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**The Implementation of Good Government Governance in the
Implementation of Franchise Businesses in Indonesia**

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Abstract: This research aims to analyze and examine the application of Good Government Governance (GGG) principles in the implementation of franchise businesses in Indonesia. The implementation of GGG is crucial to create a healthy, transparent, and accountable business climate, especially in the franchise sector that involves many parties, both from the government as a regulator and business actors. The research method used is literature study and qualitative analysis of laws and regulations related to franchising, as well as applicable government policies. The results of the study show that franchise regulations in Indonesia have adopted several GGG principles, such as transparency through registration and information submission obligations, as well as accountability in the form of supervision and law enforcement. However, its implementation still faces several obstacles, including weak inter-institutional coordination, lack of socialization to business actors, and overlapping regulations. Synergy between the central and regional governments, as well as the active role of franchise associations is needed to increase the effectiveness of supervision and law enforcement. The conclusion of this study is that the implementation of GGG in the franchise business in Indonesia is still not optimal and requires systematic improvement. The recommendations included simplifying regulations, increasing supervisory capacity, and strengthening partnerships between the government and the private sector. Thus, it is hoped that a conducive franchise ecosystem can be created, protect the rights of all parties, and encourage sustainable economic growth.

Keywords: Good Government Governance, franchise, franchise, regulation, Indonesia, transparency.

1. Introduction

The rapid economic development and lifestyle of people in Indonesia has encouraged the franchising sector (*Franchise*) is one of the main pillars in the growth of micro, small, and medium enterprises (MSMEs). This business model offers significant opportunities for entrepreneurs to start businesses with a proven system, while also playing an important role in job creation and economic equity. However, the complexity of the relationship between franchisees (*franchisor*), franchised (*Franchisee*), and the government as a regulator,

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requires a strong and reliable governance framework.¹ Without good governance, potential issues such as non-transparency, fraudulent practices, and contract disputes can damage the industry's reputation and harm all parties involved.

Regulations related to franchising in Indonesia have been regulated in Government Regulation (PP) Number 35 of 2024 and Permendag Number 71 of 2019, which requires franchise agreements to be registered. Franchising is one of the effective ways to answer challenges in modern times, because it does not require direct investment but involves other parties to cooperate. In the franchise system, the franchisee is given the right to take advantage of the rights to intellectual property and the system of operational activities of the franchisor, both the use of trademarks, service marks, copyright on logos, industrial designs, patents and trade secrets. The franchisor earns royalties for the use of intellectual property rights and operational activity systems by the franchisee.

Principles *Good Government Governance* (GGG)—such as transparency, accountability, participation, and effectiveness—is an ideal foundation for creating a healthy franchise business ecosystem.² The implementation of GGG ensures that policies and regulations made by the government not only protect the rights of business actors, but also encourage healthy competition and innovation. In Indonesia, various regulations have been issued to regulate the franchise business, from registration to supervision.³ Nevertheless, the implementation of GGG in practice still faces serious challenges. There are still frequent cases where franchise candidates do not get adequate information, or supervision of regulatory compliance is less effective.

In the case of the "Menantea" franchisee business, popularized by influencer Jerome Polin, it was protested by partners because the partners never made a profit since entering the business. In fact, some partners admitted that they only sold ten drinks per day. Even though the costs incurred are not small where the initial investment value is, the partner must spend a nominal amount of one hundred and twenty-five million rupiah, and must add fifty million for the cost of machinery and equipment. Some facts related to Menantea's business are that the founder is not Jerome Polin, has not qualified as a franchise business, franchise fees starting from one hundred and twenty-five million rupiah, management

¹ A. Setyawan & S. Wibowo, "Juridical Review of Legal Protection Against Franchisors and Franchisees in Franchise Agreements," *Journal of Law and Development*, Vol. 50, No. 3 (2020), p. 688.

² Rahardjo Adisasmita, *Government System and Good Governance* (Yogyakarta: Graha Ilmu, 2014), 45-50.

³ Sjafrizal, "Good Governance as a Strategy to Improve the Performance of Local Government," *Journal of Development Economics: A Study of Economic and Development Problems*, Vol. 14, No. 2 (2013), p. 166.

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claims about turnover up to thirty-five million, expensive prices for beverage products, and no action from Menantea's management towards partners.

