

## Legal Protection and Justice for Franchise Business Operators from an Islamic Law Perspective

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### Abstract

*This study discusses strategies to enhance the economic well-being of the community through engagement in entrepreneurship, especially through the franchise business model. Franchising is a marketing strategy for rapidly expanding businesses through the concept of cooperation. Legal protection for franchise business operators is crucial in maintaining a balance between the parties involved. Although there are no specific verses about franchising in the Quran, the principles of business ethics, justice, and compliance with Islamic law are essential foundations that should be applied in all forms of business transactions, including franchising. This study uses an empirical juridical legal approach to explore the concept of franchising, Islamic legal principles, and the impact of legal protection on franchise business operators. The results of this research are expected to make a significant contribution to advancing the legal discourse related to franchise business and Islamic law in Indonesia. Legal protection helps franchise business operators manage risks and conduct business in accordance with the principles of justice and business ethics, from both Islamic and general legal perspectives. Islamic and general law play a crucial role in shaping a fair, orderly, and sustainable franchise business environment. With a clear and consistent framework, franchise business operators can focus on the development and growth of their businesses. Thus, legal protection serves as a strong foundation for sustainable franchise business growth in Indonesia and makes a positive contribution to the economy and society as a whole. Franchise businesses can be a suitable form of enterprise that aligns with the values and principles of Islamic economics, providing a positive contribution to the economy and society overall.*

**Keywords:** *Franchise; Islamic Law, Legal Protection, Business Operator, Government Contribution.*

### Introduction

One strategy for enhancing the economic well-being of the community is by engaging in entrepreneurship. There are various ways to become an entrepreneur, such as starting a new business or acquiring an existing one. Starting a business independently has the advantage of giving the owner the freedom to set their own rules and business strategies. However, it has the disadvantage that the business system being built has not been tested for its success, and there is uncertainty in the market, making the risk of failure significant. On the other hand, taking over an existing business system has the advantage that the buyer of the system does not need to start from scratch, as the system has usually proven to be effective and is ready to be operated by the buyer. However, there are also some drawbacks to buying a business system, one of which is that the buyer does not have full flexibility in managing the business because they must follow the rules set by the owner of the business system. In addition, the reality is that many people start businesses by following existing business models, commonly known as franchises.

The franchise business model has become one of the most sought-after forms of investment and business expansion (Coulbaly et al., 2018). The franchise principle allows business owners to grant licenses for the use of their trademarks, products, and operational systems to individuals or other entities wishing to start or expand a similar business. This is because over time, developments in the franchise business concept have become one of the methods whose impact can be seen in various industry sectors, including food and beverages, retail, and professional services. Therefore, it is not surprising that franchise products have experienced remarkable growth in Indonesia, and in response to this development, the Indonesian

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government has issued Government Regulation of the Republic of Indonesia Number 16 of 1997, which regulates all aspects related to franchising. There are several factors driving the growth of the franchise business. First, from the franchisor's perspective, this business model allows them to expand the geographic scope of their business and increase their income without having to manage all operational aspects directly. Second, for franchisees, participating in a franchise offers an opportunity to start a business with lower risk compared to starting a fully independent business because they receive assistance from the franchisor in terms of training, planning, and operational management. Furthermore, technological developments and easier access to information have transformed the way franchise businesses function. The internet and social media platforms have facilitated the promotion and marketing process, while advanced franchise management systems assist in monitoring and managing businesses more efficiently.

In principle, franchising is a marketing strategy aimed at rapidly expanding business through a cooperative concept. Franchising is not a standalone option but a method with the same strength and strategy as conventional business development approaches. In fact, the franchise system is considered to have many advantages, especially in terms of funding, human resources, and management. Furthermore, franchising is known as a highly efficient distribution method for delivering products to consumers through franchise partners. The successful franchise business model, which has been proven in various industry sectors, plays a significant role in the global economy today. One important aspect of the success of this model is the contribution of franchisees, who are individuals or companies that choose to participate in the franchise structure by obtaining a license to manage a business that has been proven successful and is owned by the franchisor, who is the owner of the franchise. However, despite the many benefits for brand owners and franchisees, business relationships in franchising also involve various risks and legal aspects that need to be addressed.

As the franchise business continues to grow rapidly, the government considers it necessary to verify the legality and integrity of franchise business providers. The goal is to create transparency of information that benefits national companies in commercializing products or services through the franchise model. In addition, the government can also monitor and collect data on the number and types of businesses applying the franchise concept. The legality of the existence of franchising in Indonesia began in 1997 with the issuance of Government Regulation of the Republic of Indonesia Number 16 of 1997 on June 18, 1997, titled "Franchise." This action was followed by the Minister of Industry and Trade of the Republic of Indonesia Decree Number: 259/MPP/Kep/7/1997 on July 30, 1997, which regulates the procedures for registering franchise businesses. Subsequently, this regulation was amended with the issuance of Government Regulation of the Republic of Indonesia Number 42 of 2007, which regulates franchising, as well as the Minister of Trade of the Republic of Indonesia Decree Number 57/M-DAG/PER/9/2014, which regulates the implementation of franchising. This is a form of legal protection.

