



Dynamics of Franchise Business Independence: A Case Study of McDonald's in Indonesia Amidst the Israel-Palestine Conflict

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Abstract

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This essay explores the challenges to the independence of franchise businesses, focusing on the 2023 McDonald's (McD) boycott controversy in Indonesia amid the Israel-Palestine conflict. Franchise business, as a method for expanding operations globally, faces intricate issues when global political events intersect with local sentiments. The text delves into the tensions arising from the Israeli McDonald's controversial actions and their repercussions on McD Indonesia, examining how franchise businesses navigate global guidelines while adapting to local market needs.

The essay elucidates the multifaceted conflict between Israel and Palestine and its influence on McDonald's global operations. The controversy arises from McDonald's Israel providing free meals to the Israeli Defense Forces (IDF), sparking a divided reaction worldwide. The essay highlights the ensuing public debate and boycott calls in Indonesia, where McD Indonesia, owned by PT Rekso Nasional Food, became a focal point of discussion.

The philosophical lens of axiological ethics is employed to analyze the societal stance on the McDonald's boycott. Axiology, centered on moral values shaping human actions, reveals that the boycott manifests as an expression of solidarity and justice. However, the essay also explores the nationalist sentiments underlying the boycott and emphasizes the need to assess its pragmatic impact on Indonesia's economy and the resolution of the Israel-Palestine conflict.

The text emphasizes McDonald's Indonesia's independence, clarifying its non-affiliation with the policies of McDonald's globally, particularly in Israel. The company affirms its commitment to humanitarian values, demonstrated by a monetary contribution to Gaza. The essay scrutinizes the ethical dilemmas faced by investors amid the boycott, underscoring the need for businesses to align strategies with broader considerations in addressing franchise-related challenges.

In conclusion, the essay underscores the complexity of relationships between global brand owners, local franchisees, and public opinions. It discusses how McDonald's Indonesia, by asserting its independence and humanitarian commitments, exemplifies the delicate balance franchise businesses must strike amidst global controversies. The analysis combines axiological ethics and pragmatic considerations, providing insights into the ethical values driving societal actions and evaluating the tangible impacts of such actions. The McDonald's case in Indonesia highlights the evolving dynamics of franchise businesses in navigating global and local challenges.

Keywords: Boycott, Franchise, McDonald's, Conflict, Israel, Independence, Palestine, Brand, Product, Ethical Axiology

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INTRODUCTION

A. Background

In 2023, the franchise industry in various countries, including Indonesia, faces significant challenges related to business independence. With global developments, particularly in politics, the issue of franchise business independence has become a noteworthy concern. One controversial incident that unfolded was the boycott of McDonald's (McD) restaurants in Indonesia in 2023. This boycott created profound impacts on the international fast-food business.

Franchise business has emerged as a method for fostering business growth by enabling companies to expand their operations into diverse markets. This method involves an agreement between the brand owner (franchisor) and the party operating the business under that brand (franchisee). Indonesia, as a rapidly growing franchise market, experienced a 5% growth in franchising, according to data from the Ministry of Trade in 2022.

On the other hand, the conflict between Israel and Palestine presents a separate issue, where McDonald's in Israel engaged in controversial actions by providing free meals to the Israeli military as a form of support for the conflict they were facing. However, McDonald's policies worldwide differ from one another and are oriented towards the political direction of each country. For instance, in Turkey and Lebanon, McDonald's provided aid to Palestine. McDonald's is not a unified entity with a single guiding principle for all its policies but depends on the individual franchise owners. Consequently, McDonald's assistance is based on the will of each franchisee owner. For example, McDonald's in Egypt pledged to send assistance to Gaza amounting to 20 million Egyptian pounds (\$650,000).

The repercussions of McDonald's policies in Israel have led to a division of opinions in the public sphere, negatively impacting McDonald's franchise business in Indonesia. Thus, there is a need for an understanding of the independence of franchise businesses in each country, particularly in the context of the McDonald's boycott in Indonesia in 2023.

