



VIEWPOINT

Victoria Ward asks, “Is franchising the business model for KM?”

I flippantly mentioned to a colleague over coffee that franchising intrigued me. I have a hunch, I said, that a kind of “notional franchising” approach is what most knowledge management programs are grappling to achieve. Such chance remarks are dangerous. I am now called on to justify such ideas with some rigor.

I suppose the idea really came from two sources. The first is an observation of business models with a successful embedded knowledge dynamic which fuelled the question: can the insights from successful business models be used in knowledge management?

The second source is my experience in the financial futures industry. I was responsible for the design of futures and options contracts which provided a great deal of insight into what makes a critical mass of activity. For example, a “notional” bond is used to package a set of underlying instruments into one tradeable product which generates a critical mass of volume. This is a different discussion, but the franchising bit is worth looking at in more detail.

Franchising is, in effect, a system for marketing goods or services. You, the franchiser, grant a license to your franchisee to operate a business under your name and market your products or services for a specified period. Close inter-dependence is unique to franchising and is the major factor which makes the system different from other business models.

In this model the profits of the franchise depend on partnership and are reinforced by interdependence. The franchisee accepts the constraints of a particular business system in return for mitigated risk. The franchiser gains access to the capital, energy and local market knowledge in return for the support. This model needs to be easy to

follow and the franchiser needs to be able to control the franchisees and audit their activity.

The fundamental principle is that a franchise must maintain within its business a very high ratio of information to infrastructure: if the ratio goes the wrong way the franchise will eventually cease to exist.

For example, in a fast food franchise the central team has the experience and partnering arrangements in place to quickly open a new outlet from scratch. This is because of its central repository of knowledge in building regulations, its history with suppliers and the long-term relationships in the building sector and with regulators.

Kall Kwik, the UK copy shop, is an example of the powerful asset a network of franchisees can be. Take a look at its literature and what is obvious is that apart from the role of the central team, its most powerful asset is the relationship between the 200+ outlets nationwide: center owners find each other a rich source of information, learning from each other’s experiences.

Think of a small team with ambitious goals coupled with a need to act in a decentralized way. As we shift into a network economy, where modules of activity, knowledge and expertise might be dislocated in time and space, “notional franchising” allows for a systematic approach which creates a lean but effective central structure for the knowledge team.

How would it work in practice? The franchisee (the business) provides infrastructure and real evidence and the franchiser (the knowledge team) provides the fundamental idea and strategic intelligence. This is a business model rooted in complexity. If you scratch the surface of complexity you then have to think about co-evolution.

A successful franchise must also

allow co-evolution of the concept and the environment. A franchise must continue to inform itself about what it is through innovation and generative feedback. The nature of franchising means that there are thousands of diverse focal points of pluralist behaviors which emerge because each franchisee runs his own business. The franchiser translates this experience through manuals, models and systems into an explicit shared understanding that what you are going to do as a franchisee is take the ideas and translate them into infrastructure.

Clearly there are difficulties. The rights of the central team to negotiate with businesses to impose a rigid “knowledge franchise” model are inevitably fragile. Also there is one fundamental contradiction between the two. A successful franchiser will want to keep the secret of the success secret. The “Knowledge Fried Chicken” secret sauce recipe on the other hand is one that the knowledge team should share.

There are opportunities to push this idea in a couple of directions. Firstly, replace the notion of a central knowledge team with a search for new internal, or hybrid internal/external business models for internal functions which embed knowledge successfully.

Secondly, understanding the role of design principles and the power of explicitly building collections of knowledge around a small set of governing principles creates transparency and critical mass which can, over time, replace the central authority which typically governs an organization. This may be the only way an enterprise will survive in future, but it’s a pretty scary prospect for senior management, huh?



Victoria Ward is director of Spark Knowledge. She worked in the financial futures industry in the early 1980s, running the product development group at LIFFE, and then the global futures business at NatWest. In 1996 she became Chief Knowledge Officer at NatWest’s Investment Bank. She launched Spark Knowledge, a small design and research consultancy, in 1997.

Do you see potential in a knowledge franchise? E-mail Victoria Mellor at victoria.mellor@melcrlum.com.

Victoria Ward

Spark Knowledge

E-mail: sparkteam@spark-knowledge.com