IMPLEMENTATION OF LEGAL PRINCIPLES IN FRANCHISE CONTRACTS (CASE STUDY ON *FRANCHISE FOOD AND BEVERAGE* IN MEDAN CITY)

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Abstract: This research analyzes the implementation of legal principles in franchise contracts in food and beverage (F&B) franchises in Medan City. The legal principles studied include freedom of contract, consensualism, good faith, pacta sunt servanda, and balance of rights and obligations. The method used is descriptive qualitative with data collection through interviews and analysis of franchise contract documents. The results show that freedom of contract is often limited by clauses that are more favorable to the franchisor. The principle of good faith has not been fully implemented, especially in the aspect of transparency of costs and obligations of each party. In addition, there are still differences in the level of compliance with franchise regulations, depending on the legal understanding of business actors. Dispute resolution is generally done through negotiation, but in some cases it goes to legal channels. In conclusion, although business law principles have been adopted in franchise contracts, there are still gaps in their implementation. Therefore, stricter regulations and increased legal understanding for franchise business actors are needed in order to create fairer and more sustainable business relationships.

Keywords: Franchise, Business Law, Contract, Legal Principles, F&B Franchise.

Introduction

Franchising is one of the most popular business models because it provides benefits for both parties, both the franchisor (brand owner) and franchisee (franchisee). This business model allows franchisees to run a business with the support of a system that has been proven successful, while the franchisor can expand its business reach without having to spend large capital for new branch operations (Hanafi & Ridha, 2023). In Indonesia, the franchise business is experiencing rapid growth, especially in the food and beverage (F&B) sector. Based on a report from the Indonesian Franchise Association (AFI, 2023), more than 50% of the franchises developing in Indonesia come from the F&B sector, including fast food restaurants, coffee shops, and regional specialty food stalls.

However, in practice, the franchise business is not free from various legal issues. One of the biggest challenges often faced in franchising is the imbalance of rights and obligations between the franchisor and franchisee. This is often caused by contract clauses that are more favorable to the franchisor, while franchisees have room for maneuver. yang terbatas dalam managing the business. Other issues that often occur include transparency of franchise fees, exclusive rights, contract extensions, and dispute resolution mechanisms (Iskhaq & Asmarudin, 2024).

According to research (Agustinah et al., 2021), more than 60% of franchisees in Indonesia have difficulty in understanding the contents of franchise contracts, especially in the legal aspects that govern their rights and obligations. As a result, many franchisees are trapped in unfavorable contracts and experience difficulties in running their businesses. In addition, although franchising has been regulated in Government Regulation (PP) No. 42 of 2007 concerning Franchising, its implementation in the field is still not optimal, especially in terms of legal protection for franchisees.

In Medan City, the growth of the F&B sector franchise business continues to increase, with many local and international brands opening branches through the franchise system (Tanjung, 2021). However, not a few franchisees complain about various legal issues in the franchise agreement, such as:

1) Inequality in Contract Clauses

Many franchisees consider the contract clauses to be more in favor of the franchisor, especially in terms of royalties, operating costs, and restrictions on business innovation. Franchisees do not have the right to change or adjust business strategies according to local market conditions.

2) Lack of Transparency in Financing

Start-up costs (franchise fees), royalties and marketing costs are often not explained in detail in the contract, resulting in differences in perception between the franchisor and franchisee.

3) Violation of the Principle of Good Faith

In some cases, franchisors do not provide adequate business support, such as training and marketing, which should be part of the franchise agreement. Some franchisees experience difficulties in obtaining raw materials because they have to buy from suppliers specified by the franchisor at a higher price than the market price.

4) Uncertainty in Dispute Resolution Mechanism

Many franchise contracts do not include a clear dispute resolution mechanism, so franchisees often have difficulty finding legal solutions when disputes occur. Most franchisees do not have sufficient legal knowledge, making it difficult to fight for their rights when a conflict occurs with the franchisor (Manalu, 2022).