Law provides a framework for resolving conflicts in a fair and efficient manner, which can prevent serious disruptions to business activities. Putri revealed that legal protection for franchise business operators is crucial in maintaining a balance between the two parties involved. Legal protection plays a very significant role in maintaining and promoting the growth and success of individuals or entities involved in franchising, due to several fundamental reasons. Legal protection ensures that intellectual property rights such as trademarks, copyrights, patents, and trade secrets receive adequate protection. This prevents others from using or abusing these valuable assets without permission, which can endanger the continuity of the franchise business. Legal protection ensures the validity, fairness, and compliance with the regulations in the agreement, so that both parties can confidently run their businesses with a clear understanding of their rights and obligations. Although contracts often govern the relationship between franchisors and franchisees, disputes can arise unexpectedly and beyond the planning.

Franchise businesses often have to comply with various regulations and laws at various levels of government. Legal protection helps franchise business owners gain a better understanding of all these regulations and manage their businesses in compliance with them to avoid potential legal issues that could hinder the smooth operation of their businesses. Legal protection can increase the confidence of franchise business operators in the franchise system itself, making them more willing to invest and expand their businesses because they understand that there are legal regulations protecting their rights. With strong legal

protection, franchise business operators can feel more confident in managing their businesses and can contribute to long-term growth and success within the franchise business framework. In this regard, the role of the law plays a central role in formulating regulations and terms that protect the rights and obligations of each party, governing the contract negotiation process, and resolving potential disputes that may arise.

Islamic law provides guidance on how to conduct business fairly, ethically, and in accordance with Islamic values. Although there are no specific verses about franchising, the principles of business ethics, justice, and compliance with Islamic law are important foundations that should be applied in all forms of business transactions, including franchising. In the Quran, there are no specific verses that directly address franchising or similar business systems. However, general principles in Islam related to justice, transparency, compliance with the law, and business ethics can be applied in the context of franchising. Some verses containing these principles include those in Surah Al-Baqarah (2:177), which emphasize the importance of social justice, giving to those in need, and caring for others. In the same Surah (2:275), it indicates that the practice of usury or interest is not allowed in business transactions in Islam. Surah Al-Hujurat (49:11) emphasizes the importance of respecting and not disparaging or belittling each other. Surah Al-Ma'idah (5:2) underscores the importance of complying with the rules and laws of Allah. In Surah An-Nisa (4:32), it confirms that every individual has their own rights in wealth and the results of their efforts. By applying these principles, businesses can operate in accordance with Islamic values, provide positive benefits to society, and achieve long-term success. In the context of the relationship between franchise business and Islamic law, this research aims to answer the following questions: In the context of the growth of the franchise business in Indonesia, what is the role of legal protection in safeguarding the interests and rights of franchise business operators from the perspective of Islamic law? How can legal protection help manage risks and potential legal issues that may arise in franchise business operations? How does the government's contribution through regulations and policies in monitoring and ensuring the compliance of franchise business operators with the applicable rules?

This research will delve into the concept of franchising, relevant Islamic legal principles, and the impact of legal protection on franchise business operators to understand the relationship between franchising and Islamic law, and its implications for business and society. This study will combine important aspects of franchising with Islamic legal principles and general legal considerations. This highlights the importance of compliance with the law in franchise business operations, especially in the context of Islamic values. The emphasis on the role of the government and legal protection also adds an additional dimension to the analysis of franchise business.

## Methods

This study aims to investigate legal protection and justice for franchise business operators from the perspective of Islamic law. The approach used in this study is a type of empirical legal research. This approach will apply normative legal provisions to real legal situations in society. This means that the study will examine the law as a norm specified in legal regulations, including written and unwritten law, as well as bibliographic or secondary data.

This study will collect existing facts and data relevant to the situations faced by franchise business operators. By identifying and analyzing this data, the study will identify issues within the context of legal protection and justice for franchise business operators. Once these issues are identified, the study will seek solutions or recommendations that align with the principles of Islamic law.

The legal approach will consider the law as a norm specified in legal regulations. This includes the study of both written and unwritten law, as well as references from bibliographic or secondary data. Meanwhile, the empirical approach will be used to investigate the legal reality based on objective facts found in the field. This may involve opinions, attitudes, and legal behavior based on the identification of law and its effectiveness.

To support the research steps, the method applied is the legal approach. This will involve an exploration of all legal regulations related to the legal issues under examination, including regulations governing franchise businesses. Information obtained from literature references or findings in field research will be processed using normative and qualitative analysis methods. This will allow researchers to identify trends, patterns, and implications from the analyzed data.

By combining the juridical and empirical approaches, this study aims to provide a comprehensive understanding of legal protection and justice for franchise business operators from the perspective of Islamic law. The results of this research are expected to make a significant contribution to advancing the legal discourse related to franchise businesses and Islamic law in Indonesia.

