FRANCHISING FROM A CUSTOMER PRIVACY PERSPECTIVE

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Abstract
In the implementation of a franchise agreement, a breach of promise may be committed by either the franchisee or the franchisor. In order to ensure legal protection, the clauses in the agreement must include provisions regarding the limits of use of intellectual property rights. As the most crucial aspect of conducting business operations in the digital age, franchisees and franchisors collect a plethora of customer data, including contact information, purchasing and browsing behavior, location information, and other crucial data, with the objective of driving advertising and growth activities for the franchise system. However, the collection and utilization of this data can potentially expose franchisors and franchisees to a multitude of risks. In an increasingly digitized world, personal data represents a valuable resource for the development of any business. Personal data can also be regarded as an asset with high economic value. The implementation of a franchise agreement raises legal issues pertaining to the limitations on the use of intellectual property rights by franchisees in the implementation of intellectual property from the franchisor. Another problem is how the franchisee’s efforts to protect customer data, which is part of the franchise, are to be reconciled with the rights of the franchisor. This study employs normative juridical research to address the issues under consideration. In addition to the limitations clearly and firmly established in legislation, the agreement that serves as the legal basis also imposes strong restrictions to maintain the legal protection of the parties in the franchise system. The contents of the agreement serve as a guide for the parties in implementing the agreement. Consumers have the right to be protected by business actors, one of which is the protection of their personal data. The protection of personal data is a matter of significant sensitivity, given the numerous instances in which such data must be safeguarded to prevent its leakage. In this regard, the
government has enacted the Data Protection Law, which serves as a preventive measure for the protection of personal data belonging to individuals. With regard to business, corporations that act as controllers of personal data are obliged to protect consumers’ personal data through the acquisition of consent prior to the transfer of such data.
I. Introduction

A franchise agreement is a cooperative contract between a franchisor and a franchisee. It grants the franchisee permission to use the company name, trademark, commercial symbol, patent, copyright, and other items belonging to the franchisor to distribute and sell goods or services (Henry R. Cheesman, 1995). Despite the uncertain global economic situation, the franchise business continues to grow in several countries, including Indonesia. Each country has its own characteristics. The most compelling rationale for initiating a franchise business is the comparative success rate of franchise businesses versus non-franchise businesses. Franchise businesses have a demonstrably greater probability of generating profits in the initial year of operation, in comparison to independent businesses that frequently experience losses in the first year of operation.

From March to May 2022, 566 franchise companies have been registered. With regard to licenses and partnerships, which collectively comprise 116,960 outlets, both franchisor-owned and franchisee-owned, the end of the Covid-19 pandemic and the reopening of social activities have driven company growth. In 2023, the franchise industry in Indonesia managed to achieve a growth rate of 5%. The digital transformation is evident in almost all industries and sectors. The franchise business model can be applied to all business levels. The franchise system in Indonesia is comprised of three types: job franchise, business franchise, and investment franchise. The franchise system implemented in Indonesia is a franchise system with a business format. In this system, the franchisee has the right to distribute and sell products or services in an appropriate area or location, using the operational and marketing standards of the franchisor (Aleksandar Erceg, Antun Bilos, 2021).

The relationship between the franchisee and the franchisor is defined by a non-named agreement, which is an application of the principle of freedom of contract (Adl, 2021). The legal consequences of a franchise agreement serve as the foundation for the establishment of rights and obligations for both the franchisee and the franchisor (Ningrum, 2020). Franchise agreements invariably pertain to the use and/or granting of rights to use and/or utilize certain intellectual property rights (I Kadek Agus Arnawa Pariwesa Putra, 2022).

The emergence of intellectual property protection, spearheaded by industrialized countries, has had a profound impact on developing countries such as Indonesia. In the era of globalization, the role of intellectual property rights as a catalyst for national development has become increasingly crucial (R. Saputra et al., 2019). Intellectual property rights encompass a vast array of social aspects, including
but not limited to the following (Dwi Nurahman, Satrio Nurhadi, Tahura Malagano, 2020).

