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FINANCE, FRANCHISE AND THEIR IMPACT ON TOURISM

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Abstract

The tourist business is the adaptation of the country in the international arena. An improvement of factors of tourism increases the credibility of business entities in the country. Based on this the author decided to investigate the effect of franchising that is on tourism. The article is useful for entrepreneurs, analysts, teachers and students. Article considered in detail history of the development of franchise business in Kazakhstan. The author presented a detailed chronology of the development of this business, pointed the scope of the franchising as well as domestic companies using franchising. In the article determines the importance of franchising in the development of small and medium business in Kazakhstan. Theoretical and methodological basis of research served as the scientific concept of modern economic theory, theories of innovation and theories of management, and also works on the management of domestic and foreign scientists. The author came to the conclusion about a weak franchise development in the tourism market. Travel services little are popular with foreign investors. But nevertheless, the franchise has established itself as one of the methods of business collaboration with business development.

Keywords: Finance, Franchising, Tourism, Effect, Franchise Business, Franchise, Franchisor, Entrepreneurship

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INTRODUCTION

Today, Kazakhstan is interested in attracting foreign direct investment, which, in spite of their relatively small share of the total investment, contributes to technical and technological re-equipment of the economy, not increasing at the same time the

country's debt burden. It is known that increasing the investment attractiveness of our economy is of great importance and small and medium business. However, in the context of the global crisis there is decreased activity of functioning of small and medium businesses, which intensify the search for sources of investment business, including forms of attracting investment capital. Currently, the most common form of foreign investment by small and medium-sized businesses is a franchise. With the globalization of the economy and increased competition in the markets of goods, capital and labour for domestic enterprises to provide the necessary level of competitiveness necessary to significantly increase the stability of operation. Insufficiently stable state of many businesses raises the problem of intensive research and implementation of effective measures to ensure the mobilization of internal resources of the enterprise and to adapt production to the rapidly changing external environment.

Tourism is an important component of economic and social life for a growing number of countries. By its proportion and complexity, tourism entails a large natural, human and material potential, having profound implications on the dynamics of economy and society, on international relationships. From the economic point of view, tourism constitutes also a source of recovery of national economies of those countries which have important tourist resources and exploit them properly. On the social area, tourism contributes to the improvement of living conditions and last, but not least, is an important jobs generator. In this context, tourism participates significantly to the overall progress as a promoter factor of globalization and sustainable development.

Quite often one of the ways to reduce the impact of risk factors on the market called participation in the joint venture, which has demonstrated success in the market, or association with the company that created the product or services received in the market and has created a reliable system of financial control and the production of the product.

LITERATURE REVIEW

Franchising is the fastest growing business expansion strategy that has ever been created. In few years, by applying franchising many companies enlarged, and from several enterprises, or even from a single one, they turned into large chains with many offices. No other approach for business expansion has come closer to the opportunities and scopes that franchising offers. The major part of this success is due to the mutual benefits for both parties (franchisor and franchisee) under the contract [1].

In recent decades, franchising has become a popular expanding business tool that combines a variety of products, services and strategies of the company. This business model has become an effective option for small tourism enterprises that cannot afford to fund their development.

Among the works of foreign authors, which addresses a wide range of issues related to the franchise, it should be noted scientific works such as, Blideanu [2], Neacsu [3], Nyadzayo et al. [4], Ginneken van [5], Jouhannaud [6], Keller [7], Mendelsohn [8], Risner [9], Shah [10], Narkevich [11], Shay [12]. Also, Russians researchers such as Chudnovski [13], Volkov [14] considered the tourist business mentioning different business models and technologies.

Nationally, the franchise has been adopted as a strategy by expanding travel agencies, on the one hand, the notorious tour operators that has accumulated know-how and proven to be successful applicability, and, on the other hand, small and medium entrepreneurs who have seen in the franchise affiliation able to develop faster and more reliable business. In addition, the hotel owners with the financial resources seen in a hotel franchise are an easier way to get a higher profit. In today's competitive global market, and the hotel, as part of a group of hotels that share a recognizable brand and provide quality services can mean the difference between financial success and failure.

The brand name creates demand that initially helps the franchisee to attract customers. It includes trademarks and service marks of the franchisor, commercial interior, and all the intangible factors that create customer's fidelity and build market value of the service [1].

