

Legal Convergence: An Analysis of Legality and Supervision for Investment-Based Multilevel Marketing

Fahmi Ilham Rizaldi, Dharma Setiawan Negara, Arif Rachman Putra, Didit Darmawan, Rommy Hardyansah

Universitas Sunan Giri Surabaya, Indonesia

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ABSTRACT

The legality and supervision of multilevel marketing (MLM) companies offering investment models present a complex regulatory challenge in Indonesia, stemming from the convergence of trade and financial services sectors. This qualitative literature study aims to analyze the legal construction from both perspectives, assess the effectiveness of existing supervisory mechanisms, and formulate an ideal regulatory framework. The research finds that legal ambiguity arises due to the overlap between trade regulations, specifically Ministry of Trade Regulation No. 70 of 2019, which mandates real product sales, and financial services laws, primarily Law No. 21 of 2011 on the Financial Services Authority, which requires licensing for any public fund-raising activity. This duality creates regulatory gaps and fragmented supervision, often leading to reactive and ineffective oversight that fails to prevent public financial loss in a timely manner. The current mechanisms involving consumer protection law, criminal law, and corporate law operate in silos without robust inter-agency coordination. The study concludes that an ideal framework necessitates the creation of a special integrated regulation (*lex specialis*) that clearly defines this hybrid entity, establishes a single licensing door with joint assessment, and mandates a lead regulator. Furthermore, supervision must evolve into a proactive, technology-based model using an integrated digital reporting platform for early detection of fraudulent patterns. Enhanced public financial literacy specific to this model is also crucial. This research contributes to the academic discourse on regulatory design for convergent business models and provides practical recommendations for policymakers and supervisory authorities.

INTRODUCTION

Multilevel marketing (MLM) models have become a fixture of the global business landscape for decades, operating in the complex space between legitimate direct selling and detrimental pyramid schemes. Their operational characteristics, which rely on recruiting new members to build distribution networks while marketing products or services, create unique and often controversial business dynamics. In their development, variants of this model that integrate investment offerings have emerged, adding a new layer of complexity to traditional business structures. Such offerings typically promise financial returns derived not only from product sales but also from network growth and mechanisms resembling financial products. This

shift blurs the already thin line between pure MLM and investment schemes subject to capital market regulations. The emergence of these hybrid models demands mature management readiness so that business actors can maintain their viability amidst regulatory uncertainty (Mardikaningsih & Darmawan, 2021). Early academic literature, as reviewed by Nat and Keep (2002), has sought to distinguish the characteristics of legitimate operations from pyramid schemes, focusing on the role of real product sales versus a primary reliance on recruitment.

The evolution of multilevel marketing businesses into the territory of investment offerings is closely linked to rapid developments in digital and financial technology. Digital platforms facilitate

* Corresponding author, email address: dr.diditdarmawan@gmail.com

recruitment, transactions, and information dissemination, while increasing the potential reach and speed of operational growth. In this environment, promises of quick financial gain can be spread with high efficiency, attracting participants who may be motivated by the desire to invest rather than to become product distributors. This hybrid business model raises fundamental questions regarding its legal classification: whether as a multilevel marketing firm or as a collective investment offering. This ambiguity is a key loophole that can be exploited for dubious operations, a concern increasingly relevant with the proliferation of ambiguous digital business models (Peterson & Wotruba, 1996). As shown by Cox (2016) research, many modern schemes are deliberately designed to avoid clear legal classification, moving in a grey area between direct sales and financial instruments. This dynamic is also influenced by the massive use of contemporary communication channels that accelerate online market penetration (Sinambela & Darmawan, 2021). The ease of information exchange through social media also accelerates the spread of these models and creates networks that are difficult to monitor, as analyzed by Chitrakorn (2017) in his study on the digital marketing strategies of multilevel companies.

The legal basis for multilevel marketing operations in many jurisdictions, including Indonesia, often focuses on aspects of direct selling and consumer protection. In Indonesia, primary legal umbrellas such as the Minister of Trade Regulation on Direct Selling and the Consumer Protection Law regulate licensing, contracts, and consumer rights. However, this framework is fundamentally designed for transactions of goods and services, not for regulating schemes containing elements of fund collection and promises of future financial returns of an investment nature. The limitations of these instruments trigger an urgency to increase the efficiency of business licensing services by relevant authorities to ensure clarity regarding the legal status of industry actors (Sudja'i et al., 2023). When a multilevel marketing company begins offering "investment" packages with promises of profit-sharing based on network development or factors beyond real product sales, it enters a realm that should be supervised by financial authorities such as the Financial Services Authority. This separation of regulatory authority creates a high-risk oversight vacuum. Therefore, fair legal protection guarantees are needed for all business actors involved so that commercial partnerships can proceed according to moral corridors (Wibowo et al., 2024).

The risks of this oversight vacuum manifest in the

potential for significant financial loss for the public. Participants in hybrid schemes are often faced with complex compensation structures, where profits are determined more by the ability to recruit new members than by selling products to end consumers. This pattern is a hallmark of pyramid schemes, which are ultimately unsustainable because they rely on the flow of money from newcomers to pay predecessors. Koehn (2001) research underscores that the sustainability of such business models is mathematically impossible once population growth reaches its limit. When the scheme collapses, losses are typically borne by the members who joined last, who often represent the vast majority. Furthermore, because they are considered "investors" or "entrepreneurs," they may find it difficult to claim the same legal protections as ordinary consumers, exacerbating their vulnerability. This operational dilemma demands the application of strict moral principles in every business decision-making process to maintain healthy relationships with external stakeholders (Mardikaningsih & Darmawan, 2022).

Therefore, an examination of legal construction and appropriate oversight mechanisms for multilevel marketing companies that offer investment models is an academic and practical necessity. This study must explore the boundaries of existing legal definitions, identify linkage points and gaps between trade and financial service regulatory systems, and analyze the effectiveness of available oversight instruments. Risk mitigation efforts through legal approaches become crucial instruments in protecting public rights in financing or fundraising activities (Sahid et al., 2023). A comprehensive understanding of the complex interaction between business models, regulations, and oversight practices will provide a foundation for evaluating the existing legal framework and formulating coherent policy recommendations. Focusing on aspects of legality and oversight is the key to distinguishing innovative business practices from veiled fraudulent schemes, thereby protecting public interests while maintaining a healthy business climate.