The form of the results of human intelligence can be immaterial objects or intangible objects (Pahlevi Iyabu et al., 2023). In essence, intellectual property rights are the results of certain creations in the fields of art, industry, science, or a combination of the three fields. These creations are then given protection by the state through statutory arrangements.

The legal protection of the parties in a franchise can be achieved through the contents of a clear and firm contract that delineates the rights and obligations of each party. Such a contract should be open and transparent, with a clear period of time, and should provide for the choice of legal settlement in the event of problems arising in the implementation of the contract. The franchise agreement thus becomes one of the means of protection of the parties, with the objective of reducing or even eliminating the risk of conflict and providing a balance of interests for both parties.

Article 3 of Government Regulation No. 42 of 2007 concerning Franchising defines the character of franchising as the existence of registered intellectual property rights related to businesses such as brands, copyrights, patents, and trade secrets, and having a certificate. Intellectual property rights are essentially a property right that has economic value. As a consequence of its economic value, the property right can be transferred, traded, or leased. In civil law, the transfer process can be carried out through a positive law mechanism. The franchise concept provides an opportunity for business owners to expand the franchisor's brand by partnering with local business people. In return for the franchisee's initial fee and monthly royalties, the franchisor grants the franchisee the right to use their brand, operating system, and products. Royalties are an integral component of implementing economic rights, a fundamental aspect of intellectual property rights. Disputes frequently arise in the execution of franchise agreements due to a range of issues, including site selection and encroachment, franchisee development rights, franchise renewal, alleged non-reporting of fees payable, customer service, and intellectual property concerns (Arif Effendi, 2021).

It is possible for the parties to a franchise agreement to breach their obligations, either through the actions of the franchisee or the franchisor. In order to ensure the enforceability of the agreement, the relevant clauses must be legally protected, particularly in relation to the limitations of intellectual property rights.

Business actors can collect personal data from consumers or prospective consumers offline or online, so there is a gap for business actors to trade consumer digital data
without the knowledge of the data owner (Situmeang, 2021). With the rise of the franchise business, which is then followed by an increase in the opportunity for leakage of consumer personal data. Although the provisions of Government Regulation No. 42/2007 stipulate the clauses that must be included in the franchise contract, it does not specifically mention the importance of regulating the security of consumers’ personal data (Benia, 2022). The Government Regulation expressly stipulates that franchise agreements must be made in writing.

Awareness of the importance of personal data protection needs to be increased not only for consumers, but also for business actors who utilize the data, the need for privacy protection is becoming increasingly important. Given that Franchise is in direct contact with data that is directly related to the existence of customers, the risks that can occur in the event of a data breach or data theft are unimaginable, both from a public and financial point of view. One of the most important assets that a franchise business has is its customer data. For franchise businesses, data protection/data privacy regulations should be a key compliance issue.

Legal issues that have the potential to arise in the implementation of a franchise agreement are studied, namely how the limitations on the use of Intellectual Property Rights by franchisees in the implementation of Intellectual Property from the franchisor. Another problem is how the franchisee's efforts to protect customer data which is part of the franchise. Given that one of the important assets in franchising is customer or consumer data. To guarantee rights and obligations as well as carry out aspects of justice, legal certainty requires objective and reliable services (Lubis et al., 2023).

2. Research Method
This study employs a qualitative descriptive analysis with a normative juridical research focus. The utilized data is derived from existing literature on the topic of the study. Discussed in this analysis are foundational legal principles, rules, norms and legal regulations, including those set forth in statutes and other regulatory instruments. The approach taken in this study is to examine legal issues through the lens of the statutory approach and conceptual framework. Regarding the data collection techniques, researchers employ the use of library research techniques.