## Result and Discussion

### *Franchising According to Islamic Law*

Franchising is a business model in which the business owner (franchisor) grants rights to individuals or other parties (franchisees) to operate an established business under an existing brand and concept. In the franchising model, franchisees receive a license from the franchisor to use the trademark, products, operational systems, and proven support. This provides a framework that enables franchisees to run their businesses on a solid foundation, supported by the experience and knowledge previously tested by the franchisor. In this business model, franchisees also have important financial obligations. On the other hand, franchisees pay licensing fees and royalties to the franchisor as compensation for these rights. As license holders who receive special rights to operate businesses based on the franchisor's brand and system, they must fulfill various financial commitments to the franchisor as part of their agreement.

First, there is an initial licensing fee paid by franchisees to the franchisor. This fee is often a significant amount and grants franchisees official permission to start and operate their stores or business units using the franchisor's trademark and operational system. This fee reflects the value of the well-established brand and tested system, and it serves as an entry point into the world of franchising.

Furthermore, franchisees must also pay regular royalties to the franchisor as a form of compensation for their continued use of the trademark, products, and support provided by the franchisor. These royalties are often calculated as a percentage of the franchisee's monthly or weekly sales revenue. This is the way franchisors make a profit from their franchise network and continue to provide support and guidance to franchisees. In addition to licensing fees and royalties, some franchisees may need to participate in national or regional marketing programs managed by the franchisor. This could mean making additional contributions to a joint marketing fund used to promote the brand widely. All these financial obligations are an integral part of the franchising concept. They allow the franchisor to maintain brand quality and provide necessary support to their entire franchise network. For franchisees, these fees are an investment in a proven successful business model that can provide profitable returns if their business performs well. However, they also need to carefully consider and manage these financial aspects in their business planning.

Franchising offers many benefits, including a proven business model and a well-known brand. However, franchisees must take an active role in managing their financial aspects to ensure that this investment truly yields the expected results. With good planning and a commitment to running the business well, franchisees have a great opportunity for significant success in the world of entrepreneurship. This is a crucial part of their journey as business owners, where success is determined not only by holding a well-known trademark but also by how they manage, develop, and operate the business.

In the context of Islamic law, franchising business practices can be analyzed by considering the ethical and justice principles set forth in religious teachings. While there is no specific Islamic law that addresses franchising, some fundamental principles in Islam can be applied:

- The principle of Cooperation (Musharakah). Is an essential foundation in the franchising business model that aligns with the principles of Islamic law. In the context of the franchising business, the principle of cooperation reflects a spirit of partnership and collaboration between the trademark owner or franchisor and other parties interested in engaging in similar business activities. This is in line with Islamic economic principles that encourage cooperation and mutual benefit in business activities. In the cooperation principle, the trademark owner (franchisor) and other entities (franchisees) work together to achieve a common goal, which is to develop the trademark and expand business operations. The franchisor grants permission to the franchisee to use their trademark, products, and operational system, while the franchisee brings dedication, skills, and local resources needed to effectively run the business in a specific market. The cooperation principle also reflects a spirit of mutual support and shared building. Both parties share responsibilities and benefits in managing the franchise business. They work together fairly and understand each other to achieve joint success. In the context of Islamic law, the cooperation principle promotes the principles of justice, transparency, and mutual benefit. By sharing responsibilities and benefits, this principle avoids practices of usury or interest that are considered unethical in Islam. Furthermore, the cooperation principle also avoids exploitation and injustice in business transactions. By applying the Cooperation (Musharakah) principle in the franchise business model, the involved parties can create a business environment that aligns with the values of Islamic economics. This not only leads to success in business but also positively contributes to the welfare of the community and the overall economy. Thus, this principle in the franchise business is a strong foundation for building successful and sustainable partnerships in the context of Islamic economics. This principle also ensures that business operates fairly and in accordance with the principles of Islamic law.
- The Importance of Protecting Rights and Obligations (Hifz al-Huquq wal Wajibat). This principle emphasizes the moral and legal responsibility to ensure that the rights of individuals are recognized, respected, and fulfilled in business contracts, including in the franchise business model. In Islamic law, the concept of Hifz al-Huquq wal Wajibat refers to the moral and legal responsibility to ensure that individual rights are acknowledged, respected, and fulfilled. In the context of franchising, it means that the rights and obligations of franchisees and trademark owners (franchisors) must be recognized and protected according to the provisions in the franchise agreement. Franchisees have the right to use the trademark, products, and operational systems provided by the franchisor. They also have the obligation to comply with the terms and procedures specified in the franchise agreement. As licensees, they have the right to operate the business based on the trademark and system that have been proven successful. On the other hand, franchisors have the right to maintain the quality of the trademark and ensure that franchisee businesses operate according to established standards. They also have the obligation to provide the necessary support and guidance to franchisees. In the franchise business model, fulfilling these rights and obligations is crucial to maintaining fairness and integrity in business transactions. It is also in line with the principles of Islamic economics that emphasize the importance of justice, transparency, and mutual benefit in every transaction. By ensuring the protection of rights and obligations, the franchise business can operate smoothly and fairly for all parties involved. This also provides a strong foundation for building long-term mutually beneficial relationships between franchisors and franchisees. In the context of Islamic law, this principle ensures that business operates according to the values of Islamic law, avoids exploitation, and promotes justice in every transaction. Therefore, the importance of Protecting Rights and Obligations (Hifz al-Huquq wal Wajibat) in the franchise business is not only a legal requirement but also reflects the values of ethics and morality highly upheld in the perspective of Islamic law.
- Transparency and Justice (Adl and Ihsan). This plays a central role in the franchise business and is consistent with the principles of Islamic law. The principle of Adl (justice) demands fair and equal