This research uses descriptive qualitative method by collecting data through literature study, interviews with franchisees and franchisors, and analysis of franchise contracts used by franchises in Medan City. The results of this study are expected to provide greater insight into franchise business practices in the F&B sector, as well as provide recommendations for business people, regulators, and academics in improving legal protection for franchisees and creating a fairer and more transparent contract system.

Literature Review

1. Basic Concept of Franchise

Waralaba atau *franchise* merupakan suatu bentuk kerja sama bisnis antara *franchisor* (pemilik merek dagang) dan *franchisee* (pihak yang memperoleh hak untuk menjalankan bisnis dengan merek dagang tertentu). Dalam model bisnis ini, *franchisee* mendapatkan hak untuk menggunakan merek, sistem operasional, serta dukungan bisnis dari *franchisor* dengan imbalan biaya awal *(franchise fee)* dan royalti yang dibayarkan secara berkala (Syafiina, 2024).

According to Government Regulation No. 42 Year 2007 on Franchising, a franchise is defined as a special right owned by a person or business entity to a business system with business characteristics in order to market goods or services that have proven successful and can be utilized by other parties based on a franchise agreement.

In context *food and beverage* (F&B), franchising is the most growing sector in Indonesia. According to a report by the Indonesian Franchise Association (AFI, 2023), more than 50%

of franchise businesses in Indonesia come from the F&B sector, with brands such as KFC, Starbucks, J.CO, and Chatime as prime examples. This growth is driven by consumer trust in familiar brands and standardized operational systems.

However, the franchise business is inseparable from various legal challenges, especially in terms of franchise contracts that often favor franchisors over franchisees. Therefore, understanding the legal principles in franchise contracts is very important for franchisees so that they do not suffer losses in the long run.

2. Legal Principles in Franchise Contracts

The franchise contract is a key element in this business system, which regulates the rights and obligations of both parties (Awaluddin, 2013). In Civil Code Article 1320, an agreement is considered valid if it fulfills four main conditions:

1) Agreement of both parties
2) Proficiency in performing legal acts
3) The specific object being promised
4) A cause that is lawful and not against the law

In addition, some principles of business law that are relevant in franchise contracts are:

a) Principle of Freedom of Contract
This principle states that the parties are free to determine the contents of the agreement as long as it does not violate the law and public interest (Maulidiana, 2014). However, in practice, franchisees' freedom is often limited as franchisors usually provide non-negotiable standard contracts. This leaves the franchisee with little control over the terms and conditions of the franchise agreement (Imansah & Hakim, 2024).

b) Principle of Consensualism
Franchise contracts should be based on mutual agreement without coercion from either party. However, research from (Lim et al., 2020) shows that in many cases, franchisees feel forced to accept all the provisions proposed by the franchisor due to an imbalance in bargaining power.

c) Principle of Good Faith
This principle requires both parties to behave honestly and transparently in carrying out the agreement. However, in practice, many franchisees experience non-transparency in operating costs and royalties. Some franchisors also do not provide sufficient training and business support, making it difficult for franchisees to run their businesses (Purwanto et al., 2023).

d) Pacta Sunt Servanda Principle
This principle states that agreements that have been made must be implemented properly. However, in franchise contracts, franchisors often have clauses that can cancel the agreement unilaterally if the franchisee does not meet certain standards (Imansah & Hakim, 2024).

e) Principle of Balance of Rights and Obligations
The franchise contract should reflect a balance between the rights and obligations of the franchisor and the franchisee. However, many studies show that kontrak franchising is more favorable to the franchisor, especially in terms of price setting, supplier selection, and royalty fees (J. Jopie Gilalo, 2015).

3. Legal Issues in F&B Franchise Contracts in Indonesia

Several studies have revealed various problems that often occur in franchise contracts in the F&B sector, including:

1) Inequality of Rights and Obligations

Many contract clauses provide greater benefits to the franchisor, such as restrictions on raw material suppliers and high royalties (Fuady, 2018). Franchisees often do not have the right to make business innovations, making them less flexible in the face of market changes (Usman, 2018).