This study aims to examine in depth the application of GGG in the implementation of franchise business in Indonesia. The main focus of the research is to analyze the extent to which existing regulations have reflected the principles of GGG, identify barriers to their implementation, and provide constructive policy recommendations. This research focuses more on the legal aspects of contract or franchise marketing, this research specifically highlights the role of government and regulatory governance as determining factors for the sustainability of the franchise industry. Thus, it is hoped that the results of this research can make a real contribution to improving the franchise governance system in Indonesia, creating a fairer, more transparent, and sustainable business climate for all business actors.

2. Method

The approach method used in the preparation of this research is the Normative Juridical approach method because in writing this scientific paper the norm system is placed as the object of study, where law is conceptualized as a rule or norm.⁴ In normative law research, library materials are basic materials that are classified as secondary data related to the implementation of good government governance in the implementation of franchise businesses in Indonesia. The approach used in this study is the statutory approach (Statute Approach) and the case approach. Furthermore, the Case Approach is an approach that is carried out to analyze and examine used as a guideline for legal problems to solve legal cases. This research uses a case approach by examining documents, analyzing problems by observing, understanding and analyzing and describing descriptively the data obtained to find the legal problems. Then a legislative approach is carried out related to the legal problems that are researched to create regulations that can be used as guidelines if there are problems related to the law.

3. Analysis or Discussion

Franchise ventures or *Franchise* has become one of the significant economic drivers in Indonesia. This business model offers a proven system and *Brand Recognition*, making it an attractive option for novice entrepreneurs who want to minimize risk.⁵ This rapid growth is not only seen in the food and beverage sector, but also extends to various other sectors,

⁴ Peter Mahmud Marzuki, *Legal Research* (Jakarta: Kencana Prenada Media Group, 2011), 35.

⁵ Adrian Sutedi, *Franchise Law, Cet. First* (Jakarta: Sinar Grafika Publisher, 2014), 10.

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such as education, retail, and beauty services. With this system, franchisees (*franchisor*) can expand its network with limited capital, while being franchised (*Franchisee*) get operational, marketing, and management support from the franchisee.

To regulate this complex dynamic, the Indonesian government has issued a number of regulations. The main regulations related to franchising are regulated in Government Regulation (PP) Number 35 of 2024 concerning Franchising.⁶ This regulation defines franchise as a special right owned by an individual or business entity to a business system with certain business characteristics. Registration of a Franchise Registration Certificate (STPW) is required as a form of legality. This rule is also strengthened by other derivative regulations, such as the Regulation of the Minister of Trade (Permendag) which regulates in more detail the terms and procedures for registration, as well as the obligation for franchisees to provide complete and honest information to prospective franchisees through *Franchise Disclosure Document* (Franchise Offering Document). In general, these regulations aim to create a business climate that is transparent, fair, and protects all parties involved, which is in line with the principles *Good Government Governance* (GGG).

3.1. Application of Legal Terms and Agreement Principles in Franchise Business to Support the Principles of Good Government Governance

In the franchise business, the relationship between the franchisor and the franchisee is governed by a legally binding agreement. This agreement serves not only as a foundation for cooperation, but also as a tool to protect the rights and obligations of both parties. Therefore, it is important to understand the application of legal terms and agreement principles in the context of franchising, especially based on the legal framework that applies in Indonesia. According to Article 1320 of the Civil Code, an agreement is considered valid if it meets four essential conditions:⁷

1. Agree to Bind Yourself

This is the most basic first condition. Both parties, namely the *franchisor* and the *franchisee*, must reach an agreement without coercion, deception, or fraud. This agreement must be clearly stated in the franchise agreement, where both parties agree to all clauses, including each other's rights and obligations.

2. Ability to Make Alliances

⁶ Gunawan Widjaja, *Franchise Law: A Comprehensive Study* (Jakarta: Kencana, 2017), 67.

⁷ Hasan Alwi, *Introduction to Law* (Jakarta: Kencana, 2015), 150-155.

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The parties involved in the agreement must be legally competent. This means that they must be adults and not under the influence or represented by others. In a business context, this means that the business entity or individual signing the agreement must have the legal capacity to do so.

3. A Certain Thing

This condition demands that the object of the agreement must be clear and specific. In a franchise agreement, the object includes the right to use the franchisor's trademarks, operating systems, and products. All of these things should be explained in detail to avoid doubts and potential disputes down the road.

4. A Halal Cause

The franchise agreement must have a legal purpose or cause and not contrary to law, decency, or public order. The business that is being slaughtered must be legal and legal. If the object or purpose of the agreement is illegal, then the agreement is null and void.