The starting point of the problem lies in the ambiguity of legal definitions and classifications for hybrid business models that combine multilevel marketing structures with investment offerings (Utoyo, 2020). Positive law governing multilevel marketing generally focuses on transactions of goods and services, with parameters such as the ratio of product sales to non-participants and prohibitions against pyramid schemes. Meanwhile, regulations in the investment and capital market sectors define

investment offerings based on criteria such as fundraising from the public, expectation of profit from the efforts of others, and the issuance of securities. Companies operating in this grey area can design their offerings such that they formally meet some requirements of multilevel marketing, yet substantially attract participants with the lure of investment-style financial gains. This lack of clarity, as identified by Keep and Nat (2014) study, causes legal uncertainty for both business actors and oversight authorities, and opens opportunities for regulatory arbitrage where entities choose the oversight system perceived as the most lenient. This condition is similar to the complexities occurring in the informal sector, where public compliance with rules is heavily influenced by the consistency of actions in the field (Purwanto et al., 2024).

A direct consequence of classification ambiguity is the fragmentation and overlapping of oversight authority between government agencies. On one hand, the ministry responsible for trade has authority based on regulations regarding direct selling. On the other hand, the financial services authority has a mandate to oversee every activity in the financial services sector, including investment offerings to the public. In practice, a multilevel marketing company with an investment model can escape Financial Services Authority's strict oversight if it argues that its core business is direct selling, not investment offerings. Conversely, trade authorities may struggle to reach the investment aspects due to the limitations of their legal instruments. This situation creates a significant oversight gap where no agency feels it has full authority or, in other cases, where duplication of authority hinders law enforcement. Therefore, strengthening effective law enforcement is crucial to preventing deviations in both commercial and investment activities (Saputra et al., 2021). Research by Bosley and McKeage (2015) shows that coordination between regulators is often a primary obstacle in handling complex business schemes that cross the traditional boundaries of economic sectors.

At the operational level, existing oversight mechanisms have proven ineffective in detecting and preventing questionable practices at an early stage. Oversight is often reactive, carried out only after public complaints or indications of widespread loss. Proactive approaches through continuous monitoring of compensation structures, fund movements, and recruitment activities of these companies remain limited. Furthermore, the technical capability and resources available to oversight officials at the trade level may be

insufficient to analyze complex financial models and the investment schemes offered. This limitation is exacerbated by the companies' sophisticated marketing communication strategies, which are capable of masking pyramid characteristics with narratives of entrepreneurship and financial independence. Yet, the readiness of the younger generation to get trapped or succeed in the modern market depends heavily on being equipped with adequate governance competence from an early age (Zahid et al., 2023). As a result, the public, especially those who are less financially literate, are vulnerable to being trapped in schemes that are fundamentally unsustainable, believing that they are participating in a legitimate and profitable business or investment opportunity.

The development of the digital economy and the proliferation of social media platforms have drastically transformed the multilevel marketing landscape, simultaneously accelerating and expanding the impact of models that incorporate investment elements. The speed of recruitment and information flow today far exceeds that of the analog era, allowing certain schemes to reach national scale in a short period before authorities can respond. In this context, the optimization of healthy business competition principles is essential to create a fair economic climate in the digital era (Wibowo et al., 2023). Cutting-edge academic study is required to understand these new *modi operandi* and to formulate an oversight framework that is adaptive to digital realities. A systematic literature analysis can reveal common patterns, exploited regulatory gaps, and summarize lessons from other jurisdictions that have faced similar challenges. Without solid academic understanding, policy responses risk lagging behind the "innovation" in a negative sense carried out by irresponsible business actors.

The diverse levels of public financial literacy add a socio-economic dimension to the urgency of this topic. Promises of high returns from investment models combined with multilevel marketing can be highly attractive to societal groups seeking additional income or a way out of financial pressure. In fact, levels of financial understanding and risk tolerance play a significant role in underpinning individuals' decisions to place their funds in certain instruments (Mardikaningsih & Darmawan, 2023). However, their understanding of risk, compensation structures, and the difference between regulated investments and pyramid schemes is often limited. This literature review is important for identifying points of vulnerability for consumers or investors within current legal structures and business

practices, so that the resulting recommendations can emphasize aspects of education and protection. By highlighting ambiguous legal frameworks and oversight gaps, this study has the potential to encourage initiatives to simplify information and increase the transparency of corporate obligations, which in turn empowers the public to make more *informed* decisions.

Finally, there is a need to strengthen the coherence and synchronization of regulations in facing increasingly convergent and cross-sectoral business models. The need for integrated oversight is increasingly crucial if corporate activities begin to cross national borders and trigger competition across jurisdictions (Zulkarnain et al., 2024). A literature review focused on aspects of legality and oversight can provide a conceptual roadmap for policymakers. By analyzing applicable provisions, evaluating their effectiveness based on findings from previous empirical research, and identifying points of conflict or gaps, this study presents an evidence-based foundation for regulatory reform. Recommendations born from deep analysis can lead to the refinement of definitions, more integrative licensing procedures, or the formation of more effective inter-agency oversight coordination mechanisms. Thus, the contribution of this study is not limited to the academic realm but also has direct relevance for efforts to create a more resilient and comprehensive oversight system.

This research aims to analyze the legal construction of multilevel marketing companies that offer investment models by examining applicable trade and financial service legal provisions. Furthermore, the research examines the mechanisms and effectiveness of oversight implemented by relevant authorities regarding these business models. Based on the findings of the analysis, the research seeks to formulate recommendations for a more coherent and effective regulatory and oversight framework to address the complexity and risks of these convergent business models. Theoretically, this study is expected to enrich academic discourse at the intersection of business law, financial regulation, and multilevel marketing studies. Practically, the research results are expected to serve as input for policymakers and oversight officials in refining legal instruments and oversight mechanisms to be more adaptive and responsive.

