leaseholds reflected the traditional property investment practice and German investors were perceived as being less willing to take risks. Potential German franchisees, therefore, demanded certain monetary guarantees even if they established a franchise partnership. In many cases, the prior knowledge of potential franchisees contradicted to that of the franchisor, and created a negative effect on the franchising process.

Eroglu (1992) and Altinay (2004) recognise the importance of cultural distance and its influence on the organisation’s intention to internationalise its franchise system, and propose that higher cultural distance is likely to increase perceived risk of international franchising. The findings of this study also indicated that there were obvious differences between the franchisor’s way of doing business and the potential franchisees’ perceptions. Nevertheless, Eroglu (1992) and Altinay (2004) do not explain how franchisors’ prior knowledge of operating in international markets help to manage the perceived risk of franchising. The findings showed that the franchisor had to constantly educate, and prepare potential franchisees. As the VP Development and Investment stated: *“We are educating the investors about the value of franchise and management contracts in a hotel environment, what value it would bring to them as an investor. If they have a brand, we explain to them why they should give up the existing name to convert to our brand, what value the brand brings.”* The same informant particularly referred to the mediator role of Development Directors (country managers) in bridging the gap between the franchisor and the franchisee in the recruitment process: *‘The company had to put a guy into a certain key market,*

because the way the Spanish do business is completely different from the way the Germans do business, completely different than the way the English do business. It is not only in the cultural way they do business but the way the investment is structured is completely different.' (VP Development and Investment).

The recruitment of the country managers and their placement in the market was a relatively strong sign of sensitivity and responsiveness to differences in national environments within Europe. At first sight, the organisation gave the impression of benefiting from the prior knowledge and expertise gained from the international operations. However, the information generated from different markets seldom became embedded knowledge within the organisation nor acts as catalyst for knowledge creation. More importantly, there was very limited sign of questioning the overall effectiveness of dominant values and practices to make continuous improvement. The organisation's attitude to international franchising appeared to be one of reacting to the different franchise markets in a passive manner by assuming that business and management knowledge that work in home country operations (UK and US) would equally work in other markets. However, cultural differences were an important consideration for franchising and there was a need for the organisation to grasp institutional knowledge about the business values and norms in different countries: *"The company, which is ultimately a British company, makes financial demands but totally ignores what is happening in the local market place. They might defend themselves by saying 'we are not in the business of taking risks for our shareholders. We are in the business of looking for rewards for the shareholder money and therefore although you want to build this wonderful place in this city, we perceive the risk is high. We are not going to have our brand in this market'. Of*

course, they totally ignore the fact that I might be able to explain 'This City is the greatest marketing opportunity ever'. This will not cut any ice" (DD, Central Europe). The statement of VP Investment and Acquisitions confirmed by emphasising the major characteristics of the organisation: *"It is very difficult for an English company. The channel between England and Continent is cut off. They find it difficult to trust the data they are getting. And we spend a lot of time trying to convince senior management that what we are telling them is the case in Budapest, in Hungary. They have not been there to see it for themselves. This is the challenge."*

The findings of this study confirm Sampson's (2005) arguments that accumulated experience might act as a barrier to learning if organisations do not adopt and innovate new practices. The findings go further than Sampson's in terms of identifying how prior knowledge acquired in other cultural contexts becomes an organisational barrier and acts as a deterrent to incumbent new knowledge about other cultural environments. In this study, senior decision makers of the firm displayed characteristics of ethnocentric orientation and low risk tolerance and less open-mindedness towards international franchising, which should negatively affect internationalisation according to Altinay (2004). Although never expressed in quite so crude terms, the attitude revealed by the organisational members was: *'We have a proven record of franchising and we will be willing to let our franchise partners benefit from our internationally recognised brand and infrastructure if they acknowledge our experience and accept our methods and conditions for doing business.'* This attitude aimed to preserve the system integrity and to protect the brand reputation. However, such an approach limited the franchisor's ability to learn and bring its resources in line with the changing environment: *"The company needs to*

look at how the market works and try to fit into the market, rather than trying to implement traditional expansion modes and standards rigidly which were brought from United States” (DD, France). It was argued that such an approach decelerated international expansion and closed doors to wider market coverage.

