Indonesian Law Journal

- Human Trafficking in Accordance with Prosperity and National Economic Development
 Renny Supriyatni Bachro & Mien Rukmini
- Disparity in The Judge's Ruling About Community Property Disputes After Divorce; (An Analysis of The Verdict in The South Jakarta Religious Court, Religious Court of Jakarta And Supreme Court)

Kamarusdiana

Existence of Local Government Toward the Implementation of Coaching and Legal
 Supervision for Franchisee Business

Ika Atikah

Legislation Fatwa National Sharia Board-Indonesian Council of Ulama (DSN-MUI) In the State
 Economic Policy

Fitriyani Zein

- Presidential Threshold Between the Threshold of Candidacy and Threshold of Electability
 Suparto
- Mahar and Paenre'; Regardless of Social Strata Bugis Women in Anthropological Studies of Islamic Law

Yayan Sopyan & Andi Asyraf

 Kedudukan Hasil Audit Investigatif Pada Kekayaan Badan Usaha Milik Negara Persero Dalam Hukum Pembuktian Pidana di Indonesia

Susanto

Hubungan Hukum Dokter dan Pasien Serta Tanggung Jawab Dokter Dalam Penyelenggaraan
Pelayanan Kesehatan

Yussy A. Mannas

• Paradigma Orientasi Mencari Kebenaran Materil Dalam Proses Pembuktian Akta Otentik Yustika Tatar Fauzi Harahap & Isis Ikhwansyah

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TABLE OF CONTENTS

Human Trafficking in Accordance with Prosperity and National Economic Development
Renny Supriyatni Bachro, Mien Rukmini1-18
Disparity in The Judge's Ruling About Community Property Disputes After Divorce; (An Analysis of The Verdict in The South Jakarta Religious Court, Religious Court of Jakarta And Supreme Court)
Kamarusdiana
Existence of Local Government Toward the Implementation of Coaching and Legal Supervision for Franchisee Business
Ika Atikah 45-70
Legislation Fatwa National Sharia Board-Indonesian Council of Ulama (DSN-MUI) In the State Economic Policy
Fitriyani Zein
Presidential Threshold Between the Threshold of Candidacy and Threshold of Electability
Suparto
Mahar and <i>Paenre';</i> Regardless of Social Strata Bugis Women in Anthropological Studies of Islamic Law
Yayan Sopyan, Andi Asyraf 109-138
Kedudukan Hasil Audit Investigatif Pada Kekayaan Badan Usaha Milik Negara Persero Dalam Hukum Pembuktian Pidana di Indonesia (Position of Investigative Audit Results on State Owned Enterprises' Property in the Criminal Proof of Law in Indonesia)
Susanto
Hubungan Hukum Dokter dan Pasien Serta Tanggung Jawab Dokter Dalam Penyelenggaraan Pelayanan Kesehatan (Legal Relations Between Doctors and Patients and The Accountability of Doctors in Organizing Health Services)
Yussy A. Mannas 163-182
Paradigma Orientasi Mencari Kebenaran Materil Dalam Proses Pembuktian Akta Otentik (Paradigm of Orientation for Finding Material Truths in the Authentic Deed Proofing Process)
Yustika Tatar Fauzi Harahap, Isis Ikhwansyah 183-200

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Existence of Local Government Toward the Implementation of Coaching and Legal Supervision for Franchisee Business*

Ika Atikah¹ UIN Sultan Maulana Hasanuddin Banten

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Abstract:

The growth of franchise business is so fast in Indonesia, involving many local businessmen and foreign businessmen who act as franchisor and franchiser. The development of the franchise business is greatly influenced by the protection of the law by the state. Currently, the legal protection of franchise business activities in Indonesia is regulated in Government Regulation no. 42 of 2007 concerning Franchise and Regulation of the Ministry of Trade of the Republic of Indonesia No. 57/M-DAG/PER/9/2014 concerning Franchise Operation. The role of local government to the local franchise and franchise business activities is very helpful to increase franchise activities to be advanced and as one source of local revenue. The importance of the attention of local governments in the issue of franchise business arrangement is a concrete manifestation of the spirit of regional autonomy. The implementation of regional autonomy focuses more on the role of regional level II (regency/city) as the spearhead of development. From that, coaching and legal supervision on franchise business is the most important part of the implementation of government regulations and trade minister regulations as a form of government concern to the uniqueness of franchise businesses that have distinctive characteristics of business in general.

Keywords: Franchise, Local Government, Coaching, Supervision

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¹ Ika Atikah is a lecturer at Department of Sharia, UIN Sultan Maulana Hasanuddin Banten, with email: ika.atikah@uinbanten.ac.id. ORCID ID: https://orcid.org/0000-0002-1666-0260.

Eksistensi Pemerintah Daerah Terhadap Pelaksanaan Pembinaan dan Pengawasan Hukum Bagi Para Pelaku Bisnis Waralaba

Abstrak:

Pertumbuhan bisnis waralaba begitu pesat di Indonesia, melibatkan banyak pengusaha lokal dan pengusaha asing yang berperan sebagai pemberi waralaba dan penerima waralaba. Perkembangan bisnis waralaba sangat dipengaruhi perlindungan hukum oleh negara. Saat ini, perlindungan hukum terhadap kegiatan bisnis waralaba di Indonesia diatur dalam Peraturan Pemerintah No. 42 Tahun 2007 tentang Waralaba dan Peraturan Menteri Perdagangan Republik Indonesia No. 57/M-DAG/PER/9/2014 tentang Penyelenggaraan Waralaba. Peran pemerintah daerah terhadap kegiatan bisnis waralaba lokal dan waralaba asing sangat membantu meningkatkan kegiatan waralaba menjadi maju dan sebagai salah satu sumber pendapatan daerah. Pentingnya perhatian pemerintah daerah dalam masalah pengaturan bisnis waralaba adalah wujud nyata dari semangat otonomi daerah. Pelaksanaan otonomi daerah lebih berfokus pada peran daerah tingkat II (kabupaten/kota) sebagai ujung tombak pembangunan. Berangkat dari hal tersebut, pembinaan dan pengawasan hukum terhadap pelaku bisnis waralaba merupakan bagian terpenting dari pelaksanaan peraturan pemerintah dan peraturan menteri perdagangan sebagai bentuk kepedulian pemerintah terhadap keunikan usaha waralaba yang memiliki ciri khas berbeda dari bisnis pada umumnya.

Kata Kunci: Waralaba, Pemerintah Daerah, Pembinaan, Pengawasan

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Introduction

Franchising is essentially a marketing strategy that aims to expand the reach of a business to increase market share or its sales. Business development is accelerating with relatively limited funds, because it involves other investors to participate in the experience, intellectual property rights, systems or workings and skills they possess.

