PASSIVE FRANCHISE AS AN INNOVATION IN THE DEVELOPMENT OF COOPERATIVE-BASED RETAIL NETWORKS

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Background: Franchising is a choice in developing a business network. One of the rampant franchise businesses in Indonesia is the development of retail store networks. Unfortunately, the presence of modern store-based retail stores is feared to threaten local businesses in the area such as the case in Kulon Progo. TOMIRA is seen as the best solution that mediates the interests of the private sector as retail owners, cooperatives, and local governments with the main goal of improving community welfare.

Aim: This paper aims to reveal TOMIRA policy problems that occur and explore innovations in management strategies needed in the form of passive franchises.

Method: Through a qualitative approach, this paper is able to present the results and policy problems of multi-actors, namely the government, private sector, cooperatives, and SMEs.

Findings: Passive franchising is seen as a form of mitigation of policy problems in TOMIRA because it is able to provide a delegation system for cooperatives and the merger process with a temporary credit fund facilitating cooperatives while having an impact on increasing profits for both cooperatives and SMEs. The success of passive franchise implementation depends on the role and involvement of local governments, retail policies themselves, human resources, and management.

KEYWORDS franchise, innovation, retail, cooperative

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INTRODUCTION

Franchise is a business effort of the company by granting its business license to other parties in order to be able to sell products or services using the name, trademark, and procedures for operating the company based on agreed terms and conditions (Odop, 2006; Suryana, 2003). The existence of franchise business in Indonesia has continued to grow since the era of the 70s (Isradjuningtias, 2020) and continues to grow until in 2016 according to the Ministry of Trade Indonesia has 698 franchisor with a total of 24,000 outlets consisting of 63% franchisor local and 37% franchisor Foreign with turnover reaching 172 trillion rupiah.

The term franchise is contained in the Government Regulation of the Republic of Indonesia Number 16 of 1997 concerning Franchising. The regulation defines franchising as a relationship that grants one party's intellectual property rights to another party for use in exchange and terms of sale of goods and services. Based on the Government Regulation of the Republic of Indonesia Number 42 of 2007 concerning Franchising, the parties involved in franchising are the franchisor and franchisee. The two parties establish a franchise partnership relationship where the franchisor creates a system for franchisees to follow. The partnership
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begins by implementing a franchise agreement carried out by both parties. The franchise agreement is a legal protection document for the parties involved with the franchise partnership. The agreement guarantees space for claims for violators of the agreement and protection of IPR (Intellectual Property Rights).

Innovation is defined as new products, processes, and practices that are created and disseminated to society. An innovation arises from scientific research, social dynamics, and the level of response of policy providers to the need for policy innovation (Fukugawa, 2018). The change in the form of the franchise system, from active to passive, is one form of implementation of innovation. These innovations are included in the category of conceptual policy innovations issued based on the emergence of new perspectives in the form of policies, success indicators from before and after policy implementation, and identification of problems that change the way they are involved (Institute of State Administration, 2014).

The presence of franchising in Indonesia is inseparable from the government's role in providing space and legal certainty for the implementation of franchise business by forming Minister of Trade Regulation Number 71 of 2019 concerning Franchising. However, franchise business actors in Indonesia are still relatively small, unevenly distributed, and their existence in the form of modern stores can threaten traditional markets that have already developed in the region. The government worked around this by formulating franchise formation rules, one of which was implemented by the Regional Government of Kulon Progo Regency by forming Kulon Progo Regional Regulation Number 11 of 2011 concerning the Protection and Empowerment of Traditional Markets and the Arrangement of Shopping Centers and Modern Stores. Based on this regulation, the People's Owned Store (TOMIRA, Toko Milik Masyarakat) was formed as an alternative solution to public unrest by collaborating between franchise stores with cooperatives and SMEs so that both have alignment with the people's economy.

There are various studies showing SME partnerships with private franchises are interdependent and SMEs will benefit from various trainings and empowerments by private franchisees (Wijayanti & Simanjutak, 1999; Najib Imanullah, 2012; Herawati, 2011). However, as a form of franchise that brings together private parties with SMEs, the implementation of TOMIRA also still encounters obstacles in the operational system that has not been able to meet the sales quota of SME products, unclear profit sharing, and limited resources (Amrurobbi & Pahlavi, 2020). The shortcomings in the implementation of TOMIRA also lie in the innovations and developments implemented in TOMIRA which are able to maintain business sustainability.