Conclusions and Implications

Franchising is seen as an important organisational activity in the service management literature. In spite of its importance, literature on franchising continues to be vague and incomplete. Previous studies into domestic franchising developed a comprehensive understanding about the franchisee and franchisor relationship in relation to power and control struggle after the establishment of the partnership (see Elango and Fried, 1997; Fulop and Forward, 1997; Fulop, 2000). These studies primarily focussed on the post-partner selection, i.e. the operation of the franchise system, leaving a glaring gap in how franchisors select and recruit international partners.

Findings of this study revealed that the relationship and attempts to create a co-operative environment between the partners do not become established overnight. Instead, a significant part of the relationship develops before an agreement is struck and there is in fact a ‘mutual evaluation’ between the partners to assess whether there is a room for a long and happy ‘commercial marriage’. The key to franchise partner recruitment is to identify a knowledge ‘fit’ between the franchisor and franchisees and a positive decision of franchise partner recruitment is highly associated to the presence of knowledge overlapping between the franchisor and the prospective partners.

The international business literature has acknowledged the role of prior knowledge in managing several forms of joint venture and research and development alliances (De Clercq and Sapienza, 2005; Sampson, 2005). However, they made little reference to the role of prior knowledge in managing franchise partnerships and thus avoided serious linkages to the strategic context of franchise partnership and the prior knowledge needs associated with establishing these. The paper clearly demonstrates the strategic context in which franchisee recruitment decisions are made. Findings of this study suggest that there are three important contextual variables which have a bearing on the franchisee recruitment. These are the nature of the business itself (franchise partnership), different country markets and the strategic context of the organisation. Since franchising requires handing over the responsibility of representing the franchisor organisation's products and services to the franchisees, a mistake in the early days of the relationship can be costly to the franchisor's brand reputation. Therefore, the ultimate goal is to bring the franchisor's expectations into alignment with the franchisees' managerial experience to operate a franchise unit.

The prior knowledge of the franchisor plays a crucial role in achieving a 'strategic fit' between the business objectives of the franchisor and the franchisee. From the franchisor perspective, prior knowledge involves the accumulated expertise and knowledge to educate potential franchisees about the systems of franchise operations by exploiting the organisation's resources such as its managerial expertise and brand standards documents. The compatibility pertains to balancing prior knowledge of the franchiser and the franchisee by educating the franchisee about the technological know-how and business and management knowledge. However, in the

international context, educating the prospective franchisees about the franchise system of the organisation might not be enough to reduce the uncertainty associated with franchise partnerships. Cultural differences and different traditions and ways of doing business in different country markets magnify the complexity of the franchise partnerships. The franchisee's prior knowledge, which is the accumulated knowledge and understanding of franchising as a 'business concept', may act as a barrier because of the divergent cultural background. Such a divergence requires the franchisor organisation to question its basic assumptions and modify its ways of doing business. Judgement gained from the prior knowledge of operating in different cultural contexts might not allow a 'smooth run' of operations in markets which lack 'franchising culture'. It would rather create a tension even before the partnership is established and ultimately result in poor collaboration performance.

The findings of this paper provide not only empirical insights of the role of prior knowledge in the international franchise partner recruitment process, but also managerial 'take-away'. The franchising practices of the studied firm reveal that cultural differences, and hence, unique institutional and market knowledge cannot be overlooked even in such a large, experienced multinational organisation. The ethnocentrism demonstrated is a key barrier to the franchising process. This indicates that franchisors need to challenge and modify their own dominant norms and values to the unique cultural characteristics of each target country. Country managers who are familiar with the business culture can be an effective media of understanding the foreign market. The active involvement of these managers may be a further step towards more effective franchising decision-making.

The findings of this study are based on a single case study. Further research could investigate the role of prior knowledge in franchising products and services in other sectors of the service industry. This could enhance the generalisability of the findings. Moreover, this study primarily focused on Europe. Further research could investigate the cultural challenges the franchise organisation could face in other geographical areas.