treatment of all parties, while the principle of Ihsan (goodness) encourages providing the best and acting with kindness. In the context of the franchise business, transparency is key. Franchisors must provide clear and comprehensive information to franchisees about the rights, obligations, and expectations of both parties. This includes details about costs, operational requirements, and support to be provided by the franchisor. With transparency, franchisees can make informed decisions and fully understand what is expected of them. Justice is also an essential aspect of the franchise business. This encompasses various aspects, including profit-sharing, risk, and responsibilities between the franchisor and franchisee. The principle of justice ensures that both parties are treated equally and fairly in their business relationship. The principle of Ihsan also applies in the franchise business. Franchisors are expected to provide support, guidance, and necessary resources to franchisees with good intentions to ensure the success of the business. On the other hand, franchisees are expected to manage the business with dedication and give their best in day-to-day operations. In Islamic law, the principles of Adl and Ihsan are highly regarded. Applying these principles in the franchise business reflects a commitment to transact with integrity, honesty, and kindness. It also helps create a healthy and mutually beneficial business environment. By integrating the principles of Adl and Ihsan into the franchise business model, it not only meets legal requirements but also creates a solid foundation for long-term growth and sustainability. In line with Islamic legal values, this forms a strong basis for mutually beneficial and respectful business relationships between franchisors and franchisees.

- Protection of Intellectual Property Rights (Hifz al-Mal). This protection is a highly relevant principle in the context of the franchise business and is consistent with the teachings of Islamic law. This principle emphasizes the importance of safeguarding and protecting intellectual property rights, such as trademarks, patents, copyrights, and the like. In the franchise business, the franchisor is the owner of the trademark and operational system that has been tested and proven successful. They have developed their trademark through significant investments in development, marketing, and product quality, making it crucial for the franchisor to ensure that their intellectual property rights are closely guarded. On the other hand, franchisees are granted the right to use the franchisor's trademark, products, and operational system. They are expected to respect and comply with all intellectual property rights owned by the franchisor, as specified in the agreement. From the perspective of Islamic law, the Hifz al-Mal principle underscores the importance of treating intellectual property rights fairly and respecting ownership. This aligns with the values of justice and favoritism that form the basis of Islamic teachings. The enforcement of the Hifz al-Mal principle also includes compliance with the rules and regulations related to intellectual property rights in Islamic law. By adhering to the regulations in place, both franchisors and franchisees demonstrate their commitment to transacting with integrity and in accordance with religious values. By incorporating the Hifz al-Mal principle into the franchise business model, it ensures the sustainability of trademarks and products and creates a business environment that is fair, respectful, and in accordance with Islamic legal principles. This helps build a strong foundation for sustainable and mutually beneficial business relationships between franchisors and franchisees.
- Compliance with Sharia Principles. This is a crucial aspect in the context of the franchise business and is consistent with the principles of Islamic law. This principle emphasizes that when choosing or operating a franchise, the parties involved must ensure that the business or brand being franchised complies with provisions that are in line with Islamic law. A concrete example in this context is ensuring that the business or brand being franchised does not violate Islamic law, such as by not being involved in the production or sale of alcohol or pork. This is because alcohol and pork are considered haram (forbidden) in Islam. From an Islamic legal perspective, complying with Sharia principles is obligatory for every Muslim, including in business aspects. Therefore, when individuals or entities engage in the franchise business, they must ensure that their business

activities do not contradict the values and principles of Islamic law. This principle also encompasses other aspects such as business ethics, fairness in transactions, and ensuring compliance with the moral and ethical principles of Islam. For example, ensuring that the business is not involved in practices considered detrimental or exploitative to the community. By observing and ensuring compliance with Sharia principles in franchising, the parties involved not only ensure that their business is in line with Islamic law but also create a business environment that aligns with religious values. This helps build a strong foundation for sustainable business growth that provides positive benefits to society. Thus, it is important to always consider and ensure compliance with Sharia principles in the context of franchising.