Various shortcomings of franchise implementation in Indonesia, especially TOMIRA, gave rise to a passive franchise system. The system makes franchisor as an operator owner who runs the business systematically and franchisee as a financier while still receiving profits. Studies on passive franchising have also been conducted by Nijmeijer et al. (2014) which examines passive franchise operations and by Sanny et al. (2017a) which examines the difference between the concept of active entrepreneurs and passive franchise entrepreneurs.

In its implementation, various previous studies have not discussed specifically about the passive franchise system in TOMIRA as one of the modern stores of private partnerships and cooperatives that houses local SMEs. Therefore, research with this qualitative approach was conducted to examine the implementation of passive franchises in TOMIRA. This research will review and assess franchise policies and the results of their implementation at TOMIRA,
analyze policy problems in TOMIRA practice until new system solutions emerge passive franchise, and analyze factors affect implementation passive franchise. The research results provide some information on franchising and innovation in franchise systems for future implementation and studies.

METHOD

This research was conducted using qualitative descriptive methods that carried out design formulation. Data was collected by triangulation method and processed by inductive descriptive analysis through the collection of various facts through various specific questions of a phenomenon (Nazir, 2014). The data collected in this study were secondary and primary. Secondary data were collected through literature studies. Meanwhile, primary data were collected through interviews, direct observation, and documentation. The processing of this research data is carried out by writing memos, coding, categorization, and detailed descriptions. The processed data were then analyzed by the stages of organizing data, elaborating and classifying data, identifying patterns, sorting research object data, and making conclusions about research results.

<table>
<thead>
<tr>
<th>Goal</th>
<th>Method</th>
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<tr>
<td>Retail Company</td>
<td>Quantitative</td>
<td>In-depth interview</td>
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<tr>
<td>TOMIRA employees</td>
<td>Quantitative</td>
<td>Questionnaire</td>
<td>100</td>
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<td>TOMIRA Visitors</td>
<td>Qualitative</td>
<td>Questionnaire</td>
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<td>Cooperation</td>
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<td>SME</td>
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The focus of this study leads to the TOMIRA Policy as stated in the Regional Regulation of Kulon Progo Regency Number 16 of 2021 concerning the Protection, Empowerment, and Arrangement of People's Markets and the Arrangement of Shopping Centers and Convenience Stores. The focus of the research is based on various previous research results which show that the implementation of franchising at TOMIRA has not been optimal, giving rise to an innovation regarding passive franchising. The passive franchise system incorporates autopilot technology that is expected to realize the welfare of the people. The implementation of the system is influenced by factors that determine the success of output in the form of developing a cooperative-based retail store network.

![Figure 1. Research Framework](image-url)
RESULTS AND DISCUSSION
Retail Policy in Tomira

The development of franchising in Indonesia continues to increase along with the increase in the number of stores built (Soliha, 2008). This situation then caused unrest for small and medium entrepreneurs. The government responded to these concerns by establishing Ministry of Trade Regulation Number 71 of 2019 concerning Franchising which regulates franchise provisions in areas that partner with local small and medium entrepreneurs whose merchandise comes from these small and medium enterprises. One of the regions that implements the regulation is Kulon Progo Regency by formulating Kulon Progo Regency Regional Regulation Number 16 of 2021 concerning the Protection, Empowerment, and Arrangement of People's Markets and the Arrangement of Shopping Centers and Convenience Stores which contains zoning rules for retail stores, protection of people's market rights, and empowerment of people's markets. Through this regulation, TOMIRA was formed as a forum that is able to market local SME products in order to compete in the national market.

TOMIRA is a retail business store resulting from a large business partnership with a people's cooperative in Kulon Progo Regency. Partnerships with large companies need to be done so that local SMEs can become more productive and develop (Hadi, 2015). The partnership is established in accordance with the ideological concept of Kulon Progo Regency which wants to develop local products in order to improve the regional economy (Karina & Kurniawan, 2019). Cooperatives as franchisees will include various local SME products as products traded in TOMIRA with a minimum quota of 20% of products in display in accordance with regulations. Cooperatives are chosen by the government as a partnership body with private retailers because cooperatives are able to provide new experiences and train independence by presenting various kinds of empowerment programs for their SME partners, as manifested in the savings and loans program, ultra micro, which can continue to prosper members and non-members (Solang et al., 2019). In addition, cooperatives are also based on kinship with the aim of prospering members and strengthening the national economy (Zulhartati, 2010).