3. Results and Discussion

Limitations on the Use of Intellectual Property Rights by Franchisees in the Implementation of Franchise Agreements

The classification of legal systems into three main legal families or traditions has
become a generally recognized practice. The three legal families are civil law, common law, and socialist law. Indonesia adheres to the civil law legal system, which uses written laws or regulations as its main source of law (Cruz, 2016). The fundamental principles governing the formation of franchise agreements are enshrined in Book III of the Civil Code (Fuady, n.d.). This code adheres to an open system, with the principle of freedom of contract enshrined in Article 1338 paragraph (1) of the Civil Code. Franchise contracts are categorised into two distinct types: unnamed contracts (onbenoemd) and innomaat (Idrus, 2017). The legal relationship between the franchisee and the franchisor is defined in a franchise provision as stipulated in MOT 71/2019 on Franchising (Laksana, 2021). Franchising without intellectual property rights is not a franchise. Therefore, if franchising is viewed through the lens of intellectual property rights, it can be understood as an act of granting permission or the right to utilize, use together certain types of intellectual property rights (Hanim, 2011).

The importance of legal protection for intellectual ability is based on the premise that a person or group of people may have developed a useful invention, which they then spend a great deal of money to produce. Once the invention is produced, the individual or group may then seek to protect their intellectual property rights, which may include patents, trademarks, or copyrights. The reputation that has been established through the investment of time and resources should be safeguarded from the threat of unauthorized use by the owner of intellectual property rights, namely the franchisor. Legal protection is essential as a form of compensation and encourages the production of findings with economic value (Darwance et al., 2020). For this reason, the innovation system must recognize the existence of exclusive rights to creations or inventions in the form of rights that are limited by determining the time period and scope and balanced against the economic rewards of the holder and owner. It is important to regulate the protection of intellectual property rights specifically, by including a clause of restrictions that must be obeyed by the franchisee, which directly or indirectly aims to protect intellectual property rights. The limitations imposed to safeguard the interests of intellectual property rights holders are derived from a combination of regulatory frameworks and contractual stipulations. Indonesia, as a developing country, has a plethora of legal instruments governing the utilisation of intellectual property rights. The legislation in place addresses the protection of intellectual property rights pertaining to a diverse array of objects, tailored to the specific circumstances (Zemer, 2011).

The state's protection of intellectual property rights (IPR) owners is evidenced by the enactment of several IPR-related regulations, including Copyright Law Number 28 of 2014, Law Number 13 of 2016, and Law Number 20 of 2016 concerning Trademarks. Additionally, the following laws provide protection for trademarks and geographical indications: Law Number 29 of 2000 concerning the Protection of Plant Varieties, Law Number 30 of 2000 concerning Trade Secrets, Law Number 31 of 2000 concerning Industrial Design, and Law Number 32 of 2000 concerning
Integrated Circuit Layout Design (Darwance et al., 2022).

Furthermore, the type of intellectual property rights utilized must be registered and accompanied by a certificate. Intellectual property rights associated with a franchise must be registered in order to provide legal protection for franchisors and the public. Consequently, it is becoming increasingly important to register intellectual property rights in order to prevent their duplication or theft by third parties due to the protection afforded by the registration. Legality serves as the primary guarantee of the security of intellectual property rights utilization by franchisees (Christian, 2022).

In addition to the limitations that are clearly and firmly determined in the legislation, the agreement which is the legal basis also regulates strong restrictions in order to maintain the legal protection of the parties in the franchise system. The contents of the agreement serve as a guide for the parties in carrying out the agreement. In the current economic development, the contents of the contract are required to be efficient and flexible, but must still contain strict rules in providing protection for the process of exchanging the rights and obligations of the parties. This is exemplified by franchise agreements between franchisors and franchisees, where one party is typically in a stronger bargaining position than the other. The franchisor, as the owner of the business system, has a clear advantage in negotiations with prospective franchisees (Yuswanto, 2007). This strong bargaining position provides a significant opportunity for the franchisor to influence the contents of the contract, thereby establishing a standard franchise agreement (Berlianty, 2017). The franchise agreement stipulates the type of intellectual property rights (IPRs) used for the franchise business. The relationship between franchisor and franchisee is a reciprocal bond. The franchisor grants a license to use an IPR, and in return, the franchisee has the obligation to prepare land, infrastructure, and pay royalty fees to the franchisor (Suleman, 2019).