The existence of franchise as a form of business, attracted many business people in Indonesia, because it can be one way to increase economic activity and provide opportunities to the weak economic class to try to participate in developing business in the field of franchising. This means, the franchise can provide employment opportunities, equity and also create jobs for the community.

It can be said that the franchise is part of the propriety of business partners against the rules given by the entrepreneur franchise. Business partners are granted the right to exploit the intellectual property rights and operational systems of the franchising entrepreneur, whether in the use of trademarks, service marks, copyrights or logos, industrial designs, patents of technology, and trade secrets. The franchisor receives a royalty fee for the use of intellectual property rights and their operational systems by the franchisee.²

Business development especially concerning expansion of business area, product distribution and marketing. This can be realized through a franchise agreement. In it many contain elements of the license agreement, in addition to containing elements of distribution, the rest is a combination of work agreements, agency and buying and selling.³

A Franchise is like a business pattern and marketing pattern that involves cooperation of both parties. Relations between the two parties are built on the basis of the agreement. In the franchise, a cooperation agreement between two parties is called a *franchise agreement*. The franchise agreement is a legal guideline outlining the responsibility of the *franchisor* and *franchisee.*⁴

It can be said that the franchise is an engagement, subject to the general provisions concerning the engagement stipulated in the Civil Code. In addition, the franchise involves the right to use and / or the use of intellectual property

² Gunawan Widjaja, Waralaba, (Jakarta: PT. Raja Grafindo Persada, 2003), p. 5

³ Munir Fuady, *Hukum Kontrak dari Sudut Pandang Hukum Bisnis*, (Bandung: PT. Citra Aditya Bakti, 1999), p. 174

⁴ Juajir Sumardi, *Aspek-Aspek Hukum Franchise dan Perusahaan Transnasional*, (Bandung: PT. Citra Aditya Bakti, 1995), p. 9

rights or inventions or business characteristics, with the intent of intellectual property including trademarks, logos, designs, copyrights, trade secrets and patents, and those intended by invention or characteristic of business that is management system, the way of sale or arrangement or distribution which is special characteristic of franchiser.

The franchise business system became known in Indonesia in the 1950s, with the emergence of motor vehicle dealerships through the purchase of licenses. The second stage of development began in the 1970s, with the start of a plus licensing system. The franchisor is not just a dealer but also has the right to produce its products.

Franchises were first introduced in the 1850s by Isaac Singer, a Singer sewing machine manufacturer when he wanted to improve his sewing machine sales distribution. Although the business of Isaac Singer failed, it was he who first assessed introduced the format of this franchise business in the United States. Franchising in the United States is now more dominated by fast-food restaurant franchises. This trend began in 1919 when A & W Root Beer opened a fast-food restaurant.

In 1935, Howard Deering Johnson teamed up with Reginald Spraguc to develop a franchise to monopolize a modern restaurant venture. Their idea is to allow their partners to independently use the same name, food, inventory, logo, and even build the design in exchange for a payment. In its development, this franchise business system experienced various improvements, especially in the 1950s which became known as a *business format* franchise or often called a second-generation franchise.⁵

After the fourth amendment of the 1945 Constitution of the Republic of Indonesia, especially on the growing economy and detailed, it can be said that the amandement certainly bring fresh air to the economic development in the sector of trade business increasingly in Indonesia, especially franchise so that required a legal regulation which regulates the franchise business in Indonesia.

The 1945 Constitution of the Republic of Indonesia should be understood as the highest economic policy that should be a reference in developing every national economic development policy. The economic policy in question, in order to be binding and enforceable, is always compulsory in the form of law and its implementing regulations. All regulations should not

⁵ Wikipedia Ensiklopedia Indonesia <u>http://id.wikipedia.org/wiki/Waralaba</u> retrieved on 7th January 2018.

conflict with the higher regulations of the Constitution.⁶

Therefore, the government's regulation of franchise activities carried out by franchised business actors has gained full attention with the issuance of the franchise law as long as it is not contrary to the highest economic policy of the 1945 State Constitution.

Normatively, the legal provisions concerning trading business in the field of franchising are not regulated in detail in the Civil Code. However, since the independence of Indonesia, the Civil Code of Law is declared to remain in force before a new one is made under the 1945 Constitution at that time before the law is established on franchising. According to Padmo Wahyono, as quoted by Moh. Mahfud MD, the validity of the legacy product of the colonial era is indeed tolerated under Article II of the transitional rules of the 1945 Constitution, this is intended to avoid the occurrence of legal vacuum.⁷

Based on the description above, the Government of Indonesia issued a legal regulation on franchise business activities. With the certainty of the law, franchise business actors can develop business nationwide throughout the territory of Indonesia. The cornerstone of legal certainty will be the format of franchising in Indonesia starting on June 18, 1997, namely the issuance of Government Regulation No. RI. 16 of 1997 concerning Franchise. PP no. 16 of 1997 on this Franchise has been revoked and replaced with PP. 42 of 2007 concerning Franchise and Permendag RI No.57 / M-DAG / PER / 9/2014 on the Implementation of Franchise which has several times amendment to the regulation of trade minister concerning franchising organization.

The development of franchise business in Indonesia is highly prospective due to the potential of market expansion is huge. One of them is the Indonesian market is still one of the destinations of franchises from the United States to expand. Based on data from the Ministry of Trade, there is registered franchise registration (STPW) registration data of 2012 - 2017 there are 94 registered foreign franchises and opened its business in Indonesia.⁸

The growth of franchise business in some developing countries is very fast. Franchising increasingly ogled to develop the business without having to

⁶ Jimly Asshiddiqie, Konstitusi Ekonomi, (Jakarta, PT. Kompas Media Nusantara, 2010), p.

⁷ MoP. Mahfud MD, Politik Hukum Indonesia, (Jakarta: PT. Pustaka LP3S, 1998), p. 10

xi

⁸ Rayful Muddasir, Ekspansi Franchise RI Jadi Tujuan Utama Bisnis Waralaba Asal AS in <u>http://industri.bisnis.com/read/20171210/12/716893/ekspansi-franchise-ri-jadi-tujuan-utama-bisnis-</u> <u>waralaba-asal-as-</u> retrieved on 9th January 2018.

spend a large capital. Based on data from the *International Franchise Association*, in 2014 there are 770,368 franchises. In Indonesia there recorded 698 franchises with the number of outlets as much as 24,400. Of these, 63% are local and 37% are foreign franchises. Franchise business in Indonesia able to generate turnover up to Rp. 12 trillion per year.⁹

The Government considers it necessary to know the legality and franchise business of domestic franchisors, especially local franchises, in order to create transparency of business information that can be utilized optimally by national business actors in the marketing of goods and/or services under the franchise system. In addition, the government can monitor and compile franchise data both regarding the number of franchise companies and the type of business franchised. So the franchiser before making a franchise agreement with the franchisee must submit a prospectus of the franchise offering to the government and potential franchisees. On the other hand, if a franchise agreement is reached, the franchisee must also submit a franchise agreement to the government.¹⁰

According to Regulation of the Minister of Trade No. 57/M-DAG/PER/9/2014 concerning Franchise Management stipulates the obligations of the franchisor and the franchisee to obtain a license for his business which is called the Franchise Registration License (STPW). The franchisor is required to have STPW by registering the prospectus of the franchise offering. The definition of the franchise offering prospectus is itself a written statement from the franchisor that at least explains the identity, legality, history of the activity, the franchise recipient's list, and the rights and obligations of the franchisor and receiver.