METHODOLOGY

The phenomenon of the cluster as an object of economic agglomeration of interconnected companies in a certain territory, known since the days of handicraft production. But only since the last quarter of XX century, industrial clusters have begun to show itself as an important factor in regional economic development. Among the economists in the world is becoming increasingly recognized view that the regions in which clusters are formed, are leaders in economic development [1].

That's why we must first examine past experiences, to relate it to the present, to become an expert in our field, and only then begin to incarnate new ideas and innovations. Tourist activity is based on a foundation of accumulated knowledge's. One sign of success in the market is increasing of market share. Searches are show that not advertising and actively promoting of the product provide a steady growth of market share, but the innovation in all areas of tourist activity does. Innovation processes take place in international and national control systems of tourist activity, the development of new technologies (e-commerce, the creation of virtual travel agencies); forms of marketing, creating a tourist product.

Theoretical and methodological basis of the research were modern scientific concepts of economic theory, the theory of innovation and management theory, the fundamental works of Russian and foreign scholars devoted to the study of strategic management, innovation management, the fundamental scientific principles of the regional economy, the cluster theory of innovation and innovation, research domestic and foreign scientists, set out in the periodical literature, proceedings of scientific conferences, theses and monographs, revealing patterns of innovation areas at the regional level [15].

RESULTS

Franchise called "successful way of doing business", "a form of product promotion," "economic tool production and marketing a particular product," a form of "territorial expansion of sustainable business" and "cloning business", some even use the term "business indulgences ". Numerous sources offer a vast number of definitions, and they all boil down to one thing:

Franchising (from the French «franchise» - favor, privilege - and a derivative of the English «franchising» - right, privilege) - a system of relations (contract, permanent) between the franchisor and the franchisee, governing the organization of joint business in order to meet the interests of both parties.

The main interest of the parent company (franchisor), as a rule, is to spread their business, increase brand awareness (brand name) and, consequently, increase profits, interest franchisee (a small company, the entrepreneur) - the ability to start a business "under glass" - in within a large company, using its brand (trademark), technology, production methods, marketing arrangements and other benefits.

In turn, the franchise is a contract concluded between franchisees and setting forth the conditions of doing business with a particular brand and the franchisor's proprietary technologies, i.e. which entitles the franchisee to sell certain products / services under the franchisor.

Compared with an independent business, hotel franchise brings out the advantages of the group strategy under which it operates, being characterized by functionality, financial results and optimized image. A hotel franchise brings to affiliate hotel value added through the international brand, but also through improved quality of services. Considering, the expectations in the hotel industry is that brands are becoming more important because, in reality, they give customers and shows the position of each hotel chain on the market. Brand, not the number of stars, offers competitive advantage due to the quality of the hospitality services [16].

Being a franchiser in the hotel industry on the domestic market, one's requires the business in the hotel area and the ability to following conditions: a well-known brand, a registered trademark, a full operational provide the franchisee a set of knowledge in order to exploit the brand. Requirements for hotel franchisee are: managerial and financial standards, respecting the common identity of the franchise hotel chain (the same hotel image and equipment, the same services quality and the same technology used), confidentiality on the know-how provided. Relationship between franchiser and franchisee takes place in three stages, mentioned by the law regarding the legal basis of the franchise: pre-contractual negotiation, signing the contract and post-contractual relationship.

The word "franchise" comes from the old French term that defines the right to freedom of some activities, such as fairs, organization of markets, and the operation of ferry crossings, the right to hunt, road construction or production of ale. In the middle Ages, such privileges had kings who provided the franchise for the commercial activity of any kind.

Modern franchising is a relatively new phenomenon in the economy, although its roots go back to the middle Ages. So far, the legal term "franchise" in the United States and Australia indicates a transfer of rights to anyone public authority, and in the UK - the

transfer of rights in the name of the king. In medieval England, the king provided the various rights of the nobility, for example, to collect taxes in a certain territory in exchange for the services required by the authorities. Citizens were given permission (franchise) to sell products in the markets, to participate in the fair. And today in the UK still continue to operate the ancient franchise, give their owners the right to maintenance of markets, fairs, content ferries and bridges. Thus, the power of old delegated some of his powers in exchange for equity or the required services, thus laying the foundation of modern franchising for centuries. To ensure fair franchising relationships were established International Franchise Association and the European Association of Franchising. In many countries there were national franchise associations.