- Risk Management (Tawakkul). This is an important principle in starting and running a business, including in the context of franchising, and this principle aligns with the teachings of Islamic law. Tawakkul means having a strong trust in Allah and believing that everything happens by His will. However, Islamic law also encourages its followers to take wise steps in managing business risks. This includes risk analysis, developing risk mitigation strategies, and taking proactive steps to minimize the negative impact of potential risks. In the context of franchising, this means that both franchisors and franchisees need to conduct a careful risk assessment before starting or entering into a franchise agreement. They should consider factors such as market stability, competition, and potential financial risks. Additionally, they should have a clear strategy for managing these risks if they arise. The importance of risk management is also reflected in the principles of Islamic law that encourage its followers to act wisely and carefully in business matters. This aligns with the concept of muamalah in Islam, where business and transaction aspects are carefully considered. By combining trust in Allah (tawakkul) with prudent risk management, business practitioners, including franchisors and franchisees, can face business challenges and risks with confidence and readiness. Thus, they can achieve success in franchising while adhering to the principles of Islamic law.
- Prevention of Riba (Usury) and Islamic Financial Principles. Riba, or interest, is prohibited in Islam because it is seen as a form of exploitation and injustice in financial transactions. This principle aims to ensure the fair distribution of wealth and economic benefits in society. Therefore, when individuals or entities start or acquire a business, they must ensure that their financial transactions do not involve riba. They should look for financial solutions that align with Islamic financial principles, such as profit-sharing or other financial schemes that do not involve interest. In the context of franchising, it is essential for both franchisors and franchisees to ensure that the financial transactions involved in the franchise agreement do not violate the prohibition of riba. This may include selecting a financial model that complies with Islamic financial principles and ensuring that all financial transactions are conducted with transparency and integrity.
- Principles of Risk-Sharing (Mudarabah). In the principle of Mudarabah, there are two parties involved in an investment or business project. First, there is the party providing capital (shahib al-mal), and second, there is the party managing the investment or project (mudarib). For those providing capital, the risk they take is the potential loss of their investment if the project is not profitable. Meanwhile, for those managing the project, the risk they take is the loss of time and effort invested in the project. In the context of franchising, the principle of Mudarabah is reflected in how franchisors and franchisees share the risks and benefits of the business. Franchisors provide a well-established trademark, a proven operational system, and the necessary support. On the other hand, franchisees provide capital and labor to run the day-to-day business. Both parties share the risk of business success. If the business performs well, both parties will benefit from the profits. However, if the business does not succeed, both parties will also share the losses. This creates a sense of mutual partnership in achieving business goals. By applying the Mudarabah principle in

the franchise business model, it aligns with the values of cooperation, justice, and shared responsibility, which are fundamental in Islamic law. This ensures that the relationship between franchisors and franchisees is based on a shared responsibility in managing risks and maximizing the benefits of the joint investment. Thus, the Mudarabah principle serves as a strong foundation for understanding the dynamics of franchising in the context of Islamic law. It also strengthens the concept that business should be conducted with fairness, transparency, and shared risk and benefit.

- **Compliance with Regulations.** This principle emphasizes that every individual or entity, including franchise businesses, must comply with applicable regulations and laws. In Islamic law, compliance with regulations is considered a fundamental obligation. Islam teaches that every action or decision must be in accordance with legal norms in society. This includes all aspects, ranging from financial transactions, consumer protection, to workers' rights. In the context of the franchise business, compliance with regulations is a necessity. Franchisors and franchisees must ensure that their business operations meet all the legal requirements in place, both at the central and local government levels. This includes licensing, taxes, and environmental regulations. The importance of compliance with regulations is also seen from a safety and justice perspective in society. By following the law, the franchise business contributes to maintaining social and economic order. Additionally, it protects the rights of all parties involved, including consumers, workers, and business owners. In relation to the franchise business, the principle of compliance with regulations is also related to legal protection. If a franchise violates the law or regulations, whether related to intellectual property rights, public health, or other aspects, it can have a serious impact on the business's sustainability and brand reputation.
- **Conflict Resolution (Sulh and Tahkim).** This principle provides a framework for resolving disputes or conflicts that may arise among the parties involved in franchise business. In Islamic law, conflict resolution through negotiation (sulh) or arbitration (tahkim) is emphasized as a method considered fair and effective. This principle emphasizes the importance of dialogue, negotiation, and finding mutually agreeable solutions in resolving conflicts. This aligns with Islamic values that encourage mutual respect and working together to achieve a fair agreement. In the context of the franchise business, the Conflict Resolution (Sulh and Tahkim) principle can be an effective means to address disputes between franchisors and franchisees. If there is a disagreement regarding rights and obligations, profit-sharing, or other aspects related to the franchise contract, this conflict resolution method can provide a fair solution and avoid escalating conflicts that harm both parties. Furthermore, this principle also promotes justice and security in business transactions. With structured and fair conflict resolution mechanisms in place, the parties involved can ensure that their rights and obligations are recognized and respected in line with the principles of Islamic law.