In essence, the transfer of a license in franchising is not merely a transfer of rights; it is also a form of granting special rights. Consequently, the franchisee does not possess absolute authority to utilize the intellectual property rights owned by the franchisor, including the right to assert that the intellectual property rights are its own. The legal consequence of the unilateral termination of the agreement by the franchisor before the expiration of the contract is that the franchisee is prohibited from utilizing the intellectual property rights (A’yun Amalia & Prasetyawati, 2019).

The focus of a license is on an area of intellectual property rights, such as trademarks or patents. In contrast, a franchise covers the use of trademarks, brand names, patents, and trade secrets contained therein. The license in a franchise contract gives the franchisee specific rights to use and operate the franchisor’s system (A. Saputra, 2023). Some franchisors have the principle of maintaining part of the trade secrets and only delivering the ingredients in ready-to-use form for the franchisee to rely on. Consequently, the contents of the franchise agreement are of paramount

In addition to the franchisee being obliged to pay royalties, the franchisee is also subject to obligations set by the franchisor to design his company in such a way as to be similar to the franchisor's design. As the principle of pacta sunt servanda, the agreement is a statutory provision that is binding for the parties who promise in it. A franchise agreement is a collection of terms, conditions, and commitments made and desired by the franchisor (franchisor) and franchisee (franchisee). The collection of terms, conditions, and commitments is a limitation determined by the franchisor, who is also the owner of Haki. With the agreement as a clear and authentic document, legal certainty is guaranteed, as well as the expectation of avoiding disputes. Although disputes cannot be entirely avoided, the use of authentic documents can facilitate the resolution of cases in a cost-effective and expeditious manner (Pramono, n.d.).

The franchise agreement represents a crucial aspect of legal protection for the franchisor, particularly in the context of safeguarding intellectual property rights. Additionally, the principle of good faith underscores the expectation of fairness and integrity in contractual relationships. Clear and transparent arrangements are of paramount importance to ensure that all parties involved can act with clarity and confidence.

In subjective terms, the principle of good faith is an act in which a person is able to demonstrate honesty in carrying out a legal action. In contrast, objectively, good faith is the implementation of a contract based on norms and compliance (Hanim, 2011). Consequently, in this franchise agreement, it is important to regulate the security procedures for intellectual property rights owned by the franchisee. Although a basic agreement will be considered valid if the parties are capable and there is a lawful cause, special arrangements in a franchise agreement regarding confidential security are an anticipation and prevention so that in the future there will be no party who denies its obligation to maintain the intellectual property rights. The legal effectiveness of the provisions of registered intellectual property rights required as a franchise in Government Regulation No. 42 of 2007 concerning Franchising can be ensured if franchisees are aware of and comply with the relevant legislation. Furthermore, the principle of prudence should be maintained. It is imperative that the agreement be drafted in a clear and unambiguous manner, so that there is no room for future misunderstanding or dispute. Failure to do so may result in one party initiating legal proceedings against the other, commonly referred to as a "default suit." (Pariela, 2017)

**Customer Data Protection in Franchising**

In the context of intellectual property rights, franchising is the grant of a license or right to use or share specific types of intellectual property rights. It is not possible to separate the right to utilize and use both types of intellectual property rights (I

The form of franchise received by the franchisee is the utilization of the intellectual property rights of a franchise. Intellectual property rights are of great importance in a franchise business agreement, as they are a fundamental aspect of the franchise business model (Putra, 2023). The transfer of intellectual property rights from the franchisor to the franchisee entails the franchisor's relinquishment of all personal data or consumer personal information, information, and secrets received from the franchisee (Sulistianingsih et al., 2023).