Today, businesses around the world know franchising as a safe way to:

To help a man to do business on their own, but do not be in it alone;
Helping companies to effectively expand without incurring the high cost of creating and maintaining a massive office complex and experiencing difficulties in managing a wide network of corporate enterprises;
To help companies transform their existing network to operate efficiently, a strong business, this employs committed people.

Currently in Europe there are more than 4,500 franchise systems and approximately 180.000 franchisees who achieve total sales of more than \$ 150 billion. However, the degrees of development of franchising in Europe are much lower than in the U.S., where its volume exceeded \$800 billion. Only three countries (USA, and Moldova) special laws of franchising. In other countries, the legal basis of franchising is contained in other laws such as the Civil Code, the laws related to business, different regulations adopted by the Government or by specialized non-governmental organizations. Studies show that in the U.S. every other medium and small family business operates under the franchising agreement. The most annoying thing in the new business - is the ability to fail at an early stage. But the risk is greatly reduced if you work under the famous brand name. To work under the famous brand requires several times less investment. That is why the West is so popular franchise. The money that you pay for the brand, many times less than the amount you spent on the creation and strengthening of business on his fat scheme. What are the problems not only faced by entrepreneurs who start a business: higher income is associated with a high risk, start-up capital available elsewhere - cheap credit, the bank is not willing, to learn the business, and others. So, you need a business with minimal risk but with high return at any speed, plus an older friend, who will show you how to do, and then the material will not interfere.

British franchise Association (BFA) (British Franchise Association) defines a franchise as a control license issued by one person (the franchisor) to another person (the franchisee), which:

- a) Authorizes or requires the franchisee to engage in a certain period franchise business using specific names belonging to or associated with the franchisor;

- b) The franchisor grants the right to exercise control over the period of the quality of the franchise business, is the subject of the franchise;
- c) Requires the franchisor to provide assistance to the franchisee in the conduct of business, is the subject of the franchise (to help the enterprise organization, training, sales management, and others.)
- d) Requires franchisees regularly during the entire period of the franchise to pay the franchisor a sum of money for the payment of a franchise or goods, services provided by the franchisor franchisee;
- e) Is not a normal transaction between the holding company and the subsidiary or between an individual and a company controlled by them.

Thus, the franchise - is primarily a contract that business conditions are expressed with the right to compensation for the use of trade names and proprietary technologies franchisor. Therefore appropriate to consider the peculiarities of legal regulation of commercial concession (franchising), and an analysis of the basic economic conditions of a commercial concession (franchise), and identify approaches to validation and calculation (estimate) franchise.

In recent years, the sectors of travel and tourism industry have experimented with the concept of franchising. In order to establish the possibility of a franchise business concepts in the hospitality industry, one of the main problems to be solved, was to establish a clear brand identity, as the tourism industry is very dynamic, with a continuous round of changes in ownership and rebranding. Being supported by administrative, legal, financial, human resources, brand and know-how has become more and more powerful, proving its success in the market, so the next step was almost a formality: the transfer of the business concept and the start of membership. Catering, a restaurant, hotels, retail travel, transportation only a few areas in which the franchise is now, is a common practice. The liberalization of the economies of Central and South-Eastern Europe and their desire to become part of an organized commercial system allowed developing the business of franchising. Absolute leaders in the implementation of franchise systems are the Czech Republic and Hungary. This activity is also developing in the markets in Poland, Bulgaria and Romania.

Franchise development constrained by the following factors in Table 1.

Table 1: Franchise development constrained by the following factors.

Inadequate legal framework	Lack of internal capital
	Limited access to credit
	Relatively high risk countries
	Other obstacles

Although franchising is a relatively new industry in the central and south-eastern European countries, in the future, the continuous development of this kind of activity.

Franchising in the market in this region registered strong competition between the U.S. and West European franchises. European companies such as Kookai, Zimbo, Nord-West-Ring, having the advantage acquaintance with the local market, have developed their own networks with relative ease. U.S. franchisors in general, and particularly those with well-known brand, have a good reputation: McDonald's, Kentucky Fried Chicken, etc. The success of these companies has led to a growing interest in franchising.