RESEARCH METHOD

This research is a qualitative literature study designed to investigate issues of legality and oversight regarding multilevel marketing companies

with investment models. A qualitative approach was selected as it aligns with the research goal of deeply understanding a complex social phenomenon—the interaction between business models, regulation, and oversight practices through the exploration of concepts, theories, and findings previously established by scholars. As asserted by Creswell (2013), qualitative research allows researchers to build a holistic understanding based on the interpretation of textual data. In this study, such textual data takes the form of credible, published secondary sources. Thus, this research does not generate new primary data but instead synthesizes and analyzes existing knowledge to answer the formulated research questions.

The secondary data sources utilized encompass several key categories to ensure the breadth and depth of the analysis. The first category consists of academic literature in the form of peer-reviewed international scientific journal articles, as well as textbooks and monographs from experts in business law, financial regulation, and marketing. The second category comprises legal and policy documents, consisting of legislation at the national level such as the Consumer Protection Law, the Minister of Trade Regulation on Direct Selling, and relevant Financial Services Authority regulations concerning investment offerings. The third category includes official reports from government agencies, oversight authorities, and international organizations such as the OECD or the International Consumer Protection and Enforcement Network (ICPEN) that discuss direct selling practices and questionable investment schemes. Source selection was conducted purposively, with criteria based on direct relevance to the topic, publisher credibility, and publication dates within a relevant range to ensure the accuracy of legal and policy information.

The analytical technique applied is thematic *content analysis*. This method, as outlined by Braun and Clarke (2006), involves a systematic process for identifying, organizing, and interpreting patterns of meaning (themes) within qualitative data. The analysis process begins with a thorough and repeated reading of all data sources to obtain an initial understanding. Subsequently, a *coding* process is conducted, assigning codes to segments of text deemed relevant to the research questions. These codes are then grouped into broader categories based on conceptual similarities, which ultimately form core themes. In this research, the extracted themes are directed toward answering the research problems, such as themes regarding overlapping legal definitions, themes concerning the

fragmentation of oversight authority, and themes regarding ideal regulatory principles. The analysis does not merely describe the content of the documents but also performs critical interpretation, compares differing perspectives from various sources, and constructs synthetic arguments to build a coherent and nuanced understanding of the issues under study.

RESULT AND DISCUSSION

The Legal Framework and Ambiguities Regarding the Legality of the Multilevel Investment Marketing Model

In the development of modern business models, the clarity of legal construction has become a fundamental issue. The question regarding the legal construction of multilevel marketing (MLM) companies that incorporate investment offerings necessitates a normative juridical review comparing two primary regulatory systems. On one hand, the trade legal system governs the distribution and sale of goods and services. On the other hand, the financial services legal system governs fund-raising activities and investment offerings to the public. This intersection creates a dual legal construction, where the legality of a business entity is determined by its ability to simultaneously meet the requirements of both legal domains. Such integrative compliance is crucial, especially as administrative efficiency in business licensing at the regional level is now demanded to be more optimal and transparent (Sudja'i et al., 2023). Failure to meet any requirement will result in partial legality or even total illegality, depending on the company's operational substance. This analysis begins by examining the foundation of trade law. The specific regulation serving as a pillar is Minister of Trade Regulation Number 70 of 2019 concerning Direct Distribution of Goods. This regulation explicitly defines direct selling and multilevel marketing as legal business activities, provided that they are primarily oriented toward the sale of tangible goods or services. Legality within this framework relies on the existence of physical products or real services as the object of transactions, transparency in compensation structures, and an absolute prohibition against *money game* practices. In this regulation, *money game* is defined as activities that prioritize obtaining profits from the recruitment of new members without the corresponding delivery of goods or services. Trade law is positioned as the starting point for assessing the formal validity of an MLM company.

Complexity arises when business practices move beyond the normative boundaries determined by

trade regulations. When a company registered as a direct selling entity begins to include elements of passive financial profit promises that are not directly related to the sale of products to end consumers, a shift in substance occurs, bringing it to the threshold of the financial services legal system (Tobing, 2019). These profit promises, often packaged in terms such as "investment bonuses," "network dividends," or "capital development gains," are characteristic of an investment offering. Here, Law Number 8 of 1995 concerning Capital Markets and Law Number 21 of 2011 concerning the Financial Services Authority become highly relevant. The Capital Market Law defines securities, which include debt acknowledgment letters, commercial paper, stocks, and collective investment contracts. Any offering of securities to the public must be conducted through a prospectus approved by the Financial Services Authority. Meanwhile, the Financial Services Authority Law mandates the institution to regulate and oversee all activities in the financial services sector, including fund-raising from the public. This oversight involvement becomes a primary pillar for mitigating the risk of public financial loss and providing legal protection for the public utilizing financing-based services (Faridi et al., 2023). Legal construction then becomes highly dependent on whether the profit scheme offered by the MLM company can be qualified as a form of "securities" or "fund-raising." At this stage, the dividing line between trade and financial service activities becomes increasingly thin and determines significant legal consequences.

Determining the primary character of a business activity is key to accurately assessing its legal position. The critical point of analysis lies in the interpretation of what constitutes "tangible goods" in Ministry of Trade Regulation 70/2019 and "securities" in the Capital Market Law. Many companies use products with very low or even symbolic intrinsic value as a facade to meet trade law requirements, while the participants' main source of income actually originates from mechanisms resembling investments. In such situations, although they may administratively meet the requirements of a direct selling company, substantively their core activity is fund-raising. The prevailing legal principle is that *substance over form* applies. Therefore, authorized authorities can set aside the formalities of a trade license and assess the core business of the operation. If the core business is fund-raising with a promise of returns, then the company is obligated to comply with the licensing and oversight provisions of the Financial Services

Authority. Failure to hold a license from the Financial Services Authority renders its operations illegal under financial services law, regardless of its licensing status at the Ministry of Trade. Affirming these substantive boundaries is essential for anticipating potential future legal disputes, especially when business actors face technical obstacles while filing claims for the restoration of rights in court (Hardyansah et al., 2021). This approach affirms that the evaluation of legality does not stop at the administrative aspect alone.

