



RESEARCH ARTICLE

Disclosure Requirements in Saudi Franchise Contracts

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ARTICLE INFO	ABSTRACT
Received: Oct 17, 2024 Accepted: Dec 4, 2024	The Saudi Franchise Law of 2019 introduces extensive disclosure rules that dramatically transform franchise business in the Kingdom. The paper focuses on the legal requirements, cross-country analysis, and potential outcomes of requiring pre-contractual disclosure to franchisees. This research shows that Saudi Arabia is adopting a strategic approach to legal transparency and protecting the interests of franchisees by delving into the specific indicators of the primary and secondary regulations set by the law provided by the Saudi legal structures and the potential economic impacts. The analysis shows that the mandate of disclosure has multiple benefits: it minimizes information asymmetry, reduces the occurrence of risks in investment, and enhances the quality of transactions within the franchise business. The results imply that these disclosure requirements are one way of building a more systematic, predictable, and investor-friendly franchise environment in Saudi Arabia.
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1. INTRODUCTION

Franchising around the world is a peculiar form of cooperation, which is a set of interconnected and mutually dependent business partnerships. It lacks a simple legal and economic model, as well as organizational and procedural regulation. In the recent past, emergent markets have begun to realize the centrality of the right regulatory environment that will ensure rights for the franchisors as well as the franchisees. Against that background, the Kingdom of Saudi Arabia's Franchise Law issued under Royal Decree No. M/22 in October 2019 is an extraordinarily beneficial law to redesign and re-regulate franchisee and franchisor relations (Murray et al., 2021).

Historically, franchise contracts have been characterized by significant problems with information imbalance. Franchisors have much more detailed information on business propositions, business performances, possible issues, and risks than would-be franchisees. This results in poor investment decisions, financial risks and challenges, and contractual issues that reduce the credibility of the entire franchising system. These systematic challenges are addressed by the Saudi Franchise Law, which uses an organized disclosure regime that seeks to make the business environment more open, less volatile, and fair.

PROBLEM STATEMENT:

The franchise sector is very often characterized by regulatory uncertainty, weak investor protection, and a lack of transparency in emerging markets (Emerson, 2021). Franchisees and potential franchisees can agree to the numerous provisions that constitute franchise agreements without adequate consideration of the most important business performance indicators, obligations, and performance expectations. Specifically, the lack of information creates high risks for investment and may limit the participation of businessmen in franchise activities.

RESEARCH OBJECTIVES:

This study aims to provide a comprehensive exploration of the Saudi Franchise Law disclosure requirements through multiple strategies:

1. Conduct a detailed analysis of the legal provisions governing franchise disclosure in Saudi Arabia
2. Evaluate the potential economic and legal implications of mandatory disclosure mechanisms
3. Compare the Saudi approach with international franchise disclosure practices
4. Develop evidence-based recommendations for effective implementation and future regulatory refinement.

MATERIALS AND METHODS:

This research methodology was based on a multi-method analysis of aspects of the disclosure requirements in the Saudi Franchise Law. The research included an extensive examination of the Saudi Commercial Franchise Law and its Executive Regulations (Royal Decree No. M/22).

Data was obtained from official legal documents only; the Commercial Franchise Law and its Executive Regulations from the Saudi Experts Authority website and the Ministry of Commerce website as well as from other available translated versions to ensure accuracy of interpretation. This analysis was continued by examining not only the text of the legislation provided by the law itself, but also the potential consequences of the disclosure requirements that emerged from the law.

There was a necessity to apply comparative legal research in the course of the study. It was a comprehensive comparative analysis of franchise disclosure regulations in different locations as the authors reviewed and synthesized the United States Federal Trade Commission's Franchise Rule Regulations, European Union legal systems, and other Middle Eastern commercial laws and regulations. Comparative analysis was conducted to find out how the Saudi Franchise Law fits within the current trends or deviates from standard practices across the globe.

RESULTS:

The research showed that the Saudi Franchise Law has embraced a multifaceted approach to franchise disclosure requirements, which unveiled a new era in commercial regulation in the Kingdom (Alfaifi, 2024). These disclosure requirements are mostly under Article 7 of the law, wherein an elaborate framework is designed to foster the necessitated transparency and shield the franchisee's interests within proposed information exchange channels.