Ambiguity or non-compliance with the legal terms and principles of the agreement can be fatal. If an agreement does not meet any of the four legal conditions, the consequences can be null and void. In the case of Menantea, the business was proven not to meet article 4 paragraph 5 letters a and b of PP 35 of 2024, namely it had been operating for at least 3 consecutive years and had made a profit in the last 2 years of its operating period. So that the agreement made between Menantea and the partner is considered to violate the objective conditions of the agreement (halal cause) article 1320 of the Civil Code which results in the agreement being null and void. In theory, when an agreement is null and void, the position of the parties to the agreement returns to its original position as there was no agreement.⁸ Thus, all obligations of the parties, including the paid-up capital, must be returned in full so that both parties return to the position before the agreement was made. Therefore, the partner's purchase funds should be returned according to the amount that has been paid.

⁸ A.F. Susanto, Indonesian Legal System: Dynamics, Changes, and Problems (Jakarta: Gramedia Pustaka Utama, 2018), 120.

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3.2. Challenges in the Implementation of Good Government Governance in the Franchise Business Climate in Indonesia

Although the legal basis is already in place, the implementation of GGG in the franchise ecosystem in Indonesia still faces serious challenges. First, the lack of coordination between institutions. Regulations related to franchising involve the Ministry of Trade, the Investment Coordinating Board, and local governments, which often have overlapping rules and complicated bureaucracy, making it difficult for business actors. Second, supervision and law enforcement that is not optimal.⁹ Although registration is mandatory, supervision of compliance in the field is still weak due to limited resources and capacity of the apparatus. This leaves many franchises unregistered and unsupervised, opening up opportunities for fraudulent practices. Third, low business and legal literacy among business actors, especially *Franchisee*. Many *Franchisee* do not fully understand their rights and obligations, making them vulnerable to becoming victims of dishonesty *franchisor*. Fourth, regulations that are less adaptive. Existing regulations have not been able to fully keep pace with the rapid pace of innovation, especially with the emergence of digital and micro franchise business models, creating a "gray zone" that is beyond the reach of regulations.

3.3. Solutions in the Implementation of Good Government Governance in the Franchise Business Climate in Indonesia

To overcome these challenges, strategic steps are needed to optimize GGG in the franchise industry. First, regulatory harmonization. The government needs to simplify and integrate all franchise-related rules into one clear legal umbrella, eliminating duplication and bureaucratic complexity. Second, strengthening supervisory capacity.¹⁰ Supervisory officers need to be equipped with special training and supported by information technology, such as an integrated digital registration and tracking system, to improve the effectiveness of supervision. Third, increasing transparency and education. The government and franchise associations must work together to socialize the importance of regulatory compliance and the rights of business actors. Obligations for *franchisor* to provide a complete and honest Franchise Offer Document must be strictly enforced. Fourth, strengthening partnerships between the government and the private sector. Involving franchise associations in policy formulation and oversight can create a mechanism for *Self-regulation* and ensure that the

⁹ B. Suparto, *Good Governance: Theory and Implementation* (Yogyakarta: Pustaka Siswa, 2016), 88-90.

¹⁰ Josef Riwu Kaho, *Prospects for Regional Autonomy in the Republic of Indonesia* (Jakarta: RajaGrafindo Persada, 2015), 180.

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rules made are relevant to market dynamics. Thus, the franchise ecosystem in Indonesia can become healthier, fairer, and more sustainable.

4. Conclusion

Application *Good Government Governance* (GGG) in the franchise business climate in Indonesia is still not optimal. Although the legal framework, especially through Government Regulation Number 35 of 2024, has been in place to create a transparent and accountable business ecosystem, its implementation still faces significant challenges. These challenges include weak inter-agency coordination, low legal literacy of business actors, ineffective supervision, and regulations that are not adaptive to rapid industry development.

Therefore, systematic and integrated improvements are needed to optimize GGG. The main solution that must be implemented is regulatory harmonization to simplify the bureaucracy by unifying and simplifying regulations from various institutions into one door. Implementation of an integrated digital licensing system (*Online Single Submission* - OSS) must be optimized so that the registration and supervision process becomes more efficient and transparent.¹¹ In addition, the Government must strengthen the capacity of supervisory apparatus with training and adoption of technology, such as centralized databases and online monitoring systems. This allows for faster and more proactive monitoring. In addition, the announcement of registered and qualified franchise data can increase transparency and public trust. Strengthening partnerships between the government and the private sector through franchise associations is also important to be key to creating mechanisms *Self-regulation* effective where the franchise association will act as a filter to ensure that its members comply with the applicable regulatory standards. With these measures, it is hoped that a healthier, fairer, and more sustainable franchise ecosystem will be created, which will ultimately drive national economic growth.

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