Beyond sectoral regulations, general trade law provides a relevant normative foundation. Furthermore, another dimension of this legality construction is Law Number 7 of 2014 concerning Trade. This law serves as a general umbrella that asserts the principles of honesty, legal certainty, and professionalism in trading activities. This principle means that agreements between parties must be based on honesty to achieve shared goals. The implementation of such agreements must also refer to what is appropriate and must be followed in social interactions (Sudjana, 2022). The realization of these fair commercial agreements demands the adherence of the parties to good faith during the execution of business contracts (Irfansyah et al., 2024). Articles within this law can be used to prosecute multilevel marketing companies that engage in misleading practices, including disguising investment schemes as product sales. Violations of the principle of honesty in trading can result in the revocation of business licenses and administrative sanctions. The certainty of these moral values is also in line with traditional economic justice principles that emphasize a balance of rights and obligations among business partners (Wibowo et al., 2024). Thus, the trade legal framework not only provides a legal entry point but also instruments to revoke that legality if substantive deviations are found. This creates a multi-layered defense mechanism, where formal legality based on permits can be voided due to the discrepancy between field operations and the licensing documents submitted. In this context, the principle of honesty functions as a substantial benchmark in assessing the sustainability of business legality.

The dimension of legality cannot be separated from the position and rights of the party on the receiving end of the offer. Consumer protection is also an integral component of legality construction. Law Number 8 of 1999 concerning Consumer Protection requires business actors to provide truthful, clear, and honest information regarding the condition and guarantees of goods or services. In

investment-based multilevel marketing models, information regarding risks, profit calculations, and the sustainability of the business model is often not disclosed adequately or is even hidden. The promised profits promoted usually only display the best-case scenarios without mentioning the possibility of loss. This practice directly contradicts the consumer's right to obtain truthful information as guaranteed by the Consumer Protection Law. The consumer protection regime regularly criticizes the predatory nature of investment-based multilevel marketing models. Unfortunately, loose regulatory frameworks allow investment-based multilevel marketing to operate almost without hindrance and routinely fail to protect ordinary participants, whose optimism, desperation, or ignorance makes them blind to almost inevitable failure (Mangiaratti, 2021). This vulnerability is further exacerbated by the clash of local cultural values when aggressive modern commercial approaches are forced into traditional communities (Mardikaningsih et al., 2021). Violations of this law not only bring civil legal consequences in the form of damages lawsuits but can also serve as a basis for authorities to determine that the company does not meet the standards of honesty that are a prerequisite for the legality of its operations, both from the trade and financial services perspectives. Thus, consumer protection serves as an important indicator in assessing the legitimacy of a business model.

This condition gives rise to a non-trivial institutional problem in oversight practices. Overlapping authority and the potential for regulatory conflict are logical consequences of this dual legal construction. A company may legitimately operate based on a permit from the Ministry of Trade, yet simultaneously perform activities that should require a permit from the Financial Services Authority. This situation raises fundamental questions regarding the primary regulator authorized to conduct oversight and law enforcement. In facing this convergent business model, the strengthening of cross-border legal competence frameworks is also crucial for testing the effectiveness of law enforcement regarding healthy business competition (Zulkarnain et al., 2024). Without clear guidelines on how to classify hybrid businesses, there is a risk that companies will exploit this loophole by only meeting the requirements of the regulatory system deemed easiest, while ignoring the other. Therefore, optimizing oversight by competition supervisory bodies is urgently needed to realize a fair investment climate in the digital economy era (Wibowo et al., 2023). This issue

demonstrates the importance of clarity in regulatory design when facing business model innovation.

Beyond the administrative regime, criminal law continues to play a significant corrective role. The function of criminal law cannot be overlooked in building a comprehensive understanding of the construction of legality. The Criminal Code, particularly Article 378 regarding fraud, serves as a powerful instrument when elements of deception causing loss to others can be proven. Furthermore, Law Number 11 of 2008 concerning Electronic Information and Transactions, especially Article 28 regarding the dissemination of misleading information that harms consumers, can be applied to companies using digital platforms to promote their investment schemes. In this increasingly massive digital landscape, the urgency of personal data protection and global cybersecurity has become a crucial challenge that must be faced by law enforcement (Gardi & Eddine, 2023). Protecting this privacy is an essential part of human rights that must be upheld amidst the dynamics of cyberspace (Issalillah & Hardyansah, 2024). The threat of criminal sanctions strengthens the dimension of accountability for business actors. The legality of a company is not a shield that can protect it from criminal prosecution if, in practice, elements of fraud or the dissemination of false news are found. Firm enforcement of cybercriminal law is essential to provide a sense of security for users of technology-based financial services (Halizah & Mardikaningsih, 2024). Thus, a true construction of legality must include compliance not only with administrative law but also with material criminal law. This approach places legality as a concept inseparable from criminal accountability.

The issue of legality is also closely related to internal structure and corporate governance. Highlighting the corporate aspect, Law Number 40 of 2007 concerning Limited Liability Companies provides a framework regarding the intent, objectives, and legal compliance of a legal entity. A company's articles of association must reflect its actual business activities. If a limited liability company engaged in direct selling is discovered to be conducting public fund-raising activities without Financial Services Authority approval, then such actions can be considered as corporate illegal acts and may open the door for directors to be held personally accountable. Such operational deviations often stem from the weakness of an organization's internal capacity to utilize data analysis objectively for strategic decision-making (Khairi & Darmawan, 2022). This confirms that corporate compliance is not

merely external but also structurally internal.

The entire description above demonstrates the complex character of legality assessment in practice. From the discussion above, it can be seen that the construction of legality for multilevel marketing companies with investment models is not a binary status (legal or illegal), but a spectrum dependent on compliance with a complex and interrelated set of regulations. The complexity of overseeing hybrid market activities is increasingly challenging due to shifts in the socio-political values of society that affect domestic social integration patterns (Fariz, 2021). On the other hand, low levels of financial literacy and awareness often distort public investment patterns, making them easily trapped in manipulative offering schemes (Issalillah, 2024). Therefore, a comprehensive evaluation demands not only regulatory reform but also the strengthening of entrepreneurship education systems to prepare the younger generation to be more selective when entering the modern job market (Zahid et al., 2023). Evaluations must be conducted comprehensively by examining the company's operational substance, the clarity and honesty of its information, and the possession of appropriate licenses from each authorized authority. This construction places companies under very high demands for legal compliance and requires clarity from regulators to prevent the emergence of grey areas that can be exploited. With this perspective, the construction of legality functions as both an analytical tool and a control mechanism against high-risk business practices.