The definition of a franchise offer prospectus is a written statement from the franchisor that at least explains the identity, legality, history of the activity, the franchise recipient list, as well as the rights and obligations of the franchisor and receiver. In accordance with article 7 paragraph 1 PP. 42 of 2007 on Franchise, the franchisor is required to provide franchise prospectus to prospective franchise recipients at the time of offering.

Article 4 paragraph 1 of the Minister of Trade Regulation of the Republic of Indonesia No. 57/M-DAG/ PER /2014 concerning Franchise

⁹ Ardan Adhi Chandra, Tumbuh Pesat, Omzet Waralaba di RI Capai Rp. 172 T/Tahun in <u>https://finance.detik.com/berita-ekonomi-bisnis/3354501/tumbuh-pesat-omzet-waralaba-di-ricapai-rp-172-ttahun</u> retrieved on 9th January 2018

¹⁰ Look at general regulation of Government Ordinance no 42 2017 about franchisee

Franchising shall be required to provide a prospectus of franchise offer to a franchisee at least two weeks prior to signing the franchise agreement. Ministry of Home Affairs (Permendag) no. 57/M-DAG/PER/ 2014 amendment of the Minister of Trade Regulation 53/M-DAG/PAR /8/2012 on the Implementation of Franchise carries the spirit of regional autonomy because in this regulation the local government, especially districts/municipalities are given the authority to discipline STPW for local and foreign franchise recipients. The delegation of STPW issuance authority for local and foreign franchises from the Minister of Trade to the regent and/or mayor is a concrete manifestation of the spirit of regional autonomy. As is known, the implementation of regional autonomy is more directed at the empowerment of the role of regional level II (districts/cities) as the spearhead of development.

Terminology of Franchise

The term *franchise* comes from the French word for liberation, which is generally interpreted as granting privileges. In English, the franchise is translated in terms of *privileges*.¹¹ At first, the term franchise is not known in the legal literature of Indonesia, it is understandable because the *franchise* from the beginning is not contained in the culture or business traditions of Indonesian. However, due to the influence of globalization that is plagued in various fields, this *franchise* then entered into the cultural order and the legal order of Indonesian society.¹²

The term of this *franchise* further became a familiar term with people in the world, especially the people of Indonesia and attracted the attention of many parties to explore the business. The term *franchise* is tried in-Indonesia with the term franchise that was first introduced by the Institute of Management Education and Development (LPPM) as a *franchise* equivalent term. Franchising is derived from the word *wara* (more or special) and *laba* (profit), and then the franchise means a business that provides more profit/special.

Black's Law Dictionary defines franchise as follows:13

¹¹ M. Udin Silalahi, *Perjanjian Franchise Berdasarkan Hukum Persaingan Eropa*, Jurnal Hukum Bisnis, Vol. 6 Tahun 1999, Yayasan Pengembangan Hukum Bisnis, Jakarta, p. 3

¹² Tengku Keizerina Devi Azwar, Perlindungan Hukum Dalam Franchise (Waralaba), Karya Ilmiah Fakultas Hukum Universitas Sumatera Utara, 2005, p. 2-3

¹³ Gunawan Widjaja, Waralaba, (Jakarta, Raja Grafindo Persada), 2003, p. 7

"A special privilege granted or sold, such as to use a name or to sell products or services. In its simple terms, a franchise is a license from a trademark or trade name permitting another to sell a product or service under that name or mark. More broadly stated, a franchise has evolved into an elaborate agreement under which the franchisee undertakes to conduct a business or sell a product or service in accordance with the methods and procedures prescribed by the advertising, promotion and other advisory services ".

The definition of a franchise in the *Black's Law Dictionary* emphasizes the granting of the right to sell products in the form of goods or services by utilizing the franchisor's trademark, whereby the franchisee is obliged to follow the methods and procedures established by the franchisor. In relation to the granting of permits and obligations of compliance with the standards of the franchisor, and the franchisor will provide marketing, promotional or other technical assistance to enable the franchisee to carry out his business properly.¹⁴

Douglas J. Queen gives the following definition of a franchise:15

"Franchising is a method of marketing and business expansion. A business expands the market and the distribution of its products and services by sharing its marketing and operational standards. A franchise holder who buys a business that benefits from customer awareness of the trade names, proven systems and other services the franchisees provide."

In Government Regulation of the Republic of Indonesia Number 42 Year 2007 regarding Franchise, a franchise is a special right owned by an individual or business entity to business system with business characteristic in order to market goods and/or services that have been proven successful and can be utilized and/or used by another party under a franchise agreement. While in Permendag RI No. 57/M-DAG /PER/ 2014 concerning the Implementation of Franchise, the definition of franchise article 1 is a special right owned by an individual or business entity to a business system with a business characteristic in order to market goods and/or services that have proven successful and can be utilized and/or used by other parties under a franchise agreement.

From some of the notions put forward above, it appears that the *franchise* business system involves two parties, the first "franchisor", a successful entrepreneur owner of a particular product, service, or operating system with a particular brand, which usually has been patented. The two "franchisors", ie individuals and/or other entrepreneurs elected by the *franchisor* or approved by

¹⁴ Gunawan, Lisensi atau Waralaba, (Jakarta: Rajagrafindo Persada, 2004), p. 15

¹⁵ Douglas J. Queen, *Pedoman Membeli dan Menjalankan Franchise*, Translated by: Soesanto Boedidarmo, (Jakarta: PT. Elex Media Komputindo, 1993), p. 4-5

the application to become *franchisee* by the franchisor to operate the business under its trade name, brand or business system, provided that the remuneration to the franchisee of a certain amount of money at the beginning of the cooperation and/or certain period of time during the term of cooperation (royalty).

Keep in mind that franchises have varying limitations and definitions. However, in essence, the variation of the constraints with the franchise has at least the same basic elements, either from the aspect of the contract or its contract, as well as in terms of intellectual property rights embedded in it. From a *franchisor*'s point of view, a franchisor may be considered a group of intellectual property rights, from *a franchisee*'s point of view, a franchisee may be considered a business package, whereas from a legal standpoint, a franchise is a standard contract or agreement and from the government and community Commonly regarded as a business partnership relationship.