2) Lack of Clarity in Cost Transparency

Start-up costs, royalties and marketing costs are often not explained transparently, so franchisees do not know the overall operating costs before signing the contract. (Hamizan et al., 2024).

3) Violation of the Principle of Good Faith

Some franchisors do not provide adequate business support, such as training and marketing promised in the contract. (Hayati, 2024).

4) Lack of Fair Dispute Resolution Mechanism

Most franchise contracts stipulate that disputes must be resolved through arbitration administered by the franchisor, potentially to the detriment of the franchisee.

4. Case Studies and Previous Research

Some of the research relevant to this study include:

1) Sugiono et al. (2023) - Analysis of the Legal Aspects of Franchise Agreements in the Perspective of Civil Law Found that many franchise contracts in Indonesia do not provide sufficient protection for franchisees.
2) Fuady (2018) - Business Law in Theory and Practice Examines the imbalance of rights and obligations in franchise contracts and the need for stricter regulations to protect franchisees.
3) Pontohh (2017) - Forms of Cooperation in Business Activities Viewed from a Business Law Perspective Analyzes the forms of business contracts and how contract clauses often favor the economically stronger party.

Method

1. Research Approach
   This research uses a descriptive qualitative method, which aims to understand and describe the implementation of legal principles in franchise contracts in food and beverage (F&B) franchises in Medan City. This approach is used to explore the phenomena that occur in the field in more depth through analysis of contract documents, interviews with franchise business actors, and literature studies related to franchise business law.
2. Data Type and Source
   This research uses two main types of data:
   1) Primary Data
      a) Data obtained directly from the main source through interviews and observations.
      b) Primary data sources in this study include:
         - *Franchisor in the F&B sector in Medan City.*
         - *Franchisees (franchise licensees) who have been in business for at least one year.*
         - Business law expert with experience in franchise contract matters.
   2) Secondary Data
      a) Data obtained from indirect sources, such as legal documents, regulations, and previous research.
      b) Secondary data sources in this study include:
         - Government Regulation No. 42 Year 2007 on Franchising
         - Civil Code (KUH Perdata) Article 1320 on the validity of agreements
         - Journals and previous research that discuss the legal aspects of franchise contracts
3. Data Collection Techniques
   To obtain accurate and relevant data, this research used the following data collection techniques:
   1) Literature Study
      Examine regulations and theories related to franchise law, such as Government Regulation No. 42/2007, the Civil Code, as well as various academic journals and books.
   2) In-Depth Interview
      - Conducted with franchisors and franchisees to understand their experiences and perspectives regarding franchise contracts.
      - Interviews were also conducted with business law experts to obtain a more in-depth legal analysis.
   3) Analysis of Franchise Contract Documents
      - Analyze the contents of franchise contracts used by several F&B franchises in Medan City.
      - Examine whether the contract has applied the principles of business law fairly.

4. Data Analysis Technique
   The data obtained will be analyzed using the thematic analysis method, which involves the following steps:
   1) Data Reduction
      Categorize the data based on the main themes, such as the principle of freedom of contract, good faith, balance of rights and obligations, and dispute resolution.
   2) Data Presentation
      Compile the findings in the form of narratives and tables for easy interpretation.

3) Conglusion
   Comparing the findings in the field with existing theories and regulations to conclude how legal principles are applied in F&B franchise contracts in Medan City.

5. Data Validity

   To ensure the accuracy of the data, this study used source triangulation techniques, namely:
   1) Comparing interview data with franchise contract documents.
   2) Confirm interview results with business law expert opinions.
   3) Analyze the findings with applicable regulations.

Result and Discussion

1. Results

This study aims to analyze the implementation of legal principles in franchise contracts in food and beverage (F&B) franchises in Medan City. Data were obtained through interviews with 5 franchisors, 10 franchisees, and 2 business law experts, as well as analysis of franchise contract documents from several franchises operating in the region.