Choosing the timing of the disclosure becomes an important element of regulatory strategies. The law requires that franchisors must submit the disclosure document at least 14 days before two pivotal moments (Emerson and Hunt, 2021): the finalization of the franchise agreement as well as the first capital exchange between the partners. This strategic timing means that potential franchisees have sufficient time to study and understand all the obligations of the proposed franchise agreement before beginning implementation.

Language also forms one of the components of the stated thresholds for disclosures (Bamhdi, 2024). Its terms underline that Arabic must be the main language used in all the documents about the disclosure, which may include an Arabic translation of a document in another language certified as such (Abdul Ghani et al., 2022). Thus, the adoption of a single language helps ensure that local investors can participate and facilitates regulation while minimizing issues of bias or uncertainty that might arise because of different languages being spoken.

The disclosure document, as mentioned earlier, is quite detailed. The law requires that it should usually be unique and have a good degree of content exchange. Each potential franchisor must disclose detailed information about the franchise business model, commercial financial obligations (Siebert, 2024), operating standards, training plan, necessary technical and marketing support, use of trademarks and trade secrets, and the method of resolving disputes (Abdul Ghani et al., 2022). The regulatory framework pays special attention to financial performance information (Bamhdi, 2024). Franchisors are obliged to provide forward-looking representations of past and future business

performance: a requirement that greatly helps to reduce information asymmetries between franchisors and potential franchisees.

DISCUSSION:

For this reason, the disclosure requirements under the Saudi Franchise Law are sufficient regulatory intervention, moving toward the resolution of various tangles in the system that burden franchise relationships (Murray et al., 2021). The complexity of the suggested manifold strategy can be regarded as its slightly underdeveloped approach to comprehending the various subtleties of franchise relations in light of the progressing economic transformation in Saudi Arabia.

These disclosure requirements have the virtue of being multidimensional and also have significant economic consequences. By somehow eliminating or at least reducing information asymmetry it made the market more transparent and coveted from domestic and international franchise investments (Panda et al., 2023). They act as risk management tools since they allow the potential franchisee to make better investment decisions.

By comparing Saudi Arabia to different countries, it would be possible to understand just how different the Saudi approach is to global franchise regulatory approaches (Mattar, 2021). However, it must be noted that while Saudi law does derive inspiration from some of the most effective regulatory systems around the world, including the United States Federal Trade Commission's Franchise Rule, there are some uniquely regional innovations as well (Alrdaan, 2021). The framework does not only result in compliance but extends it to include cultural and economic requirements that relate to the Saudi market.

Article Six of the Executive Regulations of the Saudi Commercial Franchise law that stipulated, the Saudi Franchise Disclosure Document is a mandatory legal document provided by the franchisor to the franchisee, which contains all essential information related to the franchise, to support transparency between the parties and provide a clear and comprehensive picture of the details of the commercial relationship, including rights and obligations, expected costs, potential risks, and financial performance data for the franchise, under the Saudi regulations governing commercial franchises. This document increases the protection of investors and helps them make informed decisions based on accurate and reliable information, which contributes to the stability and growth of this vital sector. (Executive Regulations of the Saudi Commercial Franchise law).

That is, the regulatory approach is a balancing one between investor protection and market freedom. As seen from the discussion above this law comes with clear disclosure provisions that do not encumber franchise development, yet at the same time protect prospective investors. It is guided by a subtle realism inherent in the task of commercial regulation.

The law requires that franchisors disclose information concerning running methods, training, practices, and support systems (Mattar, 2021). This approach changes franchise contracts from mere contracts of sale to blueprints of business relationships that specify obligations and assistance mechanisms.

These, however, are shaded by potential long-term gains. Disclosures like these will eventually contribute to the development of the franchise sector in Saudi Arabia and provide more structure, stability, and clarity to the market for potential investors (Alrdaan, 2021). It also eliminates certain prospects of conflict, indicates clearly what is expected, and helps to establish a more honest business environment.

In this capacity, the law becomes a strategic model of visionary economic development from an institutionalist point of view (Abdulqawi et al., 2022). It is in the interest of Saudi Arabia to establish a comprehensive franchising law that will encourage the concept to thrive and place the country in a position to follow through on the promise to foster a complex and productive economic region. This approach is in line with other national Economic diversification policy frameworks especially Vision 2030.

The disclosure requirements also have deep meanings related to the protection of intellectual property. Apart from full disclosure of rights of usage of intellectual property, the law provides further protection to both franchisors and franchisees (Panda et al., 2023). This approach thus

provides an adequate solution to the historical issues in the management of intellectual property in franchise relationships.