![Diagram](image_url)

**Figure 2. Results and Policy Issues**

*Source: Analysis results, 2023*
The implementation of TOMIRA in Kulon Progo Regency is inseparable from the role of various actors including the government, private sector, cooperatives, and SMEs. The four actors have interrelated and shaping roles Collaborative Governance. The government as a public servant has an obligation to ensure the welfare of the community of SMEs by acting as a facilitator, regulator, catalyst (Rahmah et al., 2020), and dynamicator (Firdaus, 2020). This is implemented in rulemaking, organizing economic forums that bring together SMEs with the private sector, and procuring training and funding programs. The private sector acts as a franchising actor by providing business units for the community and cooperatives in the form of cooperation (Al Azhar, 2010). The private sector also plays a role as CSR (Corporate Social Responsibility) by developing SMEs through providing training for SMEs and cooperatives. Cooperatives as an entity engaged in the economic sector play a role in gathering SMEs and connecting them with companies so that they can partner and take over ownership of retail outlets and turn them into TOMIRA. SMEs act as suppliers of goods to TOMIRA and the target of implementing government regulations regarding franchise policies.

The implementation of TOMIRA policy in Kulon Progo Regency has shown good results. The implementation of the policy has succeeded in providing space for retail to develop while still paying attention to the welfare of SMEs, providing opportunities for the private sector to empower local resources so that business runs well (Nurzila et al., 2022), and make TOMIRA cooperative-owned. The good progress of TOMIRA implementation is shown by the number of TOMIRA in Kulon Progo Regency which continues to grow until 2020 has reached 19 outlets (Dianingratri & Munandar, 2022). The implementation of TOMIRA policies that show good results can also be reviewed through the positive response of the community in shopping at TOMIRA. Based on the results of the study, it is known that 86% of people feel comfortable and 97% are not disappointed to shop at TOMIRA because of the various supporting facilities at TOMIRA. Interestingly, 83% of TOMIRA visitors are comfortable because the place has air conditioning. In addition, visitors feel comfortable choosing bright lighting catena goods with a fairly complete selection of products.

The successful implementation of TOMIRA is influenced by the retail system implemented by the private sector that is a partner. Based on the cooperation of TOMIRA, there are two large private retail companies with two different systems that have a partnership with TOMIRA. The policy differences between the two retailers include: a) technical system and payment time; b) in-store product placement; c) the system of using barcodes on SME products; d) the system of supply of goods; e) standardization system; and f) the system of enforcement of store rules. However, both companies are equally committed to assisting the government in empowering SMEs and advancing local resources in a region as a form of implementing Ministry of Trade Regulation Number 71 of 2019 concerning Franchising.

However, the results of TOMIRA implementation still have many shortcomings that have not been on target related to the fulfillment of SME products in TOMIRA. The fulfillment of the 20% display quota for SME products is still hampered due to product standardization as stated by informants at the Cooperative Office that: "local government policy is that at least 20% is SME products. At a minimum, so if it's more than that, it's better... The problem is that we have not achieved that, the important thing is that it has been given space by policy...". The product standardization also aims to maintain the quality of the products offered by TOMIRA.
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Partnership Innovation through Passive Franchising

An innovation can arise from the combination of science and technology that is influenced by economic development and raises new knowledge to solve existing problems (Kogabayev & Maziliauskas, 2017). Based on opinion Drucker (2002), an innovation arises from several conditions that include unexpected events, the existence of an anomaly, changes in needs, changes in markets and industries, changes in demographic conditions, changes in perspective, and the development of knowledge. Based on the current development of the Indonesian economy, retail businesses are increasingly in demand by the public because they are cheap, do not take up space, and products have been provided by partners (Syahrani, 2012). This is an attraction because with minimal requirements, people can still establish a business and benefit from it. However, the increase in public interest in retail business has not been matched by an increase in public knowledge of entrepreneurial knowledge in the midst of high competence (Sidabutar, 2022). This can cause the business not to develop and lead to failure. Therefore, an innovative passive franchise system is formed that can accommodate the needs and desires of the community for a franchise business.

When comparing the emergence of passive franchise innovation in Indonesia with opinions Drucker (2002), it is known that passive franchise innovation arises because of the need to market SME products in Indonesia so that they are not inferior to other commercial products, the emergence of regulations that require partnerships between the private sector and cooperatives as an unexpected event, the limited ability of cooperatives to run a business as an anomaly, the need for development for SMEs to have national competitiveness as market changes, There is a tendency for people to buy products in modern stores as a change in perspective, an increase in the number of franchises in Indonesia and Kulon Progo Regency as demographic changes, and the expansion of knowledge about the concept of franchising in the community as a development of knowledge. The statement shows that the emergence of the passive franchise system in Indonesia as an innovation has met various criteria disclosed Drucker (2002).