Franchises have two types of activities:16

a. Franchise products and trademarks.

Franchise products and trademarks are the simplest forms of franchising. In product franchises and trademarks, the franchisor grants the franchisee the right to sell products developed by the franchisor accompanied by the grant of permission to use the franchisor's trademark. The granting of such trademark use permission is granted in order to sell such franchised products. With respect to the grant of such trademark use, the franchisor usually obtains a form of royalty payment in advance, and the franchisor receives a profit (often referred to as running royalty) through the sale of franchised products to the franchisee. In its simplest form, product franchises and trademarks often take the form of agency, distributors or sales licenses.

b. Franchise business format.

Somewhat different from product and trademark franchises, business format franchises in the sense provided by Martin Mandelsohn in Franchising: practical guidance for franchisors and franchisees, business format franchises are:¹⁷ the granting of a license by a franchisor to another franchisee, the license entitles the franchisee to attempt by using the entire package, comprising and all the elements necessary to make a person who has not been trained in the

¹⁶ Gunawan Widjaja, Waralaba, (Jakarta: Raja Grafindo Persada, 2003), p. 13

¹⁷ Martin Mandelsohn, *Franchising: Petunjuk Praktis bagi Franchisor dan Franchisee*, (Jakarta: PT. Pustaka Binaman Pressindo, 1997), p. 4

business and to run it with ongoing assistance on predetermined grounds. The same is also stated by Douglas J Queen, a franchise that is known for this very diverse, the franchise consists of:¹⁸

a. Business Format Franchise

Here the franchise gains the right to market and sell service products in certain areas with operational and marketing standards. The type of franchise business format consists of:¹⁹

1) Job Franchise

In this form the *franchise* holder who runs a franchise business actually buys support for his or her own business. For example, he may sell car engine tuning services under certain *franchise* brands. This form of *franchise* tends to be the most homey, generally requiring little capital because it does not use excessive places and equipment.

2) Business Franchise

At this time the business *franchise* is a rapidly growing franchise field. The form may be a retail store that provides goods or services or *fast food* restaurants. Direct printing stores like *Fried Chicken* and *Pizza Express* are the best-known examples in this group. The required cost is greater than the job *franchise* because it requires a place of business and special equipment.

3) Investment Franchise

The main feature that distinguishes this type of *franchise* from franchise jobs and business *franchises* is the size of the business, especially the amount of investment required. The investment *franchise* is an established company, and the initial investment required may reach billions. Companies that take an investment franchise usually want to diversify, but because the management is inexperienced in managing the new business so he chooses to take a *franchise* system of this type, such as a hotel, then a *franchise* is chosen that allows them to get guidance and support.

b. Franchise Product Distribution

¹⁸ Douglas J Queen, Pedoman Membeli dan Menjalankan Franchise : Tuntutan Langkah demi Langkah Menuju Keberhasilan Suatu Franchise, (Jakarta: PT. Elex Media Komputindo, 1993), p. 5-7

¹⁹ Juajir Sumardi, Aspek-Aspek Hukum Franchise dan Perusahaan Transnasional, (Bandung: Citra Aditya Bakti, 1995), p. 14

In the form of this franchise, the franchise obtains an exclusive license to market products from a single company in a specific location. In addition, the *franchisor* may also provide franchise areas, where the *franchisee* or subowner of the franchise buys the right to operate or sell the franchise in a specific geographical area. A regional *franchise* provides an opportunity for the parent *franchise* holder to develop the business chain for faster development, where management's finesse and financial risk are the responsibility of the master franchise holder with the sub-holders, but of course, the holding holder withdraws royalties and product sales.

In the United States, the *Federal Trade Commission* identifies *franchises* into 3 types:²⁰

- a. Business Format Franchise. Franchise recipients are licensed to do business using business packages and brands that have been developed by franchisors, such as this type of business package fast food, hotels and business assistance and services.
- b. Product Franchise. Franchisors produce products and franchise recipients provide outlets for products produced by *franchisors*, this type of franchise is used for example in shoe agency, gas station and, others.
- c. Business Opportunity Ventures. Franchisee distributes products and services in accordance with the system applied by the franchisor even if the products and services do not use the franchisor's trademark, for example of this type is a vending machine. From the various forms of franchises mentioned above, there are actually some basic similarities even though the naming of different forms of franchising. The fundamental similarity of franchises that developed and developed so far is the use of work system with franchise business system which has been standardized by the franchisor as a franchise business mechanism that will be executed by franchise recipients.

Franchise Elements

According to the International Franchise Association, franchises have at least three elements, namely: Brand, Business System, Cost (*fee*). In any

²⁰ Winarto, *Pengembangan Waralaba* (*Franchise*) *di Indonesia, Aspek Hukum dan Non Hukum*, Makalah dalam Seminar Aspek-Aspek Hukum tentang Franchising oleh Ikadin cabang Surabaya, 23 Oktober 1993, p. 8

franchise agreement, the franchisor as the owner of the franchise system, grants the *franchisee* the license to use the trademark or service mark and logo owned by the franchisor.²¹

In its development, the franchise is not only concerned with the licensing of the mark, but may also be related to other licenses such as copyright licenses, patents, or trade secrets. Patent licensing, especially patent-processing, can be found in franchises related to the process of making a particular food or beverage. In a patent-licensing franchise - this process, the franchisor does not object to giving recipe how to make food / beverage is made as long as it complies with agreed standards and pays royalties. On the other hand, licensing of trade secrets can be found in the way of manufacture, such as the Coca Cola beverage franchise that has managed to keep the recipe secret for up to 150 years.²²

The success of a franchise depends on the same business system or business method between the franchisor and the franchisee. The business system is in the form of guidance concerning:²³ a). Standardization of products, b). Methods of preparing/processing of products or foods or methods of service, c). the standard form of business facilities, d). Advertising standards, e). the reservation system, f). the accounting system, g). Inventory control, h). Trade policy, i). and others.

In any franchise business format, the franchisor either directly or indirectly withdraws payment from the franchisee for the use of the mark and for participation in the franchised system. Such fees usually (not all) consist of:²⁴ a). Initial cost, b). the royalty fee, c). the service fee, d). License fee, e). Shared marketing costs, f). other costs such as manajament costs.