From the results of the research, several key findings related to the application of legal principles in franchise contracts were found, which can be summarized in Table 1 below:

Tabel 1. Implementation of Legal Principles in Franchise Contracts in Medan City

Principle of Law	Research Findings
Freedom of Contract	Franchisees have no discretion in drafting the contract, because the franchisor uses a non-negotiable standard agreement.
Consensualism	Despite the consent of franchisees, most do not understand the full contents of the contract, especially regarding additional fees and exclusive rights.
Good Faith	Not all franchisors provide transparent information regarding operational costs and royalties. Some franchisees also feel they lack business support after the contract runs.
Pacta Sunt Servanda	Most franchisors and franchisees try to abide by the contract, but there is a clause that allows the franchisor to unilaterally terminate the agreement.
Balance of Rights and Obligations	Franchisees feel that the rights and obligations in the contract are not balanced, with the franchisor having greater control over business operations.

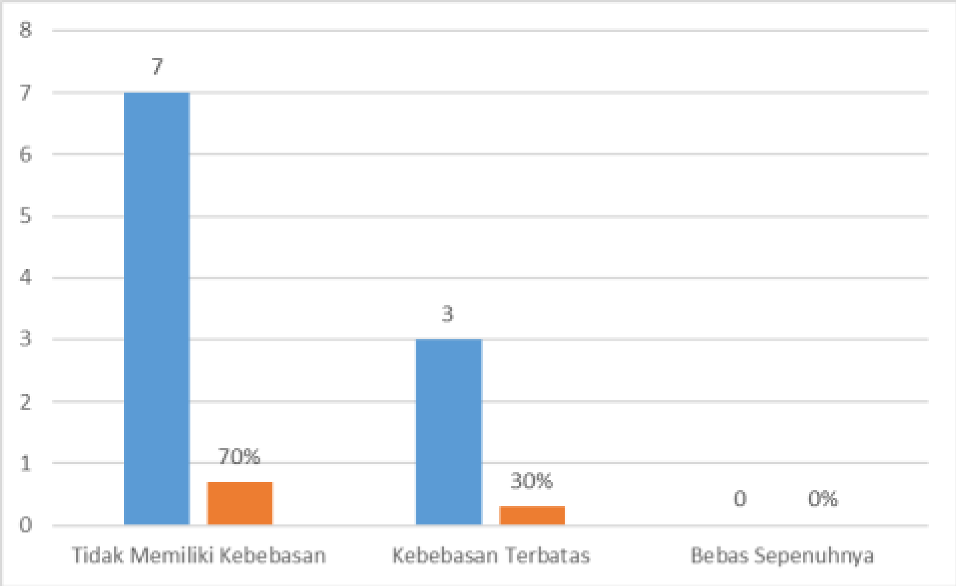
Source: (Imansah & Hakim, 2024)

a. Application of the Freedom of Contract Principle

In contract law, the principle of freedom of contract states that both parties have the right to determine the contents of the agreement in accordance with their interests. However, this study found that 90% of franchisees feel that they do not have freedom in drafting the contract, as they can only accept the agreement that has been drafted by the franchisor. The interview results show that:

1) 7 out of 10 franchisees stated that they had no opportunity to negotiate the content of the contract, as the franchisor had set the terms and conditions unilaterally.
2) The other 3 franchisees admitted that they only understood some parts of the contract, but had no choice but to agree to it because they had already invested in the business. This data can be seen in Graph 1 below:

3) **Grafik 1. Franchisee's Level of Freedom in Drafting the Contract**



(Based on literature review and field observations)

From the table above, it can be seen that 70% of franchisees have no freedom in drafting the contract, while 30% have limited freedom, and no franchisee has full freedom in determining the contents of the franchise agreement.

b. Franchisee's Understanding of the Contract (Consensualism Principle) Franchisee Understanding of the Contract (Consensualism Principle) The principle of consensualism emphasizes that agreements must be made based on mutual agreement. However, in this study, it was found that 60% of franchisees did not understand the entire contents of the contract they signed.