A new innovation regarding the franchise system is the passive franchise system. Passive franchising is a franchise management concept where the franchisor licenses trademarks, trade facilities, and carries out trade activities for franchisees with partnership agreements. This shows that the franchisee acts as an investor by receiving financial statements and profits without taking part in franchise activities carried out by the franchisee. The passive franchise system does not require franchisees to be directly involved and manage all store management and operations but still get benefits so that franchisees are not directly involved in the implementation of their business. The system is suitable to be applied to TOMIRA franchise operations with the cooperative acting as the owner and franchisee. This is because cooperatives are family-based economic institutions with the aim of prospering members by contributing to improving the national economic level, cooperatives are not oriented to business and profit, poor management (Suprayitno, 2007), limited human resources, and leads to the internal market (Arnawa, 2014).

The implementation of the passive franchise system in TOMIRA provides various advantages. Based on the cooperative perspective, the implementation of passive franchises in the implementation of TOMIRA is an advantage because there is no need to make promotional efforts for its business and can form Vertical Marketing System (VMS) that guarantees product
supply to TOMIRA (Nurwati, 2021). In addition, the passive franchise system can provide good room for change and development for cooperatives because cooperatives are required to have better administrative and financial systems. This was also revealed by the Head of the Cooperatives and SMEs Office, who said that private cooperation with cooperatives was able to increase capacity in terms of management, system implementation, and marketing of cooperative products (Menpan.go.id, 2017). Based on the results of interviews with cooperative administrators that retail stores with passive franchise systems are able to increase profits by up to 60%. The benefits of implementing a passive franchise system are also felt by SMEs incorporated into cooperatives and TOMIRA where income increases of 30% to 50%. Another advantage is being able to provide good changes for SMEs because of the implementation of product standardization and administration. This then provides an opportunity for SMEs to compete in the national market even to global demand. Therefore, it is true that the most significant impact felt by both cooperatives and MSMEs is an increase in income. This is also confirmed by Dianingratri & Munandar (2022) that the implementation of a passive franchise system also provides income for SMEs without doing major promotions and can expand business relationships with private parties (Sarwoko, 2009).

The passive franchise system is a suitable system to be applied in the development model of the TOMIRA retail store network. This is because TOMIRA, which is under the auspices of a cooperative, still has many shortcomings. Cooperatives as economic institutions that are not profit-oriented, have poor management until many cooperatives close (Suprayitno, 2007), limited human resources, and only leads to the internal market (Arnawa, 2014) thus hampering the development of the franchise business under its auspices. Meanwhile, cooperatives are required to be able to provide welfare for members and non-members (Isyaroh & Atmojo, 2020). It was also revealed by one of the cooperatives that: "For the role of cooperatives and SMEs to support Tomira, this is indeed very helpful. Because one of the objectives of the formation of Tomira, yes, at that time was facilitated by the Cooperative Office, namely for the empowerment and development of cooperatives and SMEs". According to Situmorang (2013), the passive franchise system makes the financier a passive party who then hires managers as managers and business runers for a fee. This concept applies in the TOMIRA franchise system. The TOMIRA franchise system runs with the cooperative acting as the owner and financier of the franchise. The cooperative does not participate directly in TOMIRA’s operations because it uses a franchise system from partnered private retailers. However, the cooperative still benefits from the franchise business which is then also profitable.

The implementation of a passive system in franchising is a new innovation that is different from the franchise system in general. The franchise system generally applies an active system for all parties involved where franchisor and Franchisee interrelated and have capital participation that both need to be fulfilled in the franchise implementation agreement (Syahrani, 2012). Meanwhile, the passive franchise system makes franchisor as the executor of various operational functions and business management, while Franchisee Only play a role in investors and are still entitled to get financial statements from the business practices carried out. In addition to the functional role possessed by franchisor and Franchisee, passive and active franchise systems also have differences in factors that affect franchise performance. Based on research Sanny et al. (2017), the development of active franchises is influenced by the courage of entrepreneurs in taking risks and their network of relationships. These factors
are different from the factors of developing passive franchise systems. Based on the results of the study, it is known that factors that influence the development of passive franchises include government support, retail business policies applied, quality and quantity of human resources, and store management. The various differences between active and passive franchise systems are shown in Table 2 as follows.

