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Royalty Fee Arrangement in Franchise Business and its Legal Implication in Indonesia

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A R T I C L E I N F O

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A B S T R A C T

Royalty fee arrangement in the franchise business in Indonesia provide a clear legal basis to protect the rights of franchisors and franchisees. While the existing arrangements are sufficient to support the creation of legal certainty, challenges in the implementation of oversight and legal enforcement are still the main obstacles in realizing a fair balance between the two parties. This research aims to analyze the extent to which royalty fee arrangements can provide maximum protection for franchisees and prevent them from potential exploitation. Through a literature study approach and normative juridical analysis, this research finds that despite the existence of clear arrangements, oversight of the implementation of royalty fees in the field has not been optimal. Increased oversight and stricter enforcement of sanctions are needed so that the weaker party in the franchise agreement receives appropriate legal protection. These findings have important implications for strengthening the franchise regulatory system in Indonesia to make it fairer and more sustainable.

INTRODUCTION

In recent years, the franchise business in Indonesia has shown significant growth. This phenomenon illustrates the vast opportunities offered by the franchise business model for business actors, both for local and foreign investors. Franchising makes business expansion easier, and reduces risk for new entrepreneurs by providing a system that has been proven to work. The success of the brand and the standardized operational system make franchising a relatively safe and efficient means of business expansion (Putra et al., 2022). This is also supported by increasing purchasing power and lifestyle changes that drive demand for various franchise products and services. One very important element in running a franchise business is the payment of royalty fees that must be paid by the franchisee to the franchisor in exchange for the use of brands and systems that have proven successful. Royalty fees are a very important aspect for both franchisors and franchisees to understand regarding business legal in Indonesia (Umami & Kustanto, 2020).

The royalty fee system, while offering benefits to both parties, is not free from potential problems related to regulatory clarity and implementation. While there are already various regulations arranging the relationship between franchisors and franchisees, in practice, there are often disagreements regarding the amount of royalty fees, how they are calculated, and the obligations that must be fulfilled by both parties (Amalia & Prasetyawati, 2019). This irregularity has the potential to cause disputes that are detrimental to the parties involved. The research on royalty fee arrangements in the franchise business in Indonesia is very important to ensure legal certainty and prevent conflicts (Afifah et al., 2021).

While the Law Number 8 Year 1999 on Consumer Protection and other related arrangements have arranged the rights and obligations between franchisors and franchisees, the implementation of these arrangements in the franchise world still requires special attention. One of the things that needs attention is whether the royalty fee paid by the franchisee is in accordance with existing arrangements or whether there are elements that harm consumers or smaller business actors. In terms of royalty fee arrangements, the transparency aspect in the calculation and reasonableness of the fees charged is very important to keep both parties from being harmed (Sumiyati & Rani, 2022).

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In this case, the royalty fee arrangement in the franchise business in Indonesia requires a clear and firm legal approach. Royalty fee is compensation that must be paid by the franchisee to the franchisor in exchange for the use of intellectual property rights, business systems, and operational support provided. In practice, this provision often causes problems if it is not agreed fairly from the start, especially if there is an imbalance of information and bargaining position between the two parties. the existence of strict and detailed regulations is important to maintain the balance of legal relations between franchisors and franchisees. This is necessary so that there is a fair agreement between the franchisor and franchisee, which does not benefit only one party. To achieve this goal, it is important to further analyze how the royalty fee arrangement mechanism is arranged in the applicable laws, and whether the existing regulations can provide sufficient protection to business actors in this sector (Putra et al., 2021).

It is also important to note that the franchise business in Indonesia is developing very fast, especially in the food and beverage sector, which is known to have a fairly high profit margin. Many business actors, both beginners and experienced, choose the franchise model because of its relatively stable and proven system. The rise of franchising with various royalty fee payment models also demands stronger legal certainty. Royalty fees that vary in form and amount across various franchise models create an urgent need for legal certainty. Without proper regulation, this can cause significant financial losses, both for the franchisor and franchisee. This study aims to dig deeper into how the royalty fee system in the franchise business is arranged by Indonesian legal, as well as its implications for business actors.

One of the main problems faced in the arrangement of royalty fees in the franchise business in Indonesia is the irregularity in the application of provisions related to the calculation and payment of royalty fees. While franchising is a form of contract-based business cooperation, there are often information gaps between franchisors and franchisees, especially in determining the basis for calculating royalty fees. In reality, many franchisees feel that the royalty fees they pay are not in accordance with the profits they earn. This difference in perception often leads to disputes between the two parties, especially regarding the amount of royalty fees that should be paid and the services provided by the franchisor. In this case, the lack of transparency in the calculation of royalty fees is one of the main causes of dissatisfaction among franchisees (Law Number 8 Year 1999 on Consumer Protection).