In conclusion, franchise business can be conducted by observing Islamic law principles related to justice, protection of rights, risk management, and compliance with regulations. Therefore, franchise business can be a form of business that aligns with the values and principles of Islamic economics. In practice, although there are no specific Islamic laws governing franchising, the business ethics and justice principles outlined above can form the basis for ethical franchising practices in line with Islamic values. This demonstrates that franchising, when conducted by considering Islamic law principles, can be a business model that aligns with religious teachings.

The Role of Legal Protection in Safeguarding the Interests and Rights of Franchise Business Participants from an Islamic Legal Perspective



In the context of the growth of the franchise business in Indonesia, legal protection plays a crucial role in safeguarding the interests and rights of franchise business participants, both from the perspective of Islamic law and general law. From the perspective of Islamic law, the role of legal protection is essential because Islamic law provides guidance on how to conduct business fairly, ethically, and in accordance with Islamic religious values. Although there are no specific verses about franchising in the Quran, the principles of business ethics, justice, and compliance with Islamic law are important foundations that should be applied in all forms of business transactions, including franchising.

Islamic legal protection ensures that franchise agreements are drafted and executed in compliance with Sharia principles, including transparency, justice, and *hifz al-mal* (the protection of intellectual property rights). This includes provisions regarding profit-sharing, the rights and obligations of each party, and other aspects of the franchise contract.

Under Indonesian general law, legal protection for franchise business participants is governed by various government regulations, including Government Regulation of the Republic of Indonesia Number 16 of 1997 concerning Franchises. This regulation covers all aspects related to franchises, including requirements, registration procedures, the obligations of franchisors and franchisees, and dispute resolution.

The Indonesian government also plays a role in overseeing and ensuring compliance by franchise business participants with the applicable rules. This includes verifying the legality and integrity of franchisors and monitoring the implementation of the franchise concept.

With legal protection from both the Islamic law perspective and general law, franchise business participants can conduct their businesses with confidence and assurance that their rights and interests will be respected and protected. This provides a strong foundation for the growth of the franchise business in Indonesia and makes a positive contribution to the economy and society as a whole.

Legal protection can help manage risks and potential legal issues that may arise in franchise business operations.

Legal protection plays a vital role in managing risks and potential legal issues that may arise in franchise business operations. Here are some ways in which legal protection can assist in this regard:

- **Clear Contractual Arrangements:** Legal protection allows the involved parties to draft franchise contracts that are clear and transparent. These contracts should cover all essential aspects of the business relationship, including the rights and obligations of each party, profit-sharing, contract duration, and dispute resolution procedures. With detailed contracts, the risk of misinterpretation or future disputes can be minimized (Davies et al., 2011).
- **Protection of Intellectual Property Rights:** Legal protection ensures that intellectual property rights, such as trademarks, patents, and copyrights, are recognized and respected. This prevents others from using or abusing these valuable assets without permission, which could jeopardize the sustainability of the franchise business.
- **Fair Dispute Resolution:** If disputes or conflicts arise between parties involved in the franchise business, legal protection offers fair and structured dispute resolution procedures. This can be through negotiation (*sulh*) or arbitration (*tahkim*), following Islamic legal principles.
- **Compliance with Rules and Regulations:** Legal protection ensures that franchise businesses comply with applicable regulations and laws. This includes ensuring that the franchised business or brand adheres to Sharia principles, such as not violating religious laws or engaging in usurious (interest-based) practices.

- **Protection of Rights and Obligations:** Islamic law mandates the protection of the rights and obligations of each party in a contract. In franchising, the rights of franchisees and brand owners must be recognized and respected. This includes the franchisee's right to use the trademark and operational system and the franchisee's obligation to pay licensing fees and royalties.
- **Enforcement of the Law:** If there is a breach or non-compliance with the franchise contract, legal protection enables the affected party to enforce their rights through appropriate legal procedures.

With strong legal protection in place, franchise business participants can feel more confident in managing risks and potential legal issues. This also creates a stable and predictable environment for all parties involved in the franchise business, allowing them to focus on business development and growth.

The government's contribution through regulations and policies in overseeing and ensuring compliance by franchise business operators with the applicable rules.

The government's contribution through regulations and policies in overseeing and ensuring compliance by franchise business operators with the applicable rules is crucial for creating a fair and orderly business environment. Here are some ways in which the government can contribute:

- **Regulation Creation and Monitoring:** The government can enact regulations that govern various aspects of franchise businesses, including legal requirements, licensing procedures, franchisor and franchisee rights and obligations, and dispute resolution mechanisms. With clear regulations in place, franchise business operators have clear guidelines for managing their businesses.
- **Supervision and Law Enforcement:** The government plays a vital role in supervising and enforcing compliance with the existing regulations. This includes monitoring franchise business activities, inspecting compliance with licensing requirements, and taking firm action against legal violations.
- **Product and Service Quality Oversight:** The government can ensure that products and services offered in franchise businesses meet established quality and safety standards. This is essential to protect consumers from defective or unsafe products.
- **Guidance and Education:** The government can provide guidance and education to franchise business operators regarding their rights and responsibilities and how to run their businesses effectively in accordance with the applicable regulations. This can help prevent unintended errors or rule violations.
- **Franchise Growth Policies:** The government can develop policies that support the growth of the franchise industry, including providing incentives for local franchise businesses or attracting international franchises to invest in the country. These policies may include various fiscal incentives or facilitating access to resources.
- **Contractual Relationship Regulation:** The government can ensure that franchise contracts are drafted clearly and fairly for both parties. They can establish contract standards that must be adhered to by the parties involved.
- **Dispute Resolution Forums:** The government can provide independent and fair dispute resolution forums or institutions for parties involved in franchise businesses. This helps ensure that disputes are resolved fairly and efficiently.

With the government's contribution through appropriate regulations and policies, the franchise business environment can experience significant improvements in terms of orderliness, fairness, and sustainability.

Carefully crafted government policies can cover various critical aspects, such as franchise contract regulations, quality and safety standards, and protection of intellectual property rights. As a result, franchise business operators will have a clear and consistent framework for operation. Moreover, government policies that promote transparency and information disclosure can help reduce the risk of uncertainty and conflicts among the parties involved in franchise businesses, creating a safer and more trustworthy environment for business operators. Furthermore, government policies that support training and skills development for franchisees can strengthen the success of franchise businesses. By providing access to the knowledge and skills needed, the government can enhance their chances of success in running franchise operations. Policies that prioritize healthy competition principles and avoid monopolistic practices will also help create a fair environment for all parties involved in franchise businesses. This will encourage innovation and improvements in the quality of franchise products or services. Lastly, government policies that ensure compliance with environmental and social norms will encourage environmentally and socially responsible business practices, contributing to the community and the environment.

In summary, the government's contribution through appropriate regulations and policies is crucial in shaping a healthy, fair, and sustainable franchise business environment. With a holistic and balanced approach, all parties involved can benefit from the growth and development of the franchise business in a country.

#### Legal Protection and the Role of Regulatory Bodies in Franchise Business: Rights, Responsibilities, and Balance Among the Parties Involved

Several factors that franchise business operators need to consider regarding legal protection include the franchise contract, which is a legal agreement that governs the relationship between the trademark owner and the franchisee. This document must be clear, comprehensive, and fair to both parties. The agreement should outline the rights and responsibilities of each party, including but not limited to the use of trademarks, the duration of the franchise, fee arrangements, training requirements, and conflict resolution procedures. Those involved in franchise business must ensure that intellectual property rights, such as trademarks, logos, patents, and copyrights, receive adequate legal protection. Furthermore, franchisees should have a good understanding of the restrictions related to the use of trademarks and other intellectual content associated with the franchise. Franchise business operators must comply with relevant competition regulations in their region and avoid actions such as monopolies, unfair competition, and violations of other competition rules. Legal protection for workers and the preservation of their rights are essential in the franchise business world. Franchisees must diligently fulfill their obligations to comply with employment regulations, including setting a minimum wage, managing working hours, and respecting other employee rights. If the franchise business involves providing services to customers, franchisees must follow applicable consumer protection regulations. Before entering the world of franchise business, it is wise to seek advice from an experienced attorney and always have a good understanding of the legal rights and responsibilities as a franchise owner.

Legal protection for franchise business operators encompasses the rights and responsibilities governing the relationship between the franchisee and the party buying the franchise rights (Kondo, 2015). Here are some aspects of the rights and responsibilities related to legal protection for franchise business operators:

##### *Rights For Franchise Business Owners Include:*

The right to use the trademark and business system. This means franchisees have the right to utilize the trademark, name, and business structure provided by the franchisor.

Training support, meaning franchisors are typically responsible for providing training to franchisees to help them run the franchise operations effectively.

Assistance in marketing, where franchisees can expect support from the franchisor in terms of marketing strategies, promotions, and advertising efforts.

Supervision and guidance, meaning franchisee rights include supervision and guidance from the franchisor to ensure that the business operates according to established standards.

*Responsibilities To Be Fulfilled by The Party Running the Franchise (Franchisee) Include:*

Payment of royalties. In this case, franchisees are usually required to provide royalties to the franchisor as per the agreed-upon contract.

Compliance with standards and procedures. To maintain the quality and consistency of the trademark, franchisees must adhere to the standards and procedures specified by the franchisor.

Renewal of the franchise contract. Franchisees need to adhere to the rules and terms in place to renew the franchise contract, should they wish to continue their business after the initial contract expires.

Disclosure and reporting. In the franchise model, franchisees typically have an obligation to regularly provide information to the franchisor and disclose any pertinent information regarding their business operations.

Regulatory bodies play a crucial role in ensuring legal protection for franchise business operators. These regulatory bodies are responsible for developing regulations and standards governing franchise business operations. Their role is to ensure that both franchisors and franchisees conduct their business fairly and transparently in accordance with the established guidelines. Typically, regulatory bodies require franchisors to periodically submit reports about their franchise activities. This is done to support regulatory bodies in monitoring compliance with applicable regulations and ensuring that legal business practices continue to be adhered to.