- Most franchisees have difficulty in understanding legal clauses, especially those relating to surcharges and exclusive rights.
- 5 out of 10 franchisees stated that they only knew the details of the contract after starting the business, which caused difficulties in managing operations.
- Some franchisees feel forced to sign a contract because they have spent a lot of capital to buy a franchise license.

To illustrate this, here are the data in Table 2:

Tabel 2. Franchisee's understanding of the contents of the contract Category

Category	Amount Franchisee (n=10)	Percentage
Understand the entire contract	4	40%
Partially understand the contents of the contract	3	30%
Not understanding the contents of the contract thoroughly	3	30%

Source : (Redjeki et al., 2011)

c. Transparency of Costs and Obligations (Principle of Good Faith)

The principle of good faith in the franchise contract requires the franchisor to provide transparent and honest information to franchisees. However, the results of this study show that 50% of franchisees think that the franchisor does not provide sufficient information regarding additional costs.

- 4 out of 10 franchisees stated that they only found out about the additional costs after the contract was in place.
- Some franchisees complained that they were required to purchase raw materials from franchisor-appointed suppliers, even though prices were more expensive than the general market.

d. Dispute Resolution Mechanism (Pacta Sunt Servanda Principle)

In the aspect of pacta sunt servanda, most franchisees and franchisors try to comply with the agreed contract. However, it was found that many contracts include clauses that allow the franchisor to terminate the agreement unilaterally if the franchisee fails to achieve the sales target within a certain time.

- 6 out of 10 franchisees consider that the dispute resolution mechanism in the contract is more favorable to the franchisor.
- Most contracts list arbitration as the primary remedy, but franchisees often have no understanding of this procedure.

2. Discussion

From the above research, some of the main issues that need further attention in the F&B sector franchise contract in Medan City are:

1) Inequality of Bargaining Position between Franchisor and Franchisee

The results of this study are in line with the study conducted by Sugiono et al. (2023) who found that most franchisees in Indonesia do not have a strong bargaining position in contract negotiations. This is because the contract provided by the franchisor is standardized and does not provide flexibility for franchisees.

2) Lack of Transparency in Operational Costs

Lack of transparency in additional costs is a major problem in the franchise business. Franchisees are often unaware of the additional costs they have to pay, thus affecting their profit and loss calculations.

3) Contract Clauses that Favor the Franchisor

Banyak *franchisee* merasa bahwa hak mereka sebagai mitra bisnis tidak terlindungi dengan baik dalam kontrak waralaba. Klausul yang memungkinkan franchisor mengakhiri kontrak secara sepihak menjadi salah satu tantangan terbesar yang mereka hadapi.

4) The Need for Stricter Regulations

Government Regulation No. 42 Year 2007 on Franchising has indeed regulated this business, but its implementation still has shortcomings. Therefore, stricter regulations are needed to protect franchisee rights and prevent abuse of power by franchisors.

Conclusion

This study found that the implementation of legal principles in franchise contracts in the F&B sector in Medan City is still not optimal, especially in the aspects of freedom of contract, cost transparency, and balance of rights and obligations. Franchisees have a weak bargaining position because contracts are generally standardized and prepared unilaterally by the franchisor, so they do not have sufficient negotiation space. In addition, the lack of transparency in additional costs such as royalties, marketing, and purchasing raw materials is one of the challenges faced by franchisees. Some franchisors also do not fully provide dukungan bisnis promised in the contract, which reflects a violation of the principle of good faith. The dispute resolution mechanism in the contract tends to favor the franchisor, while franchisees often do not understand their legal rights thoroughly. Therefore, it is necessary to revise franchise regulations that better protect franchisees, increase legal awareness for franchise business actors, and prepare more transparent and fair contracts so that the relationship between franchisors and franchisees can run more balanced and sustainable.

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