Principles for Settlement of Manufacturing Business Contract Disputes

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Abstract

Manufacturing business contract is agreements that are unique in the procurement of goods and services. Execution of these business contracts often encounters obstacles because there are errors in interpreting contract clauses that can lead to a settlement. After a dispute occurs, what efforts can be made by the parties in resolving disturbances that occur in the procurement of goods, and what is the settlement process if there is a discrepancy in the delivery of goods that are in accordance with the contract but are claimed not to meet the technical specifications stated in the business contract? The purpose of this research is to analyze the manufacturing business contract between Gagah Lambang Perkasa (GLP) and PT Corin Teknik Solusi (CTS). This study used a normative juridical method by reviewing and examining the contents of the agreement. The results show that CTS's failure to interpret the contents of the contract occurred because of the inaccuracy of the technical data on the ordered goods provided by GLP. The efforts made by GLP and CTS to resolve the disputes were by negotiation that prioritized good faith to reach a mutually beneficial agreement. The dispute resolution was achieved with CTS's willingness to accept GLP's claims. GLP provides compensation in the form of additional time, cost, and new orders for CTS so that the agreement can be implemented properly and business relations still run well. The conclusion obtained from this research is that the principle of resolving disputes in invoice business contracts is a mutual benefit (win-win solution) so that the business contract can be continued and not hamper the production process.

Keywords: Dispute Resolution, Business Contracts, Procurement, Manufacturing.

A. INTRODUCTION

Procurement is a process of providing needed goods and services and is carried out based on logical and systematic thinking, following norms and ethics according to standard procurement methods as procurement guidelines. The basic principles of procurement of goods/services are efficient, effective, open and competitive, transparent, fair/non-discriminatory, accountable and environmentally friendly (Alkaabi et al., 2020; Macaulay, 2020). This principle is the legal basis for forming agreements for Providers and Users. Procurement management is part of the supply chain which systematically and strategically intends to obtain goods and services starting from planning, process, implementation and acceptance of work results, based on principles, objectives and conditions to meet User needs (Siahaya, 2016; Jushendri, 2020, Leonard et al., 2020).

Business transactions are generally based on trust between the parties, but this still cannot eliminate the possibility of disputes between the parties (Fitran & Santiago, 2021; Singer, 2018). Disagreements and incompatibilities often arise which
lead to disputes or legal problems in the business being run. For this reason, a legal instrument called an agreement is needed (Santiago, 2012; Sari, 2023).

Business agreements or contracts are the main basis for building business relationships. Contract/agreement law is regulated in Book III, Civil Code, which consists of 18 chapters and 631 articles. Starting from article 1233 to 1864. Chapter Two Concerning Engagements Born from Contracts or Agreements, Part One contains General Provisions which in article 1313 states that: "An agreement is an act by which one person or more attached to one or more other people." Furthermore, Part Three Concerning the Consequences of an Agreement, contains article 1338 paragraph (3) which regulates the need for good faith, which reads: "An agreement must be implemented in good faith". Article 1339 states that: "An agreement is not only binding for things that are expressly stated in it, but also for everything that according to the nature of the agreement is required by propriety, custom and law" (Subekti & Tjirosisudibio, 2017; Sanful, 2023; Macaulay, 2020).

A business agreement is made in writing in the form of a business contract in order to obtain legal force as a form of manifestation of legal certainty, a good business contract outlines in detail the rights and obligations of the parties, including what dispute resolution process will be chosen (Suherman et al., 2021; Liu & Jiang, 2020; Salami et al., 2023). Article 1338 Paragraph (1) confirms that an agreement legally made in a business relationship, hereinafter called a business contract, has legal force like law for those who make it, so that the contents of the business contract cannot be ignored as long as it does not conflict with applicable legal provisions. Without a business contract, dispute resolution will be difficult (Hariyani et al., 2018).

Humans are social creatures and economic creatures. As a social creature, humans need other humans to fulfill their life needs. The necessities of life reflect the beginning of economic activity, which is then realized in the form of buying and selling. In the modern era, buying and selling is usually done not only through direct purchases but can also be done through continuous purchases outlined in the form of a contract. Contracts basically originate from differences in interests between the parties. Therefore, a contract will begin with a negotiation process to formulate a contractual relationship (Alkaabi et al., 2020; Paiola & Gebauer, 2020)). The negotiation process is an effort to create an agreement to reconcile the desired things through a bargaining process. Existing differences will be accommodated through contracts and then written down in legal instruments that will bind the parties. Certainty and fairness in business contracts will be achieved if differences between the parties are accommodated through proportional contractual relationship mechanisms. Implicitly, freedom of contract provides direction that in contracting, the parties have a balanced relationship so that a fair and balanced contract will emerge (Hernoko, 2021).