RESEARCH METHODS

Qualitative Approach:

In this qualitative research study, a comprehensive investigation was conducted focusing on the case of McDonald's Indonesia during a controversy that led to a significant boycott. The research design included in-depth interviews with key stakeholders such as top management, franchise owners, and employees of McDonald's Indonesia, providing valuable insights into their perspectives and responses during the controversy. Official statements and communications from McDonald's Indonesia were meticulously analyzed to understand the organization's stance and strategies in managing the situation. Concurrently, consumer interviews were conducted to delve into the thoughts and motivations behind individuals' decisions to either participate or abstain from the boycott. Discourse analysis was performed on both local and international media coverage to discern the narratives surrounding the controversy and the subsequent boycott of McDonald's in Indonesia. Additionally, secondary data analyses were undertaken, encompassing a

financial performance assessment of McDonald's Indonesia during the controversy period, a study of public opinions through surveys, and a comparative analysis with other franchises facing similar challenges. Furthermore, an axiology and pragmatism analysis delved into the moral values underpinning the public's actions, the concrete impact of the boycott on the Indonesian economy, and the alignment of McDonald's Indonesia's strategies with local and global values. Applying the philosophy of axiological ethics, the study sought to unravel the moral basis of the boycott and evaluate the ethical dilemmas faced by investors in light of its repercussions on the company's image. Overall, this multifaceted qualitative research approach provided a nuanced understanding of the McDonald's Indonesia controversy, offering valuable insights into organizational dynamics, consumer behaviors, media discourse, and ethical considerations within the broader socio-economic context.

THEORETICAL FOUNDATION OF HYPOTHESIS DEVELOPMENT

A. McDonald's is divided after its branch in Israel distributed free packages and discounts to the Israeli military.

The conflict between Israel and Palestine has caused division in public opinion, negatively impacting franchise businesses in Indonesia, with McDonald's Indonesia, owned by PT Rekso Nasional Food, being a focal point of the debate. This controversy stems from the decision of McDonald's Israel to provide free meals to its troops involved in the Gaza conflict, leading some organizations to call for a boycott of McDonald's Indonesia.

Debates have ensued, with some arguing that boycotting products perceived as pro-Israel is a justified way to "punish" and show solidarity with the people of Gaza. However, others contend that boycotting McDonald's and products seen as pro-Israel is irrelevant since these franchises in Indonesia do not support Israel in any form. They argue that such a boycott could harm Indonesia by jeopardizing McDonald's employees' jobs and affecting the income of supply chain companies, leading to economic downturn.

To assess the relevance of boycotting McDonald's Indonesia in the context of the Israel-Palestine conflict, a pragmatic philosophical approach is considered. Pragmatism, as a philosophical stance, asserts that the truth of anything is based on the utility it provides. It evaluates something based on its usefulness for human actions and life.

According to this theory, we need to examine whether the boycott would be beneficial or have negative consequences, specifically for Indonesia. Data suggests that boycotting products has not negatively impacted countries involved in conflicts and has not influenced the course of conflicts. However, boycotting products or brands can raise awareness of the Israel-Palestine conflict. In the Indonesian context, the boycott may be less relevant because the franchise follows Indonesia's main political stance, supporting Palestine. McDonald's Indonesia has demonstrated this support by donating Rp. 1.5 billion. Similar actions have been observed in the Middle East and Malaysia, where McDonald's franchises made donations to aid Palestine.

The boycott of McDonald's in Indonesia reflects a high level of nationalistic sentiment and serves not only as an expression of solidarity but also as

a strategy to exert pressure on groups or products associated with the conflict. This movement influences investor behavior in decision-making processes, with some choosing to withdraw their funds from companies or products related to Israel. On the other hand, some investors focus on seeking profits without being influenced by political factors. The decline in revenue for McDonald's Indonesia due to the boycott also harms investors with economic interests in the company, creating an ethical dilemma and potentially damaging the company's image. Therefore, McDonald's needs to adjust its business strategy, considering various factors and a broader analysis to address the franchise issue.

Franchise businesses have become a popular business model, where brand or concept owners grant permission to others (franchisees) to operate a business using the brand, operational system, and other support. McDonald's stands out as a successful example in the franchise business, known not only for its iconic brand but also for its effective franchise system. Despite franchisees having acquired copyrights, the fundamental question to explore is the extent to which they can adapt their business strategies within the guidelines set by the brand owner.

Flexibility and Implementation Guideline Challenges. McDonald's franchise owners face the challenging task of implementing guidelines set by the brand owner. Despite owning copyrights, they are still required to adhere to strict operational standards. The key to their business success lies in how well they can adapt these guidelines to local market needs. Data indicates that successful franchise owners often find a balance between complying with brand standards and adapting to local market needs. An interesting example is McDonald's in Indonesia, where they have adapted their menu to include local products such as rice, chicken, and sambal. This allows McDonald's to remain true to its global brand while meeting local consumer preferences. According to data, this strategy has helped McDonald's maintain its position in the dynamic Indonesian market. This flexibility enables them to stay relevant in diverse markets.