References:

- Altinay, L. (2004), "Implementing international franchising: the role of intrapreneurship", *International Journal of Service Industry Management*, Vol. 15 No. 5, pp. 426-443.
- Aydin, N. and Kacker, M. (1990), "International outlook of US-based franchisers", *International Marketing Review*, Vol. 7 No 2., pp. 45-53.
- Brickley, J. and Dark, F. (1987), "The choice of organizational form: the case of Franchising", *Journal of Financial Economics*, Vol.18, pp. 401-421.
- Calantone, R. J and Zhao, Y. S. (2001) "Joint ventures in China: A comparative study of Japanese Korean, and U.S. partners", *Journal of International Marketing*, Vol. 9, No. 1, pp1-23.
- Castrogiovanni, G. J. and Justis, R. T. (1998), "Franchising configurations and transitions", *Journal of Consumer Marketing*, Vol. 15, No. 2, pp 170-190.
- Chetty, S. and Campbell-Hunt, C. (2004), "A strategic approach to internationalization: a traditional versus a 'born-global' approach", *Journal of International Marketing*, Vol 12, No1., pp57-81.
- Clark, JJ (1993), "Holiday Inn: new rooms in the inn", *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 34, No 5., October, pp. 59-67.
- Cohen, W. M. and Levinthal, D. A. (1990), "Absorptive capacity: A new perspective on learning and innovation", *Administrative Science Quarterly*, Vol.35, pp128-152.
- Conner, K. and Prahalad, C., (1996), "A resource-based theory of the firm: knowledge versus opportunism", *Organisation Science*, Vol. 7, No. 5, pp. 477-501.
- De Clercq, D. and Sapienza, H. J. (2005), "When do venture capital firms learn from their portfolio companies?", *Entrepreneurship: Theory and Practice*, Vol. 29, No. 4, pp. 517-535.
- Dewhurst, J. and Burns, P. (1993), *Small Business Planning, Finance and Control*. Macmillan.
- Eisenhardt, K. and Bourgeois, L. J. (1988) "Politics of strategic decision-making in high velocity environments: toward a mid-range theory", *Academy of Management Journal*, Vol. 31, pp737-770.
- Elango, B. and Fried, V. (1997), "Franchising research: a literature review and synthesis", *Journal of Small Business Management*, July, pp 68-81.
- Eriksson, K., Johanson, J., Majkgard, A. and Sharma, D. D. (2000), "Effect of variation on knowledge accumulation in the internationalization process",

- International Studies of Management and Organization*, Vol. 30, No. 1, pp. 26-44.
- Eroglu, S. (1992), "The internationalization process of franchise systems: a conceptual model", *International Marketing Review*, Vol. 9, No.5, pp 19-30.
- Fey, C. F. and Beamish, P. W. (2001), "Organizational climate similarity and performance: international joint ventures in Russia", *Organization Studies*, Vol. 22, No. 5, pp. 853-882.
- Finnie, M., Bevan, N., Eadie, G., Collyer, G. and Noble, S., (1999) "Bass: Hospitality Tense", *Deutsche Bank*, 5th October.
- Fulop, C., (2000), "History and development". In *Franchising Hospitality Services*, Lashley, C. and Morrison, A. (Eds.), Butterworth Heinemann, pp. 22-43.
- Fulop, C. and Forward, J. (1997), "Insights into franchising: a review of empirical and theoretical perspectives", *The Service Industries Journal*, Vol. 17, No. 4, pp. 603-625.
- Gerringer, J. M., (1991), "Strategic determinations of partner selection criteria in international joint venture". *Journal of International Business Studies*, Vol. 22, No. 1, pp. 41-61.
- Grant, C. (1985), *Business Format Franchising: A System for Growth*, Economist Intelligence Unit.
- Hitt, A. M., Dacin, T. M., Levitas, E., Arregle, J. and Borza, A. (2000), "Partner Selection in Emerging and Developed Market Contexts: Resource Based and Organisational Learning Perspectives", *Academy of Management Journal*, Vol 43, No. 1, pp. 449-476.
- Johanson, J. and Vahlne, J. E. (1977), "The internationalization process of the firm: a model of knowledge development and increasing foreign market commitments", *Journal of International Business Studies*, Vol. 8 No.1, pp. 23-32.
- Knabe, R., Cumming, R., Hargreaves, E. and Purdy, M (2000), "Bass: hot on the heels of the brewing disposal?", *Dresdner Kleinwort Benson Research*, 10th August.
- Kogut, B. and Zander, U. (1992), "Knowledge of the firm, combinative capabilities, and the replication of technology", *Organization Science*, Vol. 3 No. 3, pp383-397.
- Leonard-Barton, D. (1992), "Core capabilities and core rigidities: a paradox in managing new product development", *Strategic Management Journal*, Vol.13, summer special issue, pp. 111-125.