Franchisor and franchise recipient though bound by the franchise agreement, but both still have independence in trying. The franchisor is still free to enter into franchise agreements with other parties as long as it does not conflict with the agreed franchise agreement. Then, the franchisee also still has business independence, among others, responsible for business management (such as paying employees salaries, pay taxes, etc.) as well as the right to earn business income. Franchisee recipients are also allowed to create certain

²¹ Rizal Calvary Marimbo, *Rasakan Dahsyatnya Usaha Franchise*, (Jakarta: PT. Elex Media Komputindo, 2007), p. 6-8

²² Iswi Hariyani & Serfianto, *Membangun Bisnis Franchise Panduan Hukum Bisnis Waralaba* (*Franchise*), (Jakarta: Pustaka Yustisia, 2011), p. 56

²³ Rizal Calvary Marimbo, Rasakan Dahsyatnya Usaha Franchise, p. 6-8

²⁴ Rizal Calvary Marimbo, Rasakan Dahsyatnya Usaha Franchise, p. 6-8

business tips to make their outlets grow profitable and profitable, as long as the business tips do not conflict with the agreed franchise agreement.

Franchise Agreement

Franchise Agreement is a franchise business agreement made in writing between the franchisor and the franchisee which in the agreement also contains an intellectual property license agreement and other provisions related to the conduct of the franchise business whole.

The franchise agreement must be made before the franchisor and the franchisee carry out the franchise activities. In accordance with the current legal rules, the franchisor is required to submit the prospectus of the franchise offer to the prospective franchise recipient before the two parties sign the franchise agreement. In accordance with the provisions of Article 4 PP. 42 of 2007 on Franchise paragraph 1 franchise is held under a written agreement between the franchisor and the franchise recipient by observing the laws of Indonesia. Paragraph (2) In this case the agreement referred to in paragraph (1) is written in a foreign language, the agreement must be translated into Indonesian.

The franchise agreement must also contain the least clause:²⁵ article 5, government ordinance no 42 2017 franchise: a). Name and address of the parties, b). Types of intellectual property rights, c). Business activities, d). Rights and obligations of the parties, e). Assistance, facilities, operational guidance, training, and marketing provided by the franchisor to the franchisee, f). Area of business, g). Duration of the agreement, h). Procedures for payment of benefits, i). Ownership, change of ownership and rights of heirs, j). Dispute resolution, and k). the procedures for the extension, termination of an agreement.

In accordance with the provisions set forth in article 11 paragraph 1 PP. 42 of 2007 on franchising, a *franchisee* is required to register franchise agreement. The registration of this franchise agreement may also be made by another authorized party. The provisions of article 11 PP. 42/2007 on franchises that require *franchisees* to register franchise agreements, rather than requiring *franchisors*, may be based on the consideration of equitably sharing the burden of liability between the parties. As known, the franchisor as the owner of Intelectual Property Rights (HAKI) is also required to register the HAKI and its license agreement to the Directorate General of Intellectual Property Rights of the Ministry of Justice and Human Rights. The franchisor is also required to

²⁵ Article 5, Government Ordinance no 42 2017 about franchisee.

register the prospectus of the franchise offering to the competent agency, the Indonesian Ministry of Trade.

In practice, in principle, the franchise agreement contains an intellectual property license agreement, and then the *franchisor*, if it wants to register an Intelectual Property Rights (HAKI) license agreement to the Directorate General of HKI, is sufficient to bring franchise agreement documents, so there is no need to make a separate intellectual property license agreement. Thus, in the case of franchise agreement registration there is a division of duty, namely: franchisor (franchisor) bring franchise agreement as a license of HAKI license to be registered to Directorate of it, while franchisee bring franchise agreement to be registered to an institution authorized to issue Registration Letters Franchise (STPW).

Under the Intellectual Property Law, an Intelectual Property Rights (HAKI) license agreement (in this case in the form of a franchise agreement) is not registered to the HAKI Directorate because it has no legal consequences to any third party. This means that the license agreement (franchise agreement) cannot be transferred to a third party. In other words, license agreements/franchise agreements that are not registered to the HAKI Directorate General are not automatically null and void, but are only considered to be agreements under the binding of both the franchisor and the franchisee. If the franchisee dies, then the agreement can not be transferred to a third-party heir. Similarly, if the franchising company goes bankrupt, then the franchise agreement (license agreement) cannot be transferred to a third-party heir. Similarly property.²⁶

Registration of franchises to authorized agencies (in this case the central government and local governments) issue franchise registration (STPW) certificates have different legal consequences. Franchisor or franchisee who does not have STPW, may not run franchise business in Indonesia. The franchisor who has an Intelectual Property Rights (HAKI) certificate and has registered a license agreement but not yet has STPW is still not allowed to run a franchise business in Indonesia.

A new STPW may be awarded to the franchisor who has submitted proof of franchise offer prospectus. As for the franchisee, a new STPW may be awarded if the franchisor has submitted the franchise agreement. The authority to issue STPW is basically the right of the minister of trade of the Republic of

²⁶ Iswi Hariyani & Serfianto, *Membangun Bisnis Franchise Panduan Hukum Bisnis Waralaba* (*Franchise*), (Jakarta: Pustaka Yustisia, 2011), p. 68

Indonesia, but in accordance with Ministry of Home Affairs (PERMENDAG) No.57/M-DAG/PER/9/2014 on the Implementation of the Franchise authority then delegated to three parties, namely:²⁷

- a. Directorate of Commerce of the Ministry of Commerce Up. Office of Trade Service Unit of the Ministry of Commerce (local and foreign franchisors only).
- b. Governor of DKI Jakarta Up. Head of DKI Jakarta Provincial Office of Trade (special recipient of local franchises and foreign franchises of DKI Jakarta).
- c. Regent and mayor outside DKI Jakarta Up. Head of Trade Service Office or One Stop Integrated Service Office (local and foreign franchise registration only).

It is undeniable that the authority to issue STPW is indeed in the minister. The Minister delegates the authority to issue STPW for applications filed by the franchisor as referred to in Article 9 paragraph 2 and the franchisee as referred to in Article 10 paragraph 2 to the coordinator and executor of trade ministry trade services unit.²⁸

In the Regulation of the Minister of Trade Regulation No.57/M-DAG/PER/9/2014 concerning Franchise Operation that the franchiser must cooperate with small and medium entrepreneurs in the local area as the recipient of franchise or supplier of goods and/or services as long as comply with the provisions of the requirements stipulated by the grantor franchise.²⁹ Under the regulation, the government is seeking the participation of small and medium entrepreneurs as recipients of franchises in order to boost the state's economy by bringing down entrepreneurs who have not had big business power such as entrepreneurs who have business expansion everywhere.

Advantages and Disadvantages of Franchise

Franchising as a social institution in the field of trade is not free from weaknesses. However, this franchise system remains largely superior when compared to conventional trading systems.

 $^{^{\}rm 27}$ Article 9 and 10 Trade Minister Regulation No.57/M-DAG/PER/9/2014 franchisee providence.

 $^{^{28}}$ Article 22 and 23 Trade Minister Regulation No.57/M-DAG/PER/9/2014 about franchisee providence.

²⁹ Article 20 Trade Minister Regulation No.57/M-DAG/PER/9/2014 franchisee providence.