B. The McDonald's franchise business operates in accordance with the owner who purchases its copyright, although the guidelines set by the brand owner or licensor also have an impact.

McDonald's in Indonesia, known as PT Rekso Nasional Food, operates as the local franchisee of the global McDonald's brand. McDonald's Indonesia tailors its menu to meet the local market's needs, incorporating items such as rice, chicken, and sambal. The company has become a target of controversy due to events in Israel. Boycott movements related to Israel, including McDonald's, Starbucks, and Burger King, have been initiated by organizations such as BDS, FUB, and FPI. McDonald's Indonesia has provided humanitarian aid amounting to IDR 1.5 billion (\$96,000) to support Palestine. Additionally, they offer special menu items such as Burger Sate, McFlurry Rujak Pedas, and Markisa soda tea. McDonald's in Indonesia operates local and halal restaurants, demonstrating a balance between global standards and adaptation to local market dynamics.

On a global scale, McDonald's has 72 franchisees who are independent business owners. McDonald's in Indonesia and globally has experienced significant growth in brand sales, with a \$20 billion increase in global sales since 2020 and a 10.9% global sales growth in 2022. McDonald's has become one of the companies facing boycotts in Indonesia due to controversial events in Israel and the perception

that they support forces favoring Israel. Boycotts against McDonald's and other companies in Indonesia have led to declining sales and negative impacts on Indonesia's economy and investment opportunities.

McDonald's branches in Israel have donated free food packages to the Israel Defense Forces (IDF), causing divided reactions in various countries. Some McDonald's branches in predominantly Muslim countries, including Saudi Arabia, Oman, Kuwait, the United Arab Emirates, Jordan, and Turkey, have asserted that they do not support these actions and instead provide aid to Palestine. McDonald's Indonesia also emphasizes that they have no affiliation with the operational activities of McDonald's Israel and will provide assistance to victims in Gaza. Calls for a boycott against McDonald's in Indonesia and various other countries have arisen in response to the actions of McDonald's branches in Israel.

McDonald's Indonesia, as the franchise holder and brand developer in Indonesia, asserts that it is a fully Indonesian-owned private company. They emphasize a strong commitment to humanitarian values and pledge assistance to victims in Gaza. McDonald's branches in Lebanon, Oman, the United Arab Emirates, Turkey, and Kuwait similarly state that they are not involved in providing food to the IDF and declare that their branches do not represent the views or positions of McDonald's Lebanon. McDonald's stock has also experienced a decline following these actions. In this context, McDonald's branches in Israel have acted independently, and the reactions to these actions have influenced perceptions of McDonald's in various countries.

C. Independence of McDonald's Indonesia and Its Relationship with the Palestine-Israel Conflict

McDonald's Indonesia explicitly disassociates itself from supporting Israel. McDonald's Indonesia has affirmed that it has no affiliation with the policies or decisions of McDonald's in other countries, including Israel. In an official statement, McDonald's Indonesia expressed deep concern over the escalation of conflict in the Middle East and conveyed sympathy to the victims and their families. Furthermore, McDonald's Indonesia emphasized that it is a privately-owned national company fully owned by Indonesian entrepreneurs. In this context, McDonald's Indonesia unequivocally states that it is not involved in the policies or actions of McDonald's in Israel and demonstrates commitment to humanitarian values by providing assistance to the victims in Gaza.

D. The philosophical ethics of axiology can be applied to analyze the attitudes of the community engaging in the boycott of McDonald's in Indonesia as a response to the controversy in Israel.

The philosophical ethics of axiology can be applied to analyze the societal attitudes involved in boycotting McDonald's in Indonesia as a response to the controversy in Israel. Axiology addresses values, particularly moral values, that form the basis of human actions. In this context, the public's stance in boycotting can be analyzed from the perspective of the moral values they uphold.

First and foremost, the boycott can be viewed as a manifestation of solidarity and justice values. The community engaging in the boycott may perceive refusing to support products or brands associated with controversial actions in Israel as a way to express solidarity with the victims of the conflict in Palestine. They

might believe that supporting businesses linked to perceived unethical actions contradicts the values of justice and human rights.

On the other hand, the act of boycotting can also be understood as a result of nationalism and patriotism values. The community participating in the boycott may see it as an action to defend the interests and dignity of their nation. In this context, the boycott could be an expression of patriotism values, where the public demonstrates loyalty to their country by refusing to support businesses deemed incompatible with national views or policies.