Analysis of Regulatory Oversight Mechanisms and Effectiveness

In the context of modern economic regulation, overseeing hybrid business models necessitates an understanding of the legal structure that encompasses them. The oversight mechanism for multilevel marketing (MLM) companies that integrate investment models is a fragmented process, following the dual regulatory structure that governs them. Various preventive measures applied thus far are considered inadequate to address the impact of MLM on the public, thus requiring a strengthening of regulations and their enforcement, an increase in consumer literacy, and improvements in the operational patterns of MLM (Wils, 2023). Administrative oversight begins at the licensing stage, where the Ministry of Trade acts as the initial gateway through the application of Minister of Trade Regulation Number 70 of 2019. This mechanism is preventive, designed to filter entities intending to

operate. The preparation of these formal documents is often utilized as a justification mechanism so that the new commercial practice can obtain preliminary recognition in the eyes of the law (Al Hakim, 2024).

Companies are required to submit applications attaching documents that include, among others, the company profile, marketing and compensation systems, and product specifications. Administrative examination by the Directorate General of Domestic Trade aims to ensure that the compensation system does not rely solely on recruitment and that the products to be traded meet standards. However, the effectiveness of this preventive mechanism has fundamental weaknesses. The examination is document-based, making it highly dependent on the honesty of business actors in disclosing their actual business models. Companies intending to smuggle in investment schemes can easily design documents that appear to comply with direct selling provisions, while simultaneously preparing marketing and operational strategies that are entirely different once the license is issued. This condition demonstrates that license-based oversight is not yet fully capable of reaching operational dynamics that evolve after the license is granted.

The next stage of oversight places the state in a position that demands consistent monitoring of the implementation of the granted licenses. After the direct selling business license is obtained, the oversight mechanism shifts to a phase of continuous monitoring. Minister of Trade Regulation 70/2019 requires companies to submit quarterly and annual activity reports. These reports should serve as monitoring tools to detect deviations, such as an increase in recruitment volume disproportionate to product sales or significant changes in the bonus structure. In practice, the effectiveness of these reports is limited. The Ministry of Trade's capacity to conduct in-depth analysis of the financial and operational data submitted is often hindered by human resource capacity and the limitation of analytical tools. These limitations in traditional analytical instruments could actually be overcome through the optimization of big data management to support the accuracy of strategic decision-making (Ali & Darmawan, 2023). Furthermore, improving the capacity of apparatus through human resource management innovation is a crucial aspect for increasing institutional competitiveness (Abdulah et al., 2021). Consequently, oversight tends to become an administrative routine characterized by formality, rather than an investigative process that actively seeks indications of fraud. As a result, business models that gradually evolve from product sales to

fund-raising can escape detection until they reach a massive scale and cause widespread losses. This situation demonstrates that continuous oversight has not yet been able to function as an effective early warning system.

Unlike the trade regime, financial services sector oversight is built upon stricter prudential principles. On the other hand, the oversight mechanism by the Financial Services Authority differs in philosophy and approach. The basis of Financial Services Authority's authority is set forth in Law Number 21 of 2011, which mandates it to regulate and oversee all activities in the financial services sector. Financial Services Authority's oversight mechanism regarding entities conducting fund-raising is exclusive and requires special permits. A multilevel marketing company wishing to offer investment products legally must submit a business license application to the Financial Services Authority, a process involving rigorous due diligence regarding management, business models, governance, risk management systems, and consumer protection. This disparity in reach demands that authorities apply operational management patterns that are more agile and adaptive in facing dynamic business ecosystems (Darmawan, 2021). This process is far more rigorous and complex compared to licensing at the Ministry of Trade. However, its effectiveness in reaching multilevel marketing companies that do not apply for a permit is nil, as the Financial Services Authority only oversees entities that voluntarily enter its oversight system or those that have been actively identified. This difference in approach creates a significant oversight gap in practice.

This gap represents a structural issue in cross-sectoral oversight governance. This is the primary weak point in the oversight ecosystem: a significant void exists between the Ministry of Trade's oversight domain and the Financial Services Authority's jurisdiction. A multilevel marketing company can operate with a valid trade license while secretly conducting fund-raising activities that should be subject to Financial Services Authority supervision. To bridge this divide, inter-agency coordination mechanisms are crucial. Law Number 7 of 2014 concerning Trade, in Article 94, does regulate government inter-agency cooperation; however, these provisions are general and do not establish specific, rapid, and binding standard operating procedures for cases of alleged cross-sectoral violations. To overcome sectoral ego barriers, the establishment of cross-functional cooperation patterns among regulatory enforcement officers is an absolute prerequisite for successful coordination

(Fared & Darmawan, 2021). This strategic step also aligns with the demand for expanding the authority of oversight bodies to reach business practices that cross traditional sectoral boundaries in order to maintain a fair investment climate (Firmansyah et al., 2023). Consequently, coordination is often *ad hoc* and reactive, initiated only after public complaints arise or cases are published in the media. Bureaucratic processes for sharing information and determining the *leading sector* are time-consuming, which business actors exploit to continue operations or destroy evidence. This condition demonstrates weak institutional integration in responding to convergent business models.

In response to the rise of illegal investment offerings, a cross-sectoral coordinative mechanism was formed. In an effort to improve the effectiveness of oversight, the Financial Services Authority established the Investment Alert Task Force. This mechanism functions as an information hub and an early warning system for the public. The Task Force routinely issues a list of entities suspected of conducting fund-raising without a permit, including a number of companies labeled as multilevel marketing. From an oversight perspective, this is a defensive mechanism aimed at protecting the public by increasing their awareness. The Task Force's limited capacity for direct enforcement strengthens the urgency for concrete legal protection aspects for consumers utilizing digital platforms (Faridi et al., 2023). Its effectiveness lies in its persuasive and educational power. However, this mechanism is not an active law enforcement tool. The issuance of a blacklist is not automatically followed by investigation processes or the blocking of the company's operations, as enforcement actions require legal standing and lengthy judicial processes. Thus, a chasm exists between warning and enforcement, confirming the Task Force's limitation as an oversight instrument that functions more informatively than repressively.