The fundamental purpose of law is to protect or foster society. The effective management of personal data protection is believed to strengthen citizens' trust in the state responsible for protecting its citizens. This trust is built by applying preventive defense and suppression. Such protection is achieved through the establishment of a robust legal framework for the safeguarding of personal data and the implementation of a legal structure that facilitates the enforcement of personal data protection. While the management of data protection is the responsibility of the Indonesian government, it is important to recognize that the community and the industrial world play a role in the protection of personal data. A lack of effective information management can lead to the compromise of personal data, underscoring the necessity for the state to guarantee the security of personal data. The concept of personal data protection provides individuals with the right to determine whether or not to share their personal data. Corporations rely on consumers to operate their businesses. Consumers are an important asset because no corporation will be able to survive if abandoned by its consumers.

Consumers have the right to be protected by business actors, including the protection of their personal data (Benuf et al., 2019). The protection of personal data is a matter of great sensitivity, given the numerous forms of personal data that must be safeguarded to prevent their leakage. In response to this, the government has enacted the Personal Data Protection Act (PDP Law), which serves as a preventive measure for the protection of personal data belonging to individuals.

In terms of business, corporations acting as personal data controllers are obliged to protect consumers’ personal data through consent before transferring personal data. Furthermore, business activities involving the collection, processing, and storage of personal data must comply with the PDP Law. This includes ensuring that data is only collected with the informed consent of each individual concerned and maintaining its accuracy and security. Violations of these rules may result in fines and damage the company’s reputation. By demonstrating transparency in the treatment of personal data, the company can gain a more favorable position in the eyes of customers.

In a franchise system, the majority of consumer data is typically collected by tools or platforms, such as websites or mobile apps, that are controlled by the franchisor. This is done in order to ensure that customers have a uniform brand experience and
to centralize data collection and sharing for efficiency. The franchisor then uses and shares that data with franchisees and others for the benefit of the overall franchise system. Additionally, franchisees are frequently requested by franchisors to collect information for use by the franchisor, in addition to data collected by the franchisee itself. In an increasingly digitized world, the need for privacy protection is becoming increasingly important. The intersection of franchising activities with customer presence data makes the risks of data breaches or data theft particularly concerning, both from a public and financial perspective. Consequently, at the time of signing the franchise agreement, a set of data protection measures must be established, both in terms of the technical equipment used and the operating system, as well as the procedures that each franchisee must comply with. Personal data can be a valuable resource in the development of any business, providing commercial entities with a deeper understanding of consumers, which in turn allows them to tailor products and services to market needs. However, along with these benefits, there are also inherent risks.

The leakage of consumers’ personal data has negative consequences in the form of sporadic and malicious losses. There are several cases that bear witness and evidence of the space and opportunity for certain parties to violate consumer privacy in Indonesia.

Franchised businesses should review their privacy policies and notices to ensure that they comply with the requirements set out by the UUPDP. In particular, they should place data protection compliance at the core of any new business practices or systems they develop.

To prevent the misuse of personal data, companies may set three limits. First, the parties to the franchise must obtain consent from consumers. This agreement must be in writing, in Indonesian, and in an explicit manner or without abbreviations that may confuse consumers. Secondly, with regard to the utilisation of consumers’ personal data, there is an obligation to obtain an electronic platform (EP) certificate in accordance with Article 59 of Government Regulation No. 82/2012 on the Implementation of Electronic Systems and Transactions. Thirdly, there are provisions pertaining to the purpose and objectives of collecting clear consumer personal data and the type of personal data collected. For this reason, it is evident that there is a clear distinction between the collection of certain types of personal data and the collection of personal data by merchants.

Franchise agreements must address various methods of profit sharing, responsibilities, and roles for data collection and processing of customer data. They must comply with the Personal Data Protection Law to prevent possible franchisor disputes.