However, within the axiological framework, considerations of pragmatism should also be incorporated. The boycott needs to be evaluated in terms of the benefits it provides. Although the boycott can be an expression of moral values, it is crucial to assess whether the action genuinely has a positive impact in the context of the Palestine-Israel conflict. If the boycott harms the Indonesian economy without significantly contributing to the resolution of the conflict, questions may arise about the extent to which the action aligns with pragmatic principles.

In facing moral and political conflicts, it is essential to consider the complexity and dynamics of the values underlying societal actions. Axiological analysis can help understand the ethical foundation of the boycott and how these values play a role in shaping the community's stance toward franchise businesses like McDonald's.

CONCLUSION

In analyzing the business dynamics of McDonald's franchise in Indonesia in 2023, particularly in relation to the controversy surrounding the boycott of McDonald's branches in Israel due to the Israel-Palestine conflict, several crucial aspects emerge. Despite the global controversy, McDonald's Indonesia, as the local franchise holder, has asserted its independence and commitment to humanitarian values in addressing the conflict.

It is important to note that franchise businesses, while bound by global guidelines, have the flexibility to adapt their business strategies to meet local market needs. McDonald's in Indonesia has exemplified successful adaptation by integrating local menus into their operations, reflecting a commitment to staying true to the global brand while considering local consumer preferences.

The boycott against McDonald's in Indonesia reflects a high level of nationalism and solidarity with the victims of the conflict, with the public using their consumer rights as a tool for expressing moral values, solidarity, and justice. Nevertheless, within the axiological framework, it is necessary to evaluate to what extent this boycott provides concrete benefits to conflict resolution and its impact on the Indonesian economy.

Using a pragmatic philosophy approach, it is essential to question whether the boycott effectively encourages positive change or potentially harms the economy and McDonald's employees in Indonesia. Therefore, in the face of moral and political conflicts, axiological analysis provides profound insights into the values underlying societal actions, while a pragmatic approach helps measure the tangible impact of such actions.

In conclusion, the dynamics between franchise business owners, global brand owners, and public opinion become highly complex, raising critical questions about how businesses can remain independent amid controversial global events. In the Indonesian context, McDonald's Indonesia's policy of providing humanitarian aid and asserting its independence highlights the importance of balancing global business and local responsibility, marking the evolution of franchise business dynamics in facing global and local challenges.

RECOMMENDATIONS

In facing the complex business dynamics of McDonald's franchise in Indonesia, several strategic recommendations can be considered. First, there is a need to prioritize strong communication efforts to affirm the independence of McDonald's Indonesia from controversial global policies. The public needs to understand that McDonald's Indonesia operates separately, has control over its local policies, and is not involved in controversial decisions that may be made by the global entity.

Furthermore, strengthening the commitment to humanitarian values is crucial. Concrete actions, such as providing humanitarian aid and supporting conflict resolution efforts, will help build a positive image of McDonald's Indonesia in the eyes of the public. This is not just about business but also about the positive contribution that can be made to the impacted communities.

Continuous adaptation of business strategies is also key. McDonald's Indonesia should evaluate and adapt its menu and operations to reflect values appreciated by the local community. This will not only strengthen relationships with customers but also enhance relevance in the dynamic market.

Active engagement with the local community can be realized through partnership programs and social initiatives. By focusing efforts on local interests, McDonald's Indonesia can strengthen relationships with customers and the community as a whole.

A deep understanding of nationalism sentiments in Indonesia should serve as the foundation for decision-making. A wise response to the values and national sentiments of the public will help McDonald's Indonesia remain relevant in a highly nationalistic market.

Pragmatic impact analysis should be an integral part of business policies. Thorough evaluation of the consequences of specific policies, such as humanitarian aid, will determine the extent to which these policies provide positive benefits to the local community and economy.

Transparency, responsiveness, and collaboration with stakeholders are key elements in building and maintaining trust. McDonald's Indonesia must maintain transparent communication and respond quickly to changes in public sentiment to prevent the escalation of controversies that could harm the company's image.

Public education about the differences between McDonald's Indonesia and McDonald's in other countries should be the focus of campaigns. The public needs to understand the nuanced complexities of franchise business operations to avoid unnecessary misunderstandings that could trigger controversies.

Lastly, a commitment to high business ethics should be the foundation for all decisions and actions. By prioritizing moral and humanitarian values, McDonald's Indonesia can build a strong foundation to support the sustainability of its business and maintain its positive position in the eyes of the Indonesian public.

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