Civil relations often cause the source of disputes in the implementation of a business contract. The dispute that occurs is a legal consequence of the provision of services between service users and service providers due to the non-fulfillment of an
achievement by one party to the other party, in a business dispute, the parties still have the opportunity to resolve the existing problem by resolving the dispute not through a court (non-litigation). This can be done if the parties still intend to continue their business relationship or if the parties have the same interest in resolving their dispute quickly and at a low cost (Shen et al., 2022; Schmitz & Rule, 2019).

In this research, the author will examine the case that occurred between PT Gagah Lambang Perkasa (GLP) and PT Corin Teknik Solusi (CTS), resulting in a manufacturing agreement being formed. GLP, as a consumer who needs spare parts for its production machines, has committed itself to CTS to produce the manufactured goods it needs. After an agreement is formed, the parties carry out their respective rights and obligations. CTS has completed its obligations to produce engine spare parts according to specifications set by GLP and handed them over to GLP. Next, GLP installed spare parts for the machine, and GLP claimed that the goods were not suitable for use in its production machines. With this incident, a legal dispute occurred between GLP and CTS, what efforts were made by GLP and CTS to resolve the legal incident regarding the manufacturing contract?

Misinterpretation by one or both parties in applying the clauses contained in the business contract for the procurement of goods is often the cause of disputes between the parties. The Provider claims to have sent the goods according to the specifications stated in the contract, but it is claimed that the User does not meet the technical specifications stated in the contract. Based on this, the author raised this problem as study material with the title: "Principles for Settlement of Manufacturing Business Contract Disputes".

B. LITERATURE REVIEW

The dispute that occurred in the Business Contract in this research began with a disagreement in interpreting what was agreed in the Business Contact, which resulted in an alleged act of default by each party. This situation is indicated by the User's claim that the Provider believes that the Provider has produced the ordered goods which do not comply with the technical specifications provided, while the Provider believes that there is inaccurate and detailed data in the technical specifications provided by the User to the Provider. Default as explained in article 1238 of the Civil Code is a condition where one party is declared negligent in what has been agreed in the business contract. Default has juridical consequences, namely the party who has committed the default must bear the consequences of the losses incurred.

Furthermore, regarding the dispute that occurs, bring the parties to resolve the problem through Alternative Dispute Resolution (APS) in the form of negotiations without involving third parties, and provide the final result of resolving the dispute in a win-win solution. The basis for choosing the APS method of resolution is Law 30 of 1999 concerning Arbitration and Alternative Dispute Resolution, where in article 1 number 10 it is stated that APS is the resolution of
disputes or differences of opinion through a procedure agreed upon by the parties, namely settlement outside of court. The theories used as analytical knives in this research include Dispute Resolution Theory, Agreement Theory and Goods Procurement Theory to analyze and explore problems and find solutions to problems that occur in manufacturing business contract disputes.

Dispute Resolution Principles
Dispute resolution is a resolution of problems carried out by one party with another party. Dispute resolution can be done in two ways, namely through litigation (court) and non-litigation (outside court). Business people generally prefer to resolve disputes through non-litigation channels. The non-litigation settlement, hereinafter known as Alternative Dispute Resolution (APS), is considered simpler, easier to implement and provides profitable results for the parties to the dispute in the form of a win-win solution. The advantages of dispute resolution through APS are that it is more flexible, has lower costs, is informal, the resolution process can be carried out by the parties themselves without involving third parties so that it is not known to the public, the settlement period is shorter, there is no need for rules of evidence, disclosure and explanation of opinions, and the facts that often color disputes between each party are easier and simpler, and what is more important is that it is hoped that the continuity of the parties' business relations can be maintained well. When there is no agreement in the APS dispute resolution effort, another option is to resolve it through litigation (court). Litigation dispute resolution is carried out openly so that it can become known to the wider public and can damage reputation and reduce trust. This is one of the weaknesses of litigation settlement, apart from being complicated and taking a long time to resolve. The nature of litigation settlement is "win-lose", where one party makes a profit while the other party suffers a loss. “Win-lose” settlements often end in hostility and damage to the good relations between the disputing parties.

The Nature of Manufacturing Business Contracts
According to the Big Indonesian Dictionary (KBBI), a contract means a written agreement between the two parties carrying out a transaction in which each party involved is required to perform one or more achievements. Meanwhile, business is actions that have commercial value, and manufacturing is making or producing goods by hand or machine, or it can also be interpreted as the process of changing raw materials into goods that can be used or consumed by humans. So literally, a Manufacturing Business Contract is a