Some regulatory bodies also have the capacity to provide education and training to prospective franchisees to help them understand the risks and responsibilities associated with franchise business. The main goal of regulatory bodies is to protect the interests of franchisees and ensure that business practices within the franchise system operate fairly and transparently in accordance with the regulations in place.

Regulatory agencies have an important role in monitoring the franchise's operational activities to ensure that safety, cleanliness, and quality standards are maintained as per the agreement. Regulatory bodies have a role in facilitating alternative dispute resolution processes between franchisors and franchisees. This step can help prevent high costs and legal complexity in the litigation process while encouraging better cooperation between both parties. In some situations, regulatory agencies can monitor the operational activities of franchise businesses to ensure that safety, cleanliness, and quality standards are maintained according to the agreement. Regulatory bodies aim to create a fair and sustainable environment for all parties involved in franchise business, leading to a balanced benefit within the agreement. Furthermore, regulatory bodies can also play a role in ensuring that franchise business practices do not violate antitrust laws or existing competition regulations.

*Franchising According to Islamic Principles: Compliance and Pure Intent in Building a Halal Business*

Franchising, as a form of business partnership, is becoming increasingly popular among Muslim entrepreneurs who wish to establish their businesses based on the principles of Islamic teachings. Their primary motivation is to seek lawful sustenance and to avoid any activities that contradict their religious values. Muslims who strive to adhere to Islamic laws in franchising have sincere intentions to establish and operate businesses in alignment with their religious teachings.

The first step taken by Muslim entrepreneurs is to choose a franchise business or brand that complies with Sharia principles. They carefully consider aspects such as the halal status of the products or services offered and ensure that the business is not involved in activities prohibited in Islam. For example, they explicitly avoid businesses engaged in alcohol sales, pork products, gambling, or other forbidden activities.

The belief in obtaining Allah's blessings and approval is the primary driving force to ensure that every step taken in their business aligns with religious teachings. Muslim entrepreneurs also strive to ensure that their business relationships with franchisors and franchisees are based on principles of justice, transparency, and mutual respect. They emphasize integrity and honesty in every business transaction and interaction.

With a strong commitment to adhering to Islamic legal principles in franchising, Muslims hope that their businesses will receive blessings and success from Allah. They believe that by running a halal business and having sincere intentions to seek lawful sustenance, they will gain blessings in all aspects of their lives. Additionally, they realize that success in franchising also requires effort and strong commitment. Therefore, Muslims who choose this path also strive to deepen their knowledge of Islamic legal principles related to business and consistently seek guidance from qualified scholars or legal experts in this matter.

Thus, franchising operated by Muslims who adhere to Islamic laws becomes not only a business venture but also a tangible expression of their commitment to living according to their religious teachings. This endeavor becomes a field for righteous deeds for them, where every step taken and every decision made is based on sincere intentions to seek Allah's approval and blessings.

## Conclusion

In the world of franchise business, the importance of legal protection is significant to ensure the establishment of a fair and sustainable relationship between franchisors and franchisees. The law should provide a clear foundation for the rights and responsibilities of both parties while addressing potential conflicts that may arise during the franchise agreement. In order to enhance the economic well-being of the community, participation in entrepreneurship, particularly in the franchise business, has become an appealing strategy. Franchise business is a form of investment and business expansion aimed at rapid business growth through cooperation. The importance of legal protection for franchisees is emphasized to maintain the balance between franchisors and franchisees and to protect their rights and interests. Legal protection includes creating clear contracts, safeguarding intellectual property rights, ensuring fair dispute resolution, compliance with regulations, and adherence to the principles of Islamic business ethics. The government also plays a crucial role in supervising and ensuring compliance with the rules and regulations for franchise businesses.

In the context of Islamic law, franchise business practices can be conducted by adhering to ethical principles and justice as outlined in religious teachings. Legal protection plays a significant role in managing the risks and potential legal issues that may arise in franchise business operations. The government's contribution through appropriate regulations and policies is crucial in shaping a healthy, fair, and sustainable franchise business environment. Muslim entrepreneurs who participate in franchise business endeavors strive to adhere to Islamic legal principles in their operations, including the selection of halal businesses and the maintenance of fair, sincerely motivated business relationships. For franchisees who adhere to Islamic legal principles, this business is not just a commercial venture but also a tangible expression of their commitment to living in accordance with their religious beliefs. Therefore, franchise businesses that operate in compliance with Islamic legal requirements can make a positive contribution to the overall economy and society.

With legal protection and a commitment to conducting business in accordance with Islamic legal principles, franchise businesses can become a form of enterprise that aligns with religious values and positively contributes to the economy and society. This allows franchisees to run their businesses confidently, manage risks effectively, and achieve significant success in the world of entrepreneurship.

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