The advantages of this franchise business system can be put forward by identifying what advantages a franchise recipient and franchisor can gain if it is a party to the franchise system. The advantages or possible advantages of this franchise business system are as follows:³⁰

a. For Franchisor

- 1. The business system can develop quickly using the capital and motivation of the franchise holder (franchise recipient).
- 2. A market territory or a new market is easy to develop, since the name and image of the franchisor can expand rapidly through franchisees.
- 3. The capital to expand the business is smaller because most of the costs of setting up a new business unit are borne by the franchise holder (franchise recipient).
- 4. Business units are managed by the owner themselves will obviously have a strong motivation to provide good service to customers.
- 5. A franchisor does not need many employees, headquarters is much slimmer than the headquarters of a company that has its own branch network.
- 6. The purchasing power of the business group as a whole increase, each time it opens a new franchise unit.
- 7. The presence of business groups in the market increasingly felt each time opened a new franchise business unit. In addition, many funds can be spared because promotions and advertising can be done as a group.
- 8. The results have not been seen in the first two years because the expenditure is still large, but in the third or fourth year and subsequent return on investment will be quite high.

b. For franchisee

1. The chances of success are greater than if you started your own business with your own brand name.

³⁰ Juajir Sumardi, Aspek-Aspek Hukum Franchise dan Perusahaan Transnasional, (Bandung: Citra Aditya Bakti, 1995), p. 31-32

- 2. The franchise holder as the owner of the concerned business unit is free to work in a neat and stable environment.
- 3. The franchisee has the ease of purchasing the stock as a member of a large group.
- 4. Franchise holders can take advantage of new products that are developed by some research from the franchisor.
- 5. The franchisee may utilize the services in the form of guidance in finance and management of the franchisor as well as assistance in decision making.
- 6. The franchisee can utilize advertising that already has a high enough quality from the franchisor.
- 7. The franchisee enjoys the reputation, strength, and luster of the trademark/brand name of the franchisor.
- 8. The franchisee may utilize the financial packages that may be provided by the franchisor in the banking system.
- 9. The franchisee enjoys the necessary training of the franchisors.
- 10. The franchisee can work with established systems, procedures, and operating guidelines, thus making it unnecessary to create a new marketing strategy or new management system that has not been tested for reliability in the practice of trade in goods or services.

As good as any franchise business, as a business in general, in addition, to providing benefits/advantages can also bring disadvantages/weaknesses include:³¹

- a. New and untested franchises have a greater potential for losses when compared to established and tested franchises.
- b. The established and tested franchises have weaknesses, they often require much greater registration, fee, and royalty fees than new and untested franchises.
- c. The existence of franchisors is less bona fide and less capital so that it can hamper the development of the franchise business and harm the franchise recipients who become members.

³¹ Iswi Hariyani & Serfianto, *Membangun Gurita Bisnis Franchise*, (Jakarta: Pustaka Yustisia, 2011), p. 5

- d. There are less experienced franchisors and poor management systems that can harm the franchisor.
- e. The possibility of the emergence of intellectual property rights issue facing franchisors but the impact is perceived by the franchise recipients who become members. This can arise if there are other parties who sued ownership of intellectual property rights of the franchisor, or because the process of Intelectual Property Rights (HAKI) registration by franchisors was rejected by the Directorate General of HAKI.
- f. Some franchises, especially franchises from abroad (foreign franchises) apply very strict and costly membership requirements that are difficult to follow by UMKM in Indonesia.
- g. Some franchisees, especially local franchises, are stingy about making advertising/promotional budgets so that it can decrease the turnover of franchisees who are members of the network.
- h. There are certain companies that use franchise-like methods whereas the company only intends to collect public funds illegally through a kind of "multi-level marketing" (MLM) that is not MLM but merely a "money game" that ultimately benefits only a handful of people and disadvantages more people. This "money game" company will go bankrupt by itself if no one else wants to be a member of the network.

Implementation of Franchise Coaching and Supervision

Franchising is one way of developing a business among several other ways of business for example by opening a branch or establish a partnership. Franchising itself began in the 1800s in England when the tied house system was used by brewers to market their products. The idea was then introduced in the United States in 1851 by a sewing machine company singer to expand their marketing network and repair their sewing machines to its customers and then the idea of franchising was restored by General Motor in 1898 using an independent business system to increase sales and distribution networks without spending a lot of money and this way followed by several other leading companies such as drug companies "Rexall" and beverage companies such as Coca Cola and Pepsi. Then, the more rapid development until the word franchise (waralaba) is taken from the word *franchise* in Indonesia-the word franchise can be interpreted with the word Wara which means a lot and Laba which means profit.32

The entry of Shakey Pisa, KFC, Swensen and Burger King in the late 1970s was the beginning of the introduction of a franchise in Indonesia. However, franchise development in Indonesia began to be seen in the 1990s and experienced a rapid development in the last 5 years at that time. In the early 1990s, franchises in Indonesia amounted to 35 franchises, of which 29 foreign franchises and a local franchise numbered 6. In 2006, businesses running franchises amounted to 450, of which 220 were foreign franchises and 230 local franchises. Recorded franchise growth in 2008 reached 57.6% increase from the previous year which reached 35.4%. The development of franchises in 2008 recorded as many as 250 foreign franchises and 450 local franchises spread across 31,827 outlets and has a turnover value of Rp. 81.03 trillion.³³

The growth of franchise business in Indonesia averages 12-16% per year.³⁴ Not surprisingly, local entrepreneurs listed as franchisors have succeeded in improving the economy of the country by opening a franchise business and providing opportunities for franchisees to join the business. Therefore, the attention of the government by striving for the regulation of franchising in Indonesia is comprehensively renewed in line with the rapid business of franchising from year to year which always has the uniqueness and diversity of business types offered by the local entrepreneurs (franchisor) in particular.

Since there is Government Regulation No. 16 of 1997 concerning Franchise has given legality for the business of franchising. However, since the rule does not set in detail and only has 11 articles at that time. Then the Government made changes to the contents of the government regulation containing 22 articles contained in Government Regulation No. 42 of 2007 concerning Franchise one of article 14 regulates the guidance and supervision conducted by the central government and local government. Coaching as referred to in paragraph (1) shall be in the form of a. education and training Franchise; b. recommendations to utilize the means of marketing c. recommendations for franchise exhibitions both at home and abroad; d.

³² Taufik Hidayat, Sejarah dan Perkembangan Waralaba Indonesia, in <u>http://konsultanwaralaba.com/waralaba-sejarah-dan-perkembangan-waralaba-indonesia/</u> rertieved on 11th January 2018.

³³ Bank Indonesia, Pola Pembiayaan Usaha Kecil Usaha Franchise, in <u>http://www.bi.go.id/umkm/kelayakan/pola-pembiayaan/perdagangan/documents/</u> retrieved on 11th January 2018.