Criminal instruments complement existing administrative and sectoral oversight mechanisms. Oversight also involves the aspect of criminal law enforcement, as regulated in the Criminal Code and Law Number 11 of 2008 concerning Electronic Information and Transactions. Oversight through criminal instruments is repressive and carried out by the Police and the Prosecutor's Office. Such repressive measures are increasingly urgent, especially in detecting data misuse and cybersecurity violations that frequently occur in the digital transparency era (Gardi & Eddine, 2023). Effectiveness depends heavily on the investigator's

ability to understand the complexity of hybrid business models and gather sufficient evidence to prove elements of fraud or the dissemination of misleading information. This condition requires serious attention from law enforcement toward the aspect of consumer personal data protection in the modern digital service ecosystem (Halizah & Mardikaningsih, 2024). A major challenge faced is distinguishing between legitimate business failure and planned fraudulent schemes. Furthermore, victims scattered across various regions and low reporting rates due to shame or ignorance regarding legal procedures often hinder the investigation process. Criminal mechanisms, despite having potential deterrent effects, are generally the last line of defense activated after widespread financial loss has already occurred. The existence of this mechanism demonstrates that legal protection is often reactive to losses that have already transpired.

Beyond public instruments, the oversight system also opens space for dispute resolution through civil channels. The role of the Consumer Dispute Resolution Agency and the courts, based on Law Number 8 of 1999 concerning Consumer Protection, is also part of the oversight mechanism, albeit passive and reactive to complaints. This mechanism allows aggrieved consumers to obtain compensation. However, its effectiveness in the context of investment-based multilevel marketing is very limited. This ineffectiveness is often triggered by various technical obstacles faced by the public when filing civil lawsuits in court (Hardyansah et al., 2021). Disputes usually involve thousands of consumers with relatively small individual claim values, making the litigation process inefficient. Furthermore, the firmness regarding the legal liability of business actors must be optimized to ensure the fundamental rights of the public in commercial transactions (Baktiasih & Mardikaningsih, 2024). More importantly, compensation judgments often cannot be executed if corporate assets have been protected or gifted, or if the company has been declared bankrupt. Thus, the consumer protection mechanism functions more as a channel for individual remediation rather than a systemic oversight tool that prevents violations from occurring. This limitation demonstrates that civil avenues have not yet been able to provide a broad oversight effect.

Oversight can also be viewed from the perspective of corporate compliance as a legal entity. Oversight from the perspective of corporate law, based on Law Number 40 of 2007 concerning Limited Liability Companies, is conducted by the Ministry of

Law and Human Rights (Safitri, 2022). This mechanism takes the form of monitoring the company's compliance with its articles of association. If a company with a business objective in trade is discovered to be conducting fund-raising activities, this can be grounds for the dissolution of the company by the court upon the petition of interested parties or the Prosecutor's Office. However, this oversight is highly passive and formalistic. The performance of substantive oversight in the field is also strongly influenced by the characteristics, commitment, and professionalism of the personnel tasked with evaluating such compliance (Darmawan, 2017). As long as a company continues to submit annual reports and does not violate the administrative provisions of its establishment, its legal status remains valid. Substantial oversight of operational activities outside of corporate documents is almost non-existent in this mechanism. Such a state indicates that corporate oversight has not been designed to assess operational risks.

The entire range of mechanisms described illustrates a complex yet fragmented oversight landscape. Overall, the total effectiveness of the current oversight framework can be assessed as sub-optimal. This sub-optimality is a challenge to global governance and domestic social integration, which are becoming increasingly complicated due to shifts in the socio-political values of society (Fariz, 2021). Existing mechanisms operate in parallel within their respective regulatory silos, without seamless data and procedural integration. Oversight by the Ministry of Trade is not designed to detect financial schemes, while Financial Services Authority oversight is only active toward entities that have entered its system. Inter-agency coordination, although legally possible, lacks an efficient and proactive operational framework. In fact, the alignment of various internal controlling factors determines the success of improving overall institutional structuring effectiveness (Darmawan, 2024). The precision in structuring this policy mix also serves as a strategic instrument for creating competitive advantages in protecting the business climate (Darmawan & Grenier, 2021). Consequently, oversight tends to be delayed, reactive, and only conducted after significant indications of public loss emerge. To improve effectiveness, a redesign of the oversight mechanism is needed one that allows for *real-time* information exchange between regulators, the establishment of early warning criteria that trigger cross-agency investigations, and the formation of joint oversight teams with expertise in trade, finance, and investigation. This description

affirms the urgency of updating the oversight system to enable it to respond to the development of investment-based multilevel marketing business models.

An Ideal Regulatory Framework for Convergent Business Model

The need for a comprehensive framework arises as business models evolve beyond the boundaries of conventional legal categorization. Formulating an ideal regulatory scheme for multilevel marketing (MLM) companies that integrate investment offerings requires a paradigmatic approach that recognizes and addresses the convergent nature of these models. The ideal framework cannot merely patch or partially improve existing regulations; rather, it must foster the creation of a specific legal framework (*lex specialis*) that firmly defines, classifies, and regulates these hybrid entities. The foundation of this framework is the recognition that these business models constitute a new genus requiring its own definition, distinct from the definition of "direct selling" in Ministry of Trade Regulation 70/2019 and "securities offering" in the Capital Market Law. This definition must capture the essence of merging two core activities: network distribution and fund-raising with promises of returns. This step of forming fair new regulations is an essential instrument in optimizing the principles of healthy business competition to realize national economic justice (Wibowo et al., 2023). Without a clear and operational definition, regulatory efforts will remain trapped in the classification debates that currently constitute the primary source of legal loopholes. Law Number 7 of 2014 concerning Trade can serve as the philosophical foundation to initiate the formation of this specific regulation, as it mandates the creation of a healthy, fair, and transparent trade climate, including the regulation of new forms of business that potentially disrupt that order. With this conceptual basis, the direction of this specific regulatory formation gains strong normative legitimacy.