Another problem that arises in the practice of franchise business in Indonesia is the obligation to disclose inadequate information by the franchisor regarding the amount of royalty fees that must be paid. In some cases, franchisees are often not provided with sufficient information regarding the cost structure involved in the franchise agreement. This leads to ignorance on the part of the franchisee about the amount of a reasonable royalty fee and a fair calculation process. This lack of clarity often occurs from the early stages of negotiation to the signing of the contract, leaving the franchisee in a weak position and without a thorough understanding of its financial obligations. Based on Law Number 7 Year 2014 on Trade, entrepreneurs are obliged to provide honest and not misleading information about the products and services they offer. This is still a big challenge in the rapidly developing franchise business.

Existing regulations, such as Law Number 20 Year 2016 on Micro, Small and Medium Enterprises (MSMEs), provide a legal basis for small business actors to develop their businesses, including in the franchise business. This law recognizes the importance of partnerships between small businesses and larger businesses as part of the national economic growth strategy. In the context of franchising, this partnership can open up great opportunities for MSME actors to access brands, business systems and a wider market through the support of the franchisor. The absence of regulations that specifically regulate royalty fees in franchising causes uncertainty for both parties, both franchisors and franchisees. This situation is exacerbated by the gap in legal understanding between business actors in this field (Darmawan, 2010).

It is important to observe the royalty fee arrangement in the franchise business because it touches directly on the protection of the rights of consumers and business actors, especially franchisees who are often the weaker party in this business relationship. Clarity regarding the royalty fee mechanism is needed so that franchisees are not burdened with financial obligations that are not proportional to the support or benefits they receive. Without clear regulations and strict implementation, franchisees can become victims of injustice, which in turn can reduce the credibility of the franchise business sector in Indonesia. In a world that is increasingly dependent on technological advances and efficient business models, it is important to ensure that franchise businesses develop quickly and sustainably and are profitable for all parties involved (Katrinasari & Hadi, 2017).

Given that the franchise business is one of the economic sectors that has great potential to advance the local economy, arranging a fair and clear royalty fee is crucial to creating a healthy business ecosystem. If left without adequate oversight, legal problems will arise that can disrupt the sustainability of this business, both for the franchisor and franchisee, which in turn has the potential to harm consumers who use the services of the franchise.

The purpose of this research is to analyze and provide a clear picture of the royalty fee arrangement in the franchise business in Indonesia, and examine how much the existing regulations provide fair legal protection for franchisees. This research aims to identify weaknesses in the royalty fee regulation and provide recommendations on how the regulation can be implemented more effectively to ensure legal certainty and fairness for both parties. The results of this research are expected to contribute to the development of a more transparent and reliable franchise business legal system in Indonesia.

RESEARCH METHOD

The research method used in this research is a literature study approach with a normative juridical approach. This approach focuses on analyzing applicable legal regulations, including laws governing the franchise business, as well as relevant literature that supports the understanding of royalty fee arrangements under Indonesian legal. This literature study aims to explore information and thoughts that already exist in various primary legal sources such as laws, government regulations, and relevant court decisions, as well as secondary sources such as books, articles, and scientific journals that discuss franchise business legal and royalty fee arrangements. With this approach, researchers can gain an understanding of the legal principles applied in the franchise business in Indonesia, as well as the challenges faced in the practice of implementing existing regulations.

The normative juridical approach will be optimized by analyzing legal provisions related to franchise agreements, rights and obligations between franchisors and franchisees, and regulations regarding royalty fee arrangements within the framework of Indonesian positive law. According to Soekanto (2001), the normative juridical approach prioritizes understanding and interpretation of written legal norms to see if there is conformity or discrepancy in legal practice with existing regulations. In this case, the book "Legal Research Methodology" by Soekanto and Mamudji (2010) will be the main reference in explaining the application of this approach. This research also relies on relevant research results in legal journals and other academic literature to provide a more comprehensive perspective related to the issue of royalty fee arrangements in franchise businesses. The references used to explore this topic include franchise-related regulations and regulations governing consumer protection as well as other regulations relevant to legal issues in the franchise industry.

RESULT AND DISCUSSION

Franchise is a business model that is growth rapidly in Indonesia. In the franchise business, royalty fees are an important aspect that must be understood by the franchisor (brand owner) and franchisee (franchisee). Royalty fees, which are fees paid by the franchisee to the franchisor as compensation for the right to use the brand and business system, play an important role in maintaining the continuity of the partnership and ensuring service quality. In practice, legal arrangements related to royalty fees still face challenges, especially in ensuring compliance with the contract and preventing disputes between the parties involved.

Franchise regulation in Indonesia has been arranged in several regulations, including Regulation of the Minister of Trade of the Republic of Indonesia No. 53/M-DAG/PER/8/2012, which regulates the rights and obligations of parties in franchise agreements. This regulation provides a legal framework covering the rights and obligations of both franchisors and franchisees, including the obligation to submit a franchise offering prospectus and a written agreement. This regulation aims to provide legal certainty for franchise business actors and create healthy and fair partnership relationships. The main challenge in regulating royalty fees in franchise contracts is to ensure fairness and transparency in the setting of such fees. Many cases show that the lack of adequate arrangements can lead to disputes that are detrimental to both parties (Disemadi et al., 2019).

The royalty fee arrangement in the franchise business in Indonesia has a very important role in creating legal certainty for both parties: franchisor and franchisee. Royalty fee is a fee paid by the franchisee to the franchisor in exchange for the right to use the brand, system, and support provided by the franchisor in running the business (Katrinasari & Hadi, 2017). In this case, legal certainty is needed to ensure that both parties can carry out their obligations and rights in accordance with the agreement that has been determined. According to Article 8 of Law Number 20 of 2016 concerning MSMEs, and Government Regulation Number 42 of 2007 concerning Franchises, arrangements regarding the amount of royalty fees must be made transparently and clearly in the franchise agreement, so that both parties understand their rights and obligations in detail.

In the franchise business, agreements regarding royalty fees must be carefully structured, given the potential imbalance of power between franchisors who have full control over the brand and business system, and franchisees who are more dependent on the operation and success of the business model (Putri, 2020). To provide legal certainty, the provisions regarding the amount of royalty fees must be explicitly stipulated in a valid agreement, taking into account the principles of fairness and the sustainability of the franchisee's business. With regulations governing this matter, such as in Article 4 of the Regulation of the Minister of Trade Number 31 Year 2008 concerning the Implementation of Franchises, both parties can operate within a clear and fair framework (Sumiyati & Rani, 2022).

The regulations governing the franchise business also require a mechanism to protect the weaker party in the agreement, the franchisee. Not all franchisors and franchisees understand the existing legal provisions, resulting in disputes and even contract cancellation in some cases. This dispute resolution is usually done through arbitration or mediation as stipulated in the contract as a form of out-of-court settlement (Disemadi et al., 2019). In this case, oversight of the implementation of royalty fees is very important. Oversight conducted by relevant agencies, such as the Directorate General of Consumer Protection and Trade Order (Ditjen PKTN), aims to ensure that franchisors do not set royalty fees that are burdensome and violate the principles of fairness stipulated in Law Number 8 Year 1999 on Consumer Protection. The oversight also includes an evaluation of whether the royalty fee charged is in accordance with the value received by the franchisee, such as training, promotion, and brand management support provided by the franchisor.

While the arrangements and oversight of royalty fees have been arranged in various regulations, in practice, injustices are often found in franchise agreements (Putri, 2020). Some franchisors set very high royalty fees without providing appropriate added value to franchisees. This profit-sharing system, although flexible, sometimes causes franchisees to experience difficulties in paying royalties if operating profits do not reach the target (Nurjannah & Wahid, 2013). Afifah et al. (2021) recommend that franchisees must have a good understanding of royalty payment obligations to avoid misunderstandings in the contract. In some cases, this can lead to an imbalance that is detrimental to franchisees, who are unable to obtain profits proportional to the amount of costs they incur. Stricter regulations and greater scrutiny are needed to ensure that agreements are fair and do not disadvantage franchisees.

Legal certainty in royalty fee arrangements is also very important in maintaining long-term relationships between franchisors and franchisees. Umami and Kustanto (2020) emphasize the importance of preparing a clear and detailed contract regarding royalty fee obligations, so that both franchisors and franchisees understand their respective responsibilities. Without a clear arrangement, the risk of conflict increases, especially regarding the amount and frequency of royalty payments. In this case, both parties must have mutual trust, which can only be created if each party feels protected by clear and transparent regulations (Putri, 2020). In royalty fee arrangement, it is important to arrange a dispute resolution mechanism that can be easily accessed by the parties involved in the franchise agreement. It is aimed that any disputes that arise can be resolved in a way that does not harm either party and in accordance with applicable legal provisions (Sumiyati & Rani, 2022).

The effective oversight should also include checks on the franchisor's compliance in providing the training and support promised in the agreement. This is important to ensure that franchisees are burdened with the obligation to pay royalty fees, and receive services and support that match the value agreed in the contract. In this regard, it is important for the government to ensure that each franchisor fulfills its obligations and does not engage in practices that may harm franchisees. With structured and participatory supervision, the potential for abuse of the franchise system by the franchisor can be minimized, and trust in this business model can be maintained. This is also part of the effort to create a fair and conducive business climate for national economic growth.

A good oversight mechanism will also ensure that if there is a violation of rights by the franchisor, appropriate corrective action can be taken immediately. Strict legal enforcement against violations related to royalty fee arrangements will create a deterrent effect for franchise business actors who do not comply with existing regulations. For example, if a franchisor sets a royalty fee that is not in accordance with the value provided or violates the applicable provisions, it may be subject to administrative or even criminal sanctions in accordance with the provisions in Law Number 20 Year 2016 on MSMEs and relevant Government Regulations.

Arrangements regarding royalty fees in franchises also need to be seen from the perspective of broader consumer rights arrangements. As consumers of products or services sold by franchisees, consumers also have the right to obtain quality products and adequate services. Royalty fees paid by franchisees to franchisors generally cover the use of proven brands, operational systems and service standards. Fair arrangements regarding royalty fees will also contribute to improving the quality of services and products received by consumers. In this case, good oversight of the implementation of the franchise agreement will affect the relationship between the franchisor and franchisee, and the satisfaction of consumers who use the products and services of the franchise (Amalia & Prasetyawati, 2019). With a healthy and fair franchise system, the relationship between franchisors and franchisees will run harmoniously, and consumer satisfaction and protection can be more thoroughly guaranteed.

The importance of clarity in franchise agreements arranging royalty fees is also related to the protection of franchisee rights as the more vulnerable party. The franchisor, as the party that has control over the brand and business system, is often more advantaged in this business relationship. Franchisees are usually business actors with more limited capital and experience than franchisors, so their bargaining position in business agreements tends to be weaker. A fair royalty fee arrangement is key in ensuring that franchisees are not treated unfairly. Clarity in this regulation will also increase awareness for both parties regarding their obligations and rights, which in turn will encourage a more transparent and fair business climate (Amalia & Prasetyawati, 2019). It can also serve as the basis for establishing a more effective supervisory system, so that franchise business practices in Indonesia can grow more fairly, ethically and professionally.

A fair royalty fee arrangement also provides legal certainty in the taxation aspect for the government. The franchisor as the recipient of royalties has the obligation to report the income as a tax object, while franchisees can also calculate royalty expenses accurately in their financial statements. With clear regulations regarding the amount of royalties, the government can more easily monitor and verify the tax obligations that must be paid by franchisors and franchisees. This supports fiscal compliance, and helps create a healthier business ecosystem that avoids tax evasion practices that harm the country. Ultimately, this practice will encourage the growth of the franchise sector which contributes positively to the national economy.

Equal protection between franchisors and franchisees is an important element of royalty fee arrangements in the franchise business in Indonesia. With consistent oversight and clear legal enforcement mechanisms, this business relationship can run in a balanced manner, avoiding the weaker party from being exploited. In this situation, proper and fair arrangements will be the foundation for the creation of mutually beneficial cooperation, so that the franchise sector can develop well (Katrinasari & Hadi, 2017).

Effective oversight focuses on fulfilling obligations, and on checking for potential abuse of power on the part of the franchisor. Uncertainty and vagueness in the agreement can be a loophole that is exploited by the stronger party, leading to injustice for the franchisee. Competent authorities need to be more proactive in implementing existing rules and strengthening legal enforcement to provide maximum justice and protection.

Overall, by strengthening royalty fee arrangements and ensuring that oversight and legal enforcement are consistent, the franchise sector in Indonesia can develop on a more solid and sustainable foundation. This will open up opportunities for both parties to achieve mutual success, build higher trust, and create a fairer and more transparent marketplace.

CONCLUSION

Existing regulations provide a clear legal basis for both parties, namely the franchisor and franchisee. This legal certainty is important to ensure that the rights and obligations of both parties are protected in the franchise business relationship. While the regulations related to royalty fees are adequate, consistent implementation and more effective oversight are needed to avoid potential rights violations, especially for weaker parties, namely franchisees. With a clear arrangement, it is hoped that a balance can be created between the two parties in carrying out the franchise agreement, which ultimately supports the sustainability and prosperity of the franchise business in Indonesia.

The implication of a good royalty fee arrangement in the franchise business is the creation of a more transparent, fair and sustainable business climate. Weaker legal protection for franchisees will increase confidence in the franchise system, leading to healthier growth in this sector. Strict oversight of the implementation of franchise agreements and royalty fees will also prevent abuse of power by the more dominant franchisor. As such, better regulation and closer oversight will contribute to the stability of the franchise market and provide broader benefits to stakeholders.

The suggestion that can be given is to increase oversight of the implementation of franchise agreements, especially those related to royalty fees, in order to better ensure justice for both parties. The government through relevant agencies, such as the Directorate General of PTKN, needs to be more proactive in monitoring franchise practices in the field. Franchisees also need to be given an understanding of their rights and obligations in the franchise agreement, as well as the importance of legal consultation to avoid potential injustice. With sufficient understanding, franchisees can be better equipped to assess the viability of the contract and negotiate fair terms. Stricter oversight and proper education will create a more harmonious and beneficial relationship between franchisors and franchisees.

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