The Saudi regulator is keen on the importance of the disclosure document, linking it to the commercial franchise document, and stipulating the authority of the Ministry of Commerce to prepare the forms and documents related to it under Article Fourteen of the Executive Regulations of the Saudi Commercial Franchise System.

In the future, it may be necessary to improve the principles in other areas, for example, by specifying measures related to how the principles are applied in practice, the forms that should be included in the disclosure documents, and the system that regulates the interaction of companies with very complex requirements (Emerson and Hunt, 2021). There is a clear recognition that the overall effectiveness of the regulatory environment will only be as good as the ability to continue updating it in the ever-evolving business climate.

CONCLUSION:

The disclosure requirements of Saudi Franchise Law can be considered to be one of the indications of the shift in the Kingdom's commercial regulation that can express rather a developed approach to the formation of the franchise ecosystem. This legislation goes far beyond regulation extending it to a wide comprehensive structure to transform the conduct of franchise relations based on recommendations for transparency, balance of information, and investors' gains. This is a regulatory approach with blurred shades towards the sophisticated issues of franchise transactions so those growing in relatively new economic systems like Saudi Arabia (Emerson & Hunt, 2021).

By so doing, The Disclosure Framework meets many a strategic goal all at once. First, there will be increased access for prospective franchisees to essential business data hence allowing for sound business investments by the potential franchisees. Second, it helps to monitor the quality of future fractured relationships and also minimizes future potential conflict between the two organizations. Third, it places Saudi Arabia amongst the progressive jurisdictions dedicated to the establishment of a comprehensible legal framework of a favorable business climate.

From the standpoint of economics, requirements for disclosure are closely related to a highly developed notion of risk management (Murray et al., 2021). To make the franchisors produce detailed, auditable information concerning business models, financial performance, working standards, and potential issues the law makes the climate of investment less risky; therefore, the likelihood of investment in domestic and international franchises increases as a result of the appearance of the seriousness of the Kingdom in commercial transparency and investors' protection.

When implemented, these disclosure requirements have the potential to have far-reaching systemic effects on the Saudi franchise ecosystem: the specific forms and requirements in disclosure documents ensure increased trust among dealers (Al-Mashit et al., 2022). The actual effects do not end at the transaction level only, but also extend to beliefs about further investment in franchises in the given region.

The paper reveals that the Saudi approach is innovative and at the same time strategically aligned with advanced best practices enjoyed by other countries. Although the law is based on recent foreign legislation, particularly that of the United States and the European Union, it also incorporates specific regional changes that characterize the economy and culture of Saudi Arabia (Al-Marri, 2022). A more nuanced understanding of how the regulations are designed can be seen here, meaning that this is not simply an imitation of strategies used internationally.

RECOMMENDATIONS:

To improve implementation and maximize the potential benefits of the regulatory framework, the paper recommends:

1. Standardization of Disclosure Documents.

The Ministry of Commerce should formulate and publish comprehensive and standardized templates for disclosure documents. The template should be clear on the requirements for content, format, and intensity of information disclosure, ensuring consistency across different franchise sectors (Al-Bakri

and Kiswani, 2024). The templates should be flexible enough to accommodate diverse business models while maintaining strict information disclosure standards.

2. Comprehensive Implementation Guidance

In accordance, develop and distribute full implementation guidelines with practical guides that will be of help both to franchisors and franchisees (Abdallah & Abdullah, 2022); which shall include, among other things:

- Detailed explanations regarding disclosure requirements
- Best Practice in the Preparation of Disclosure Documents
- Interpretive Guidances on Ambiguous Proliferation of complex regulatory provisions
- Case examples and practical samples of 'Adequate Disclosure'

3. Regulatory Capacity Building

Training programs for personnel in regulations, lawyers, and budding stakeholders in franchising at every level should be invested in these programs (Alfaifi, 2024), should focus upon:

- Refined interpretation of disclosure requirements
- Effective implementation strategies
- Emerging international best practices in franchise regulation
- Mechanisms for identifying and addressing potential compliance challenges

4. Continuous Regulatory Review

Put in place a system for periodic review to consistently evaluate the effectiveness of the disclosure requirements. This system should:

- Collect and analyze the implementation data
- Survey the different stakeholders of the franchise
- Track international public policy changes

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