³⁴ Agregas Solopos, Bisnis Waralaba Tumbuh Pesat di Indonesia, in

https://economy.okezone.com/read/2016/05/17/320/1390833/bisnis-waralaba-tumbuhpesat-di-indonesia retrieved on 11th January 2018.

consultation assistance through a business clinic; e. award to the best Local Franchisor; and/or f. capital strengthening assistance. While supervision is regulated in Article 15 paragraph (1) The Minister shall supervise the implementation of Franchise. (2) The Minister may coordinate with relevant agencies in carrying out supervision as referred to in paragraph (1). This means that direct supervision is conducted through the central government, but it does not rule out the ministers delegating supervision to regional leaders to facilitate overall oversight.

In order to improve franchise business development throughout Indonesia, it is necessary to encourage local entrepreneurs, especially small and medium entrepreneurs to grow as a national and reliable franchisor and recipient in domestic and overseas competitiveness. The Government considers it necessary to know the legality of the franchising business both abroad and within the country to create transparency of business information that can be utilized optimally by franchisors in marketing goods and/or services by franchising. In addition, the government can monitor and compile franchise data in both the number and types of businesses franchised. To that end, the franchiser before making a franchise agreement with the franchisee, must submit a prospectus of the franchise offering to the government and potential franchisees. On the other hand, if a franchise agreement is reached, the franchisor must submit an agreement to the government.

Since the revocation of Government Regulation no. 16 of 1997 concerning Franchise and replaced by Government Regulation no. 42 of 2007 on Franchise provides certainty in running franchise business from year to year which continues to increase rapidly. The Ministry of Trade has also made changes to the regulation of franchising that is enhanced according to the needs of the community in order to create a legal certainty of franchise business activities.

Government in the regulation PP No.42 / 2007 is more focused for small and medium entrepreneurs to increase local franchise business by providing guidance done by the central government and local government by providing franchise education and training, recommendations to utilize the means of marketing, recommendations for exhibition franchises both domestically and abroad, consulting assistance through business clinics, awards to the best local franchisors, and capital strengthening assistance.

The complex problems with the implementation of guidance and supervision, of course, originated from the government and local government officials about the understanding of franchising activities that become elements in the job description of the servant of the country. As stated by Amir Karamoy Advisor of the Indonesian Franchise Association (Wali) considers many employees of trade attache and local officials do not understand the rules of the franchise. This greatly hampered the development of local franchise businesses to be strong in the domestic market, as well as penetrating the international market.³⁵

Based on Law No. 32 of 2004 on local government, local governments have the authority to regulate and manage their own household affairs according to the principle of regional autonomy and assistance tasks (medebewind), granting autonomy to regions directed to accelerate the realization of community welfare through service improvement, empowerment and community participation. A franchise operation in each region is a concern for local leaders to issue derivative regulations imposed on areas where franchise outlets are established so that legal certainty becomes clearer. As well as Serang District issued Serang Regional Regulation No. 6 of 2012 on Franchise Arrangement, Shopping Center, Modern Store, and Traditional Market set in it article about coaching and supervision. Tangerang City Government seeks to provide convenience for franchisees (franchisee both domestically and abroad) in terms of licensing in the city with an online service based on franchise registration letter carried by the Department of Investment One Stop Services by law Regulation of the Minister of Trade No: 53/M-DAG/PER/8/2012 on the Implementation of Franchise and Regional Regulation no. 4 of 2014 on the Implementation of Licensing and Registration of Industry and Trade.³⁶

Although each region has issued district/municipal regulations on guidelines for franchising, of course, it must be balanced with the understanding of local officials in carrying out the contents of government regulations and regulations of trade ministers and their respective derivatives in each region, so that coaching and supervision can afford running as it should be mandated in government regulations. The government through the Ministry of Trade (Kemendag) is providing convenience in the issuance of STPW online. This online publishing has been set for January 1 2017, through Ministry of Home Affairs (PERMENDAG) Number 85/M-DAG/PER/12/2016. Regarding all licenses conducted by the Ministry of trade can be done online either for domestic licensing using SIPT. Especially for licensing issued in the domestic

³⁵ detik Finance, 80% Pejabat Atase Perdagangan dan Pemda Buta Waralaba, in <u>https://m.detik.com/finance/berita-ekonomi-bisnis/80-pejabat-atase-perdagangan-dan-pemda-buta-waralaba</u> retrieved on 11th January 2018.

³⁶ Perizinan Online Dinas Penanaman Modal Pelayanan Terpadu Satu Pintu dalam <u>http://perizinanonline.tangerangkota.go.id/perijinan/view/</u> retrieved on 31st January 2018.

trade must be done online because it has been using Digital Signature, meaning there is no longer obstacles late document issued by the leader who is not in place, so anywhere can access, verify and publish incoming permissions

So the obstacle of publication with the reasons above is no longer there. This pursuant to Regulation of Minister of Trade Number 86 / M-DAG/PER/12/2016 contains the provisions of Licensing Services in the Field of Trade online and Electronic signature. As for the stages and the process of handling, the first step applicant can accesssipt.kemendag.go.id. There the applicant can see the user manual for each type of permit contained in the Directorate of Domestic Trade. The thing that must be considered by the applicant is to have access rights, this permission contains a username and password that can be used for all types of licenses issued by the Directorate of Domestic Trade.

The seriousness of the country has contributed greatly to the progress of the domestic economy by providing *support* for franchise business so it is not surprising economic progress in a country depends on how the country provides convenience for the franchisees. As the Malaysian state in the opening franchise exhibition opened by the prime minister, as well as Singapore opened franchise exhibition by ministers, Philippines and South Korean franchise exhibition opened by the prime minister as a concrete manifestation of the entrepreneurs in each franchise.³⁷

The Ministry of Trade of Indonesia has been actively developing coaching programs and facilitating exhibitions at home and abroad. However, that is not much compared to the government's aid program. In addition to exhibitions and coaching, the government also bear the cost of consultants about 75% for business actors who want to develop a franchise business. Similarly, Malaysia, the Malaysian government makes franchise development program eight (8) years. The government is contributing to the cost of 100,000 ringgit for entrepreneurs who develop franchises. 15% of the cost will be granted. In addition, the Malaysian government is also developing micro 11, which is fostering small businesses from the region to be developed into a franchise.³⁸

In the Regulation of Permendag No. 53/M-DAG/PER/8/2012

³⁷ Anang Sukandar, Ketua Asosiasi Franchise Indonesia, Industri Franchise Jangan Jalan di Tempat!! In <u>www.majalahfranchise.com</u> retrieved on 3rd February 2018.