- Liyanage, S. and Barnard, R. (2002), "What is the Value of Firms' Prior Knowledge? Building Organisational Knowledge Capabilities", *Singapore Management Review*, Vol. 24 No.3, pp. 35-50.
- Madhok, A. and Tallman, S. B. (1998), "Resources, transactions and rents: managing value through interfirm collaborative relationships", *Organization Science*, Vol. 9 No.3, pp. 326-339.
- Madsen, T. K. and Servais, P. (1997), "The internationalization of born globals: an evolutionary process?" *International Business Review*, Vol. 6 No. 6, pp. 561-583.
- Mendelsohn, M., (1996), *The Guide To Franchising*. Pergamon Press, NewYork.
- Miller, D. (1993), "The architecture of simplicity", *Academy of Management Review*, Vol.18, pp116-138.
- Minkler, A. (1990), "An empirical analysis of a firm's decision to franchise", *Economic Letters*, Vol. 34, pp. 77-82.
- Norton, S. (1988), "Franchising, brand name capital, and the entrepreneurial capacity problem", *Strategic Management Journal*, Vol. 9, pp. 105-114.
- Sampson, C. R. (2005), "Experience Effects and Collaborative Returns in R&D Alliances", *Strategic Management Journal*, Vol. 26, pp. 1009-1031.
- Schein, E. H. (1996), "Culture: the missing concept in organisation studies", *Administrative Science Quarterly*, Vol. 41, pp. 229-240.
- Schildt, H.A., Maula, M.V.J. and Keil, T. (2005), "Explorative and exploitative learning from external corporate ventures", *Entrepreneurship: Theory and Practice*, Vol. 29 Issue 4, pp. 493-515.
- Strauss, A. L. and Corbin, J., (1990), *The Basics of Qualitative Research: Grounded Theory Procedures and Techniques*, Sage: Newbury Park, CA.
- Taylor, S., (2000), "Hotels" in Lashley, C. and Morrison, A. (Eds.). *Franchising Hospitality Services*. Butterworth Heinemann, Oxford. pp. 170-191.
- Tatoglu, E., (2000), "Western joint ventures in Turkey: strategic motives and partner selection criteria", *European Business Review*, Vol. 12 No. 3, pp. 137-147.
- Todeva, E. and Knoke, D. (2005), "Strategic Alliances and Models of Collaboration", *Management Decision*, Vol. 43 No. 1, pp. 123-148.
- Yin, K. R, (1994), *Case Study Research: Design and Methods*, Sage Publications, London.

Appendix I. Interview Subjects/ Questions:

- What was the context of the particular franchise proposal? (aimed to find out how an organisation identifies the international expansion opportunities in the market).
- Who was involved at what time during the franchise process and how? (aimed to find out the key decision-makers and their roles).
- How was the proposal initiated? (aimed to collect contextual data about the country or market from which proposals emerge).
- Who and which aspects promoted the proposal? (aimed to find out the role of people in identifying franchisee opportunities and which factors are considered and interpreted by these organisational members whilst promoting the proposal).
- Who, and which aspects presented obstacles to the process, and if so how? (aimed to explore the internal and external decision-making dynamics, particularly the international challenges faced by the organisation).
- How were these obstacles overcome (aimed to explore how the organisation take decisions with regard to franchise projects).
- What was the role of organisational members in overcoming these obstacles and how do they select the potential franchises? (aimed to explore how the organisational members select prospective franchise partners given the international challenges they face in different country markets).