<table>
<thead>
<tr>
<th>Information</th>
<th>Active Franchise</th>
<th>Passive Franchise</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital</strong></td>
<td>Own</td>
<td>Can be from retailers or third parties (debt)</td>
</tr>
<tr>
<td><strong>Brand/logo</strong></td>
<td>Required to use the retailer attribute</td>
<td>Joint branding (can be a new brand)</td>
</tr>
<tr>
<td><strong>System</strong></td>
<td>Required 100% retailer system application</td>
<td>Using a customized system</td>
</tr>
<tr>
<td></td>
<td>SOP and IT from retailers</td>
<td>SOP adapted to the new culture</td>
</tr>
<tr>
<td><strong>Employee</strong></td>
<td>Employees of franchisees and approved retailers</td>
<td>Combined employees of both parties</td>
</tr>
<tr>
<td><strong>Ops Leader</strong></td>
<td>The franchisee must participate in managing</td>
<td>Management can be from third parties</td>
</tr>
<tr>
<td><strong>Possession</strong></td>
<td>100% partner</td>
<td>100% partner</td>
</tr>
<tr>
<td></td>
<td>If it is in debt, ownership after the debt is paid off</td>
<td></td>
</tr>
<tr>
<td><strong>Profit/loss</strong></td>
<td>100% partner</td>
<td>Partner's property after deduction of third-party debts</td>
</tr>
<tr>
<td><strong>Technical agreement</strong></td>
<td>Franchise fee mandatory</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Distribution fee mandatory</td>
<td>Mandatory</td>
</tr>
<tr>
<td></td>
<td>Royalty fee mandatory</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Advertising fee mandatory</td>
<td>Following retailers</td>
</tr>
<tr>
<td></td>
<td>Ad revenue mandatory</td>
<td>As per agreement</td>
</tr>
<tr>
<td></td>
<td>Period 5 years</td>
<td>Can be 7-10 years</td>
</tr>
<tr>
<td></td>
<td>Taxation Partners directly</td>
<td>Customized form of ownership</td>
</tr>
<tr>
<td><strong>Government permits</strong></td>
<td>Franchise Business Registration Certificate (STPUW, Surat Tanda Pendaftaran Usaha Waralaba), shop establishment permit</td>
<td>Shop establishment license</td>
</tr>
<tr>
<td>Business developer factors</td>
<td>The courage of the franchisor and relations</td>
<td>Government, retail policy, human resources, applicable store management</td>
</tr>
<tr>
<td>Roles and Responsibilities</td>
<td>The franchisor and franchisee are interrelated and have capital roles that both need to be fulfilled in the agreement</td>
<td>The franchisor as the executor of various operational functions and business management, while the franchisee only plays a role in</td>
</tr>
</tbody>
</table>

| Table 2. Differences between Active and Passive Franchise Systems |
Amrurobbi and Pahlavi (2020) affirmed that TOMIRA's passive franchise system is expected to be able to provide welfare. Based on the results of the study, there are two important points that characterize passive franchises.

**Delegation system**

The delegation system in the franchise system is a franchise partnership system where the franchisee as the financier is not directly involved in the management and implementation of the business. This system hands over all retail business operations to one party who owns the intellectual property rights of the business and modern supermarket outlets so that the other party only needs to receive profit sharing and financial statements. This is similar to the concept of agency theory according to (Situmorang, 2013) Regarding the franchise system that imposes managers with a certain wage to regulate the operation of the business due to the passive nature of the franchisor. The implementation of this system makes one party who is not directly involved in the business can focus on other things while still benefiting from the franchise business.

Through this delegation system, TOMIRA's operational and managerial systems are managed and implemented by private parties. This is an advantage because the business is run by parties with good knowledge about the business so that it can generate good profits from TOMIRA's retail outlet business. Of course, with a system like this, the cooperative benefits greatly because even though it has limited management knowledge, it can still have retail stores which of course can develop the cooperative itself and also SMEs. The implementation of the delegation system, in addition to being able to provide good results in terms of profits obtained, is also able to provide burden relief for cooperatives in carrying out their roles in the community. Cooperatives have an obligation to prosper members who in this case gather MSMEs (Isyaroh & Atmojo, 2020) so that its products can meet TOMIRA's standardization criteria. Even so, the cooperative will still be given financial statements every month. In this system, the private sector and cooperatives share a role where the cooperative focuses on gathering SMEs and handing over franchise matters directly to the private sector.