³⁸ Anang Sukandar, Ketua Asosiasi Franchise Indonesia, Industri Franchise Jangan Jalan di Tempat!! In <u>www.majalahfranchise.com</u> retrieved on 3rd February 2018.

amendment to the Regulation of the Minister of Trade No.57/M-DAG/ PER/9/2014 concerning the Implementation of Franchise Article 26 paragraph (1) that franchising is carried out by the government, provincial government, and/or district/city. In paragraph (2) as referred to in paragraph (1), among others:

- a. Conducting education and training on franchising system, both for franchisors/recipients of domestic franchises and for entrepreneurs whose business is feasible franchised
- b. Recommend recipients/potential franchise recipients to be granted leniency/ease of utilizing the infrastructure facilities, whether owned by the government or local government or privately owned.
- c. Facilitate/recommend giver/prospective franchisors in the country that have products that are potentially promoted more widely to follow franchise exhibitions, both domestically and abroad.
- d. Facilitate business clinic, both in the regions and in the exhibitions in the country to be utilized by the franchisees to consult/discuss the problems encountered.
- e. Seeking awards to domestic franchisors who have successfully developed franchises well and provide good benefits to the national economy.
- f. Facilitate to obtain capital strengthening assistance for franchisors/recipients of domestic franchises, either through related institutions or through banking elements.

Article 27 paragraph (1) the franchisor shall provide guidance to the franchisee. While in paragraph (2) the guidance as referred to in paragraph (1), namely: a). Education and training on franchise management system in collaboration so that franchise recipients can run franchise activities well and profitable, b). Routinely provide operational management guidance, so that if a found operational error can be solved immediately, c). Helps a market development through promotion, such as through advertisements, leaflets/catalogs/brochures or exhibits, d). Research and development of market and marketed products, so as to suit the needs and acceptable to the market well.

In practice, many franchisors have provided guidance as provided for in Article 27 paragraph 1 and 2, namely the local entrepreneurs of food allround sambal spicy culinary business that more and more enthused people

open franchise for a potential *franchisee*. Multifunctional Sambal original Sukoharjo Indonesia as the *franchisor* provide ease with the consultation includes strategic location before opening a culinary business and can be accessed by many people, prepare the mainstay menu of interest to many people, then do a capital analysis needed both supply and demand is tailored to the search for many people, glancing at the sensibilities of the all-around chalis, ensuring the agreed administrative aspects of both the profit sharing which the *franchisor* provides the necessary tools, training, and paying the *royalty fee* every month with an agreed scheme.³⁹

Similarly, franchisee Laundry kilogram simply fresh laundry as a franchisor makes it easy for prospective *franchise* recipients include investment value, initial support (location), *initial support (pre-opening), post opening, human resource training, product & service, system operational, legal & tax, marketing & promotion, flexibility* to run business, brand, development, business assistance, and cooperation system.⁴⁰

The lack of government attention, to be inconsistent with the government's regulations and the trade minister's regulation of faraway guidance and franchise controls such as the Malaysian state is seriously concerned about running a local franchise reinforcement program with 100 million ringgits in the 2003-2008 period. Malaysia already has franchises of more than 50 countries. According to data from the Ministry of Commerce, there are about 700 franchises registered in Indonesia, 450 brands are from foreign franchises. A local franchise only penetrates the global market 10 - 15 brands.⁴¹

Conclusion

Coaching and supervision of franchises by a local government as stipulated in Government Regulation no. 42 of 2007 concerning Franchise and Ministry of Home Affairs (Permendag) No. 53/M-DAG/PER/8/2012 The amendment to the Minister of Trade Regulation No.57/M-DAG/PER/9/2014 on the Implementation of Franchise is a realization of the spirit of regional autonomy delegation of authority from the central government (Ministry of

³⁹ Franchise Serba Sambal in <u>https://serbasambal.com/franchise-serba-sambal/</u> retrieved in 3rd February 2018.

 ⁴⁰ Franchise Laundry Kiloan, Simply Fresh Laundry, in https://www.simplyfreshlaundry.com/franchiselaundry/ retrieved on 3rd February 2018.
 ⁴¹

Trade of RI) the local franchise works as it should. However, in practice, it is not entirely fostering and controlling the franchise to run as fully as regulated in the PP and the Minister of Trade Regulation, so the seriousness of the local government is required in order to implement the content rather than the existing articles in the regulations made by the government. Nevertheless, local governments must have attempted to provide facilities-based facilities in terms of franchise registration, making it easier for franchise recipients to register their business with STPW issued by the local agency to ensure legal certainty of the business becomes legal.

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JURNAL CITA HUKUM INDONESIAN LAW JOURNAL

TECHNICAL GUIDANCE FOR AUTHORS OF CITA HUKUM JOURNAL

- 1. Article must be original, not plagiarism, unpublished, and not under review for possible publication in other journals.
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- 4. Article must contain of Law Science
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- Journal, example: Nur Rohim Yunus, "Kontroversi Pembentukan Perppu No. 1 Tahun 2013 tentang Mahkamah Konstitusi Dalam Ranah Kegentingan Yang Memaksa", Jurnal Cita Hukum, Volume 1 Number 1 (2014), p.157.
- 4) Article as a part of book (antology). Contoh: Hikmahanto Juwana, "Penegakan Hukum dalam Kajian Law and Development: Problem dan Fundamen bagi Solusi Indonesia", in Muhammad Tahir Azhary, Beberapa Aspek Hukum Tata Negara, Hukum Pidana, dan Hukum Islam, (Jakarta: Kencana Prenada Media Group, 2012), p.127.
- Article from internet, example: Ahmad Tholabie Kharlie, "Problem Yuridis RUU Syariah" in <u>http://ahmadtholabi.com/2008/03/03problem-yuridis-ruu-syariah</u>, downloaded on March 20, 2012.
- 6) Article from magazine, example: Susilaningtias, "Potret Hukum Adat pada Masa Kolonial", in *Forum Keadilan*, No. 17, August 20, 2017.
- Article in Seminar, example: Jimly Asshidiqqie, "Kedudukan Mahkamah Konstitusi dalam Struktur Ketatanegaraan Indonesia", paper presented on public lecture at faculty of law Universty Sebelas Maret, Surakarta on March 2, 2014.
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 - Article from internet, example: Kharlie, Ahmad Tholabie, "Problem Yuridis RUU Syariah" in <u>http://ahmadtholabi.com/2008/03/03problem-yuridis-ruu-syariah</u>, downloaded on March 20, 2012.
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 - Article in Seminar, example: Asshidiqqie, Jimly, "Kedudukan Mahkamah Konstitusi dalam Struktur Ketatanegaraan Indonesia", paper presented on public lecture at faculty of law University Sebelas Maret, Surakarta on March 2, 2014.
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- Artikel dari internet, contoh: Ahmad Tholabi Kharlie, "Problem Yuridis RUU Syariah" dalam http://ahmadtholabi.com/2008/03/03/problem-yuridis-ruu-syariah, diunduh pada 20 Maret 2012.
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