Once the conceptual foundation is established, attention shifts to an institutional design capable of implementing these regulations effectively. This ideal regulatory structure must be "single-roof" in nature, yet executed by two primary regulators through institutionalized co-regulation and co-supervision mechanisms. The principle is "one business license, two oversight perspectives." In this model, a single body such as a joint committee or an Investment Coordinating Board granted a special mandate serves as the licensing gateway. The

efficiency of such one-stop integrated licensing services has proven crucial in cutting red tape and facilitating the legal operations of business actors (Sudja'i et al., 2023). Companies intending to operate must submit an application containing a comprehensive dossier, including a complete business plan, the estimated proportion of revenue derived from real product sales versus investment mechanisms, detailed compensation structures, governance systems, and consumer/investor protection procedures. The compilation of these formal corporate blueprints demands strict transparency, as ensuring legal compliance from the initial administrative phase reflects the legal responsibility of the board in corporate management (Nugroho et al., 2024). Furthermore, the preparation of such formal business plans requires corporate honesty as a tangible form of implementing the principle of good faith in carrying out business commitments (Irfansyah et al., 2024).

This committee then conducts an assessment involving expert teams from the Ministry of Trade and the Financial Services Authority. The results of this assessment determine whether the company is categorized as "MLM with limited investment features" or "Investment Institution with MLM marketing network." This categorization determines the lead regulator and the intensity of oversight from each authority. The application of these clear categories provides legal certainty and fairness, a highly valuable protection for business partnership participants (Wibowo, Hardyansah, et al., 2024). This systematic sorting mechanism is vital, as a well-defined legal framework serves as the primary pillar for digital credit regulations and risk distribution within complex financial markets (Yuristiawan et al., 2024). Consequently, this model places inter-agency coordination at the heart of effective oversight and enforcement.

Such institutional arrangements must be balanced with substantive provisions that provide tangible protection for the involved parties. Ideal substantive regulations must contain strict and measurable mandatory provisions, particularly concerning transparency and fund segregation. Based on the principles of Law Number 21 of 2011 concerning the Financial Services Authority regarding the management of customer funds, companies must be strictly obligated to separate funds related to consumer product purchases from funds related to investment contributions. These two fund flows must be managed in separate accounts and audited independently each quarter. This rigorous institutional isolation mirrors the state's

broader legal role in ensuring the fundamental protection, security, and financial trust of bank customers (Sulistiono et al., 2024). Furthermore, the regulation must mandate a standard disclosure statement that must be provided to every prospective member before joining.

This statement, which must be approved by the regulator, should clearly and in plain language set forth: the percentage of compensation derived from real sales versus recruitment; historical statistical charts regarding members' success rates in achieving profits; all associated risks including liquidity risk and the risk of total loss of investment capital; and performance comparisons with traditional investment instruments regulated by the Financial Services Authority. The application of strict ethical principles in this business decision-making process significantly impacts corporate sustainability while maintaining harmonious relationships with external stakeholders (Mardikaningsih & Darmawan, 2022). This obligation is an elaboration and specialization of the right to truthful information under the Consumer Protection Law, applied specifically to the context of dual risks (consumer risk and investor risk) in this model. Enforcing these robust preventative mandates is vital to counter the rising threat of online fraud and structural transaction anomalies in developing financial markets (Ali et al., 2024). Ultimately, these provisions affirm that transparency is a primary prerequisite for the legality of such business models.

The effectiveness of substantive regulation is highly determined by the oversight pattern applied in practice. Ideal oversight mechanisms must shift from reactive, complaint-based patterns to proactive, data- and technology-driven patterns (*SupTech*—Supervisory Technology). This requires the development of a centralized electronic reporting platform integrated between the Ministry of Trade and the Financial Services Authority. Companies would be obligated to upload real-time or near real-time operational data, covering new member recruitment, product sales volume by category, fund inflows and outflows from segregated accounts, as well as received claims and complaints. This convergence of oversight into the digital realm must also prioritize privacy as a fundamental human right through a robust personal data protection framework (Issalillah & Hardyansah, 2024). Such digital safety protocols are crucial, as maintaining rigorous control over data flows forms the backbone of personal data protection regulations within the broader fintech sector (Aziz et al., 2023).

This platform must be equipped with

supervisory algorithms programmed to detect dangerous patterns automatically. For example, the system will issue automatic red flags if the recruitment-to-product-sales ratio exceeds certain limits stipulated in the regulations, or if suspicious large fund transfers occur from investment accounts. To operate this sophisticated monitoring system, enhancing human resource capabilities in data analysis is absolutely essential so that the organization's strategic decisions can be made effectively (Khairi & Darmawan, 2022). Furthermore, the employment of advanced analytical tools helps in setting automated thresholds, leveraging big data and analytics to prevent discriminatory practices while protecting customers from systemic financial manipulation (Bashori et al., 2024). These alerts will immediately trigger a special review by a joint oversight team. This approach leverages the spirit of technology-based oversight found in the Law on Electronic Information and Transactions but directs it toward preventive regulatory oversight. This technology integration is also crucial in mitigating legal risks specifically within the digital-based financial ecosystem (Sahid et al., 2023). In cases where gaps still persist, a well-defined statutory pathway must allow for the complete reconstruction of legal mechanisms for consumer rights recovery following severe personal data leaks (Mujisulistyo et al., 2024). This dual-layered framework positions predictive technology as a primary instrument in minimizing systemic risks at an early stage.

Finally, the regulatory architecture must be robust enough to handle corporate distress or the ultimate failure of the hybrid entity. When these complex platforms experience insolvency, a severe legal crisis often emerges regarding the specific liabilities of directors and commissioners during corporate bankruptcy processes (Saputra et al., 2024). To prevent chaotic liquidations, the substantive framework must outline clear parameters for asset distribution, giving special priority to underlying members who function under unequal bargaining power. This preventative liquidation mapping aligns with the need to establish robust legal protection for vulnerable creditors during the insolvency processes of non-traditional savings and loan systems (Priyanto et al., 2023). By bridging predictive supervisory technology with clear legal resolution paths for insolvency, the ideal framework successfully shields the public from the devastating cascading failures typical of unmonitored hybrid commerce.

Effective oversight must be followed by responsive and coordinated law enforcement

mechanisms. Regarding enforcement, the ideal framework must create an *integrated enforcement pathway*. When a violation is detected, whether through proactive oversight or complaints, the *lead regulator* must have the authority to immediately take interim actions, such as the temporary freezing of recruitment or investment offering activities while completing the investigation. For actions involving suspected fraud, this framework must allow investigators from the Police specializing in financial crimes (*Ditreskrimsus*) to be embedded or granted direct access to the oversight data platform pursuant to a court order. Firm and effective law enforcement in this sector has proven to be a primary instrument for preventing the expansion of corrupt practices in the worlds of business and investment (Saputra et al., 2021). This would shorten bureaucratic paths and make it more difficult for actors to destroy evidence. Sanctions must be gradual and reflect the severity of the violation, ranging from significant administrative fines and license revocation to mandatory reporting to the Prosecutor's Office for follow-up under Article 378 of the Criminal Code on Fraud or other relevant articles in the ITE Law. This repressive firmness is important to reverse the public perception that often already ignores compliance due to weak law enforcement against black market and illegal activities (Purwanto et al., 2024). Sanctions must target both the legal entity and the directors who are personally at fault. This framework strengthens accountability by directly linking administrative oversight and criminal liability.

Beyond oversight and enforcement, the ideal regulation must also anticipate the risk of business failure. It must explicitly regulate resolution mechanisms when a company collapses or is declared failed (Dwiliandari, 2021). These risk management provisions become part of a comprehensive business sustainability strategy in facing regulatory uncertainty and future managerial challenges (Mardikaningsih & Darmawan, 2021). These provisions must clearly distinguish the status of members as product consumers versus investors. For consumer losses, compensation mechanisms can refer to the procedures in the Consumer Protection Law. However, in practice, the filing of civil lawsuits by the public is often hampered by various exhausting technical and procedural factors in court (Hardyansah et al., 2021). Therefore, for investor losses, there must be specific provisions regarding claim priority in corporate asset liquidation. The regulation could adopt certain principles from banking or capital market customer protection laws, for instance, by requiring companies to purchase

insurance or establish a *compensation fund*, funded by a percentage deducted from every incoming investment contribution. These funds would be used to provide partial compensation to investors if the company fails, as a form of corporate social responsibility mandated by law. These resolution provisions provide legal certainty for parties when business risks materialize.

The success of regulation is also strongly influenced by the public's level of understanding of the regulated business model. Public education is a crucial supporting pillar in the ideal framework. Oversight authorities, both the Ministry of Trade and the Financial Services Authority, must have a *legal mandate* to periodically and massively conduct education campaigns regarding these business models. This effort is important considering that low levels of financial literacy and risk tolerance often distort the decisions of students and the general public when starting to invest (Mardikaningsih & Darmawan, 2023). Education materials must explain characteristics, differences from pure pyramid schemes, how to read a *disclosure statement*, and steps to report suspicious practices. The strengthening of financial literacy and awareness is proven to be closely related to the formation of more mature and rational investment patterns among the younger generation (Issalillah, 2024).

These education efforts must be supported by an obligation for every company to display official warnings from the regulator in all promotional materials, both online and offline, similar to health warnings on cigarette advertisements. This obligation must also extend to the utilization of email as a contemporary digital marketing communication mix so that consumers are not trapped by misleading information (Sinambela & Darmawan, 2021). Although this approach to information transparency sometimes faces clashes with local values or the customs of certain traditional communities in the field, its implementation must still be optimized for systemic protection (Mardikaningsih et al., 2021). Public education functions as an initial layer of protection that complements formal state oversight.

CONCLUSION

This literature review concludes that the legal construction of multilevel marketing companies offering investment models in Indonesia is formed by the interaction of two legal systems that are not yet optimally integrated: trade law and financial services law. From the perspective of trade law, legality is conditional upon compliance with Ministry of Trade Regulation Number 70 of 2019,

which emphasizes the sale of tangible goods and prohibits *money games*. Meanwhile, from the perspective of financial services law, every activity containing elements of fund-raising with a promise of return must be subject to the oversight and licensing of the Financial Services Authority based on Law Number 21 of 2011. Ambiguity arises when companies operate in the grey area between these two systems, using trade permits as a cover for conducting unauthorized fund-raising activities. The analysis shows that the current legal framework lacks clear definitions and classifications for these hybrid entities, creating legal uncertainty, fragmentation of oversight authority, and opportunities for regulatory arbitrage. Existing oversight mechanisms, despite involving various instruments ranging from consumer protection to criminal law, have proven ineffective because they are reactive, fragmented, and often too late in preventing significant public losses.

The findings of this research have a number of important implications for policy and practice. First, regulatory implications demand urgent harmonization and synchronization between regulations under the Ministry of Trade and those under the Financial Services Authority. The status quo, which permits overlap and regulatory gaps, risks being continuously exploited by irresponsible business actors, compromising the stability of the informal financial system and consumer protection. Second, institutional implications demonstrate the need for the establishment of stronger, procedural, and sustainable coordination mechanisms between oversight agencies. *Ad hoc* and reactive cooperation must be upgraded into institutionalized cooperation with standing protocols for information exchange, joint investigation, and integrated law enforcement. Third, social implications highlight the need for increased financial and consumer literacy specific to the risks of these convergent business models. The public needs to be educated to distinguish between legitimate direct selling schemes, regulated investment schemes, and veiled pyramid schemes, so that they can make more *informed* and protected participation decisions.

Based on these findings and implications, three main recommendations are proposed. The first suggestion is directed at policymakers to formulate and ratify a specific regulation (*lex specialis*) that firmly defines and regulates multilevel marketing companies with investment models. This regulation must serve as a legal umbrella that integrates principles from both systems, establishes single licensing requirements with joint assessments, and

determines the *lead regulator* based on the proportion of business activity. The second suggestion is addressed to oversight officials, both the Ministry of Trade and the Financial Services Authority, to build and operationalize an integrated digital oversight platform. This platform must enable *real-time* operational data reporting by companies and be equipped with analytical systems for early detection of suspicious patterns, allowing oversight to shift toward a proactive and preventive paradigm. The third suggestion focuses on aspects of education and collaboration. The relevant authorities are advised to launch massive and sustainable communication, information, and education campaigns regarding the characteristics and risks of these business models, while simultaneously strengthening collaboration with civil society organizations and industry associations to promote ethical and transparent business practices.

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