The results reveal that franchised restaurant performance is better. However, it is rare to find a study which compares the franchised lodging industry's financial performance with that of non-franchised lodging firms. Therefore, the purpose of this research is to compare the financial performance of franchised-lodging industry firms with the financial performance of those which are non-franchised. Moreover, this study is conducted from the franchisors' perspective. To identify whether franchising can influence lodging firms' financial performance, this study investigates the profitability and intangible values of both franchised and non-franchised restaurant firms. Financial data, which is derived from each company's annual report, were collected from the National Association of Securities Dealers Automated Quotations (NASDAQ) website and each lodging firm's website. Some non-franchised lodging firms' financial data were collected from Korean non-franchising lodging firms. The financial statement came from the Korean Financial Statement Publication Websites (<http://dart.fss.or.kr>). Since this study is conducted from the hotel franchisor's perspective, hotel management companies and referral groups plus some companies which include a bigger proportion of casino and resorts than lodging are excluded. Market in the region attractive to foreign investors because of a skilled labour force, relatively low cost of operation and advertising, favourable wage standards, reasonable real estate prices and the growth in market demand. True partners can weather any storm. Those who build business relationships on honesty, looking into the character for those building partnership, will be those who swim upstream, even in the most difficult waters.

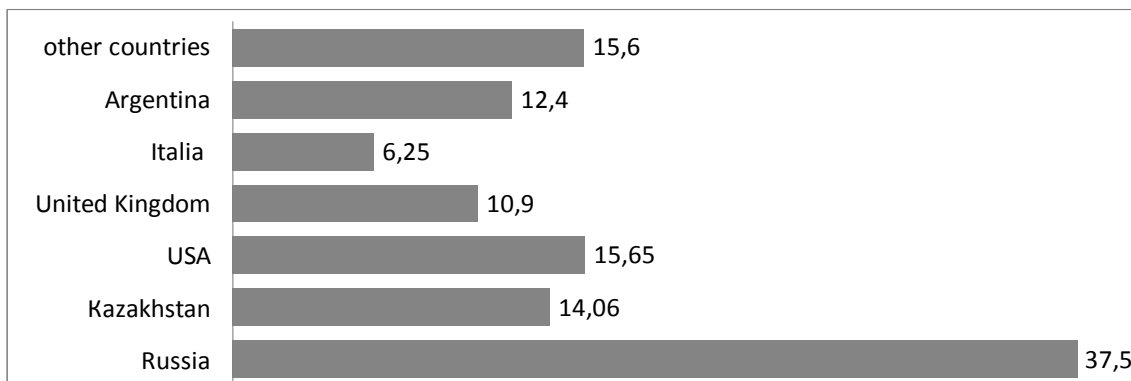
It should be noted that in these countries recorded high growth rates of retail trade and service industries. Local demand for high-quality products and services has been slow, but has a tendency to grow. In addition, there is a growing sensitivity of the market to foreign products and services (especially the U.S.), the great interest of consumers for products and services offered by foreign companies with well-known trademarks, logos and trademarks.

Food service and retail trade is now dominated by franchise market in Central and South-Eastern Europe and are the most dynamic. In addition, experts believe that there is a still untapped reserve of business development. Therefore, foreign companies are planning to open new restaurants. For example, McDonald's in the Czech Republic is planning to open 10 new restaurants, KFC - 3 restaurants, Dunkin Donuts - 3 restaurants. Similar action will be taken and the above companies in Poland, Hungary, Bulgaria, etc.

Good prospects for the hotel industry, especially in south-eastern Europe, where tourism is developing rapidly in recent years. The sector could also expand into rural areas, as interest in rural tourism is growing, but the infrastructure is still underdeveloped. Services for dry cleaning clothes may develop in small towns. The same goes for real estate transactions, which are at an early stage of development. Franchising also has good potential for development in the production of goods and services for children, such as computer programs of education and children's entertainment.

The share of franchise companies in the context of the domestic market is shown in Figure 1.

Figure 1: An equity index franchise companies in the Republic of Kazakhstan by the participating countries, (%), authoring.



Prospects for the development of franchising in Russia the most favourable. Recently, there is a tendency of accelerated development and distribution franchise business methods. Thus, according to statistics, from 1995 to 1999, during the first four years of franchising in Russia, in its territory have 42 franchised systems, from 2000 to 2010 a year, for 2 years - 37, and one in 2002 - already 29. This improves the quality of the franchise offers, and technologies that are available for transfer become strong and commercially viable, there are more positive examples of the introduction of franchising. Now known and popular franchises all around the world. Number of franchisors and, accordingly, franchise networks is growing at fast pace. According to "International Franchise Association" in the early twenty-first century, there were about 16.5 thousand franchisors and franchisees more than 1.2 million. A recognized leader in the development of franchising is the United States (2000 franchisors), Canada (1200), South Korea (1000), Brazil (1000), Japan (1000) [17].