Data privacy breaches can negatively impact the public’s perception of the overall brand, regardless of whether the responsible party is the franchisor or an individual franchisee. Furthermore, franchisors must reconcile their obligation to provide
adequate support to franchisees with the potential for vicarious liability claims. It is therefore in the mutual interest of both parties to ensure that the other party collects and uses data in an appropriate manner.

The processing of personal data is an unavoidable aspect of contemporary business practice. Consequently, it is of paramount importance for Indonesian companies to be fully cognizant of the personal data protection regulations enshrined in the PDP Law. The PDP Law stipulates that companies have a maximum of two years to comply with its provisions. Consequently, it is imperative that companies commence preparations to ensure compliance with the PDP Law, in order to avoid any potential sanctions for non-compliance, including administrative, civil, or criminal penalties.

The PDP Law introduces the concepts of "data controller" and "data processor." A data controller is defined as any entity that determines the purpose for which personal data is processed and exercises control over that data. Concurrently, a data processor is a party that processes personal data on behalf of a data controller. The data controller is typically held to a higher standard of responsibility. Regarding the obligation to determine the basis for processing personal data (for example, to obtain consent), to guarantee the rights of registered users, to maintain confidentiality and security, and other related matters. Nevertheless, the data processor is primarily accountable to the controller for compliance with the latter's instructions. In the event that a data processor processes personal data in a manner that diverges from the instructions of the controller, the data processor may be held to the same standards as the controller. In the event that a company wishes to appoint another party to process the personal data it manages, it is advisable that there be an agreement between the data controller and the data processor. This agreement should clearly delineate the duties and responsibilities of processing personal data between the two parties.

With regard to consumers as personal data subjects, it is necessary to pay attention to the provisions regarding the transfer of personal data by corporations. The act of transferring personal data belonging to consumers is the responsibility of the corporation as the controller of personal data. This implies that the corporation is obliged to safeguard the personal data of the customer as the data subject in the transfer of personal data.

Business actors are obliged to protect consumers' personal data, in order to ensure that data subjects can exercise their rights. Ensuring the fulfillment of registered rights is not an easy task, particularly in the context of our business world, which is not well-versed in the nuances of personal data protection. With regard to consumer data owned by the franchisor, there is a prohibition for franchisees following the conclusion of the agreement period.
preventive measure designed to minimise the utilisation of the franchisor’s intellectual property rights by franchisees without the requisite rights.

In the digital age and era of globalization, there are numerous data flows that are detrimental to consumers and have a negative impact on all parties involved in business. Furthermore, transparency in financial communication and reporting is essential for the accurate and reliable dissemination of information to investors and other stakeholders. The responsible use of technology is an essential aspect of business ethics, as it pertains to the protection of personal information and the prevention of privacy breaches. Consequently, it is of the utmost importance to ensure compliance with the established business rules and ethical standards.

4. Conclusion
Franchise agreements invariably pertain to the utilization and/or grant of rights pertaining to certain intellectual property. In addition to the legal protection afforded to the parties by various laws and regulations, a clear and firm contract on the rights and obligations of each party can also serve to provide transparency, a clear period of time, and the option of legal settlement in the event of any disputes or difficulties in the implementation of the contract. The franchise agreement is one of the principal instruments for reducing or even eliminating the risk of conflict and providing a balance of interests for both parties. In an increasingly digitized world, the need for privacy protection is becoming increasingly important. Franchising activities intersect directly with customer presence data, and the risks that can occur in the event of a data breach or data theft are significant, both from a public and financial point of view. Consequently, at the time of signing the franchise agreement, a set of data protection measures must be established, both in terms of the technical equipment used and the operating system, as well as the procedures that each franchisee must comply with. The use of personal data can be a valuable resource in the development of any business, providing commercial entities with a deeper understanding of consumers, enabling them to tailor products and services to market needs. However, along with these benefits, there are also inherent risks.

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