**Temporary Credit Fund System**

The process of taking over private retail outlets into TOMIRA is carried out by purchasing and paying levies by cooperatives to private parties. However, the capital owned by the cooperative only comes from the savings and loans of members with small profits (Rizky et al., 2018). This causes the capital owned by cooperatives to be small and unable to pay for modern private retail outlets which are large private companies. Therefore, a credit payment system was initiated for cooperatives in paying the levy for taking over outlets.

Based on Law Number 10 of 1998 concerning Banking defines credit as a service of providing money with a loan system by banks for the public and must be paid regularly
according to the agreement. The statement indicates that credit payments are installment payments to those who provide loans. Based on this study, it is known that cooperatives make TOMIRA payments to private retailers with a temporary credit fund. The installment system for TOMIRA retail outlets by the cooperative to private parties is carried out using TOMIRA's profits after being taken over by the cooperative. This payment system provides benefits for cooperatives because it does not need to have large capital at the beginning.

TOMIRA's profits can be used as capital for levy installments by the cooperative because the takeover of outlet property rights has been under the cooperative. This causes the profits obtained from these business activities to also belong to the cooperative. This is in accordance with the opinion of Karina and Kurniawan (2019) which said that the profits obtained by TOMIRA have a high percentage and benefit the cooperative. The ownership rights of TOMIRA by the cooperative after it was taken over are evidenced by various business activity report documents owned by the cooperative.

Meanwhile, the purpose of implementing the TOMIRA policy is to increase franchise opportunities to develop more in the business world and cooperatives can focus on the realm of developing SMEs and their members (Isyaroh & Atmojo, 2020). Therefore, the government overcomes various obstacles by conducting various training and coaching for cooperatives and SMEs to develop businesses. Various trainings that have been carried out by the government are in the form of product packaging and marketing training in Wates Village (Yudhanto et al., 2022), education on SME digitalization platforms with SIBAKUL JOGJA, increasing product competitiveness with Intellectual Property Rights (IPR), and training on increasing turnover by developing innovation and potential of local products (Koperasi.kulonprogokab.go.id., 2022).

Various advantages and problems in the implementation of passive franchise systems are influenced by various factors. These factors consist of local government involvement, retail policies, human resources, and management systems that apply in a franchise business. Local governments as policymakers can facilitate the implementation of passive franchise activities through providing support for franchise implementation by formulating rules, organizing various training and empowerment programs, and holding capital programs through the Kulon Progo Special Microcredit (KERISKU). Retail policy factors also affect the smooth implementation of the passive franchise system. This can happen because the work system between companies can affect the level of productivity (Aziz et al., 2022). Retail policy indicators that affect the implementation of passive franchise business include the time system for paying product supplier levies, product placement systems that can affect the sales level of a product (Seniwati, 2019), the system of using barcodes in product administration, the system of supplying goods related to quantities through the stages of sorting and labeling (Sulistyowati et al., 2017), store operational systems, human resources related to quality and quantity, and the implementation of management systems related to implementing store managerial efforts.

CONCLUSION

The development of franchise business in Indonesia raises anxiety for local business actors which is then responded by the government by the formulation of partnership rules for private retail entrepreneurs with local SMEs. The Kulon Progo Regional Government implemented the regulation by establishing TOMIRA with the aim of advancing economic alignment with the community. The implementation of TOMIRA's business is based on partnerships between
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private retail companies and cooperatives that gather SMEs in Kulon Progo. The implementation of the partnership gave rise to an innovation in a passive franchise system that emerged from the limitations of cooperatives to private parties, especially in running the management system and retail store operations. The difference between the passive franchise system and the active franchise system in general lies in the operational and management system where the passive franchise system imposes all management on the franchiser while the active franchise both carry out efforts in the agreed agreement. The implementation of passive franchising provides advantages for cooperatives and SMEs to increase their business reach, increase profits, and empower cooperatives and SMEs without expending huge efforts. However, the implementation of the passive franchise system also has several shortcomings in terms of policy implementation that has not been maximized, capital, store standardization systems that make it difficult for SMEs, and potential conflicts in operational implementation with the cooperative delegation system to private parties. These advantages and disadvantages are influenced by the involvement of local governments, retail policies, human resources, and franchise management.

REFERENCES