In Kazakhstan, the franchise began to develop much later than in the U.S. and Europe. The main reason is that this form of business - relationship was impossible in a socialist economic system.

Birth of franchising in Kazakhstan is considered to be opened in 1994 in the city of Almaty plant «Coca-Cola Turkey», the licensee of the international brand the United States, has licensed franchisees Kazakh JV "Coca-Cola Almaty Bottlers' [18].

In the late 1991's began to appear in Almaty other franchising projects, for example, «Baskin Robbins», «Adidas», «Intercontinental».

So far, Kazakhstan has more than 350 franchises, opened more than 3,000 franchise companies, which employ more than 17,000 people, and the turnover of the sector franchise reaches \$ 1 billion a year. The dynamics of the development of franchising in Kazakhstan is growing every year. According to forecasts of the "Union of franchising" to 2022. Share of franchising in Kazakhstan business was 35%, at least 100 will be successful Kazakh franchise systems [19].

Among the most popular areas of business, based on the acquisition of the franchise in the next few years will be:

- Services to the public (beauty salon, fitness center, dry cleaning);
- Car service, car service station;
- Lawn care, landscape design;
- Renovation of homes and household appliances;
- Care for children, the elderly and the sick;
- Various professional courses and courses of interest.

In the coming years will be needed as services and service maintenance and repair of household and office equipment. We can assume that the services market return hire expensive household items (televisions, computers, furniture, etc.).

In addition, in the catering of diminishing size of the "average ticket", so very promising waiting brands of fast foods, which will offer a set of dishes with low price.

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DISCUSSION AND CONCLUSIONS

It should be noted that the franchise is one of the most popular widows of modern business. This technology provides a reliable success as a franchisor and a franchisee, in the first case is to maintain the company's image in various markets of the world, expanding the market shares and the second constant cooperation and protection on the part of the franchisor. Effective use of franchising resources by partners of franchise to demonstrate other benefits, such as investment policy, promotion brand and profit.

Martín-Herrán et al. [20] researched economic opportunities in the business market, starting from the franchise. The study examined the question of the benefits of franchising as financing the franchisee from the franchisor. Exactly what franchisees can develop their own loyalty programs for members of their network? The emphasis of the research fell on a popular practice in Western countries such as the investing in franchisee for the purpose of receiving returns on investments.

Research in this area with regards to Kazakhstan was considered as the legalization of this technology, because the necessary legal framework. Necessary the legalization of have been developed for appropriate infrastructure, namely franchising in Kazakhstan. Kazakhstan is one of the few countries in which the franchising sector is regulated by a special law, namely: the law "On the comprehensive entrepreneurial license (Franchise)" [21].

So, methodology franchise business has proven its success in almost all areas. Its key elements are: the franchisor know-how, which turned out to be reliable, and which lies on the portability, the expansion of the franchise network, and, on the other hand, continued cooperation in all aspects between the two partners, which leads to maintain the brand image position on the market. This ensures the existence of the two partners, both will seek to capitalize effectively the advantages offered by the other: the franchisor will invest funds received for the improvement of their business concept and the franchisee will use the brand and know-how for its own good. With the development of franchising in Kazakhstan entrepreneurship in general and in particular small businesses will receive a powerful positive momentum that will serve as the foundation for the prosperity of the economy of Kazakhstan.

The above drawbacks are there, but the franchise has established itself as one of the methods of business cooperation with a significant low risk, compared to the self-development of the individual and the business. In this period of rapid economic, franchising has the potential and ability to become the most profitable method for those entrepreneurs who are ready to start or grow their business.

In addition, in Kazakhstan, the franchise is a means to attract foreign expertise and financial capital. As a business form, the franchise is important to improve the quality of service in the tourism industry, acquiring know-how, ever closer to the international standards, and last but not least, the generation of economic growth.

The development of a new experience, the acquisition of new ideas, methods and technologies are always useful for any kind of activity. That is why entrepreneurship is necessary legislation to ensure legal protection and a guide to action at the conclusion of the internal and international treaties that allow using the franchise system held to promote brands and technologies of business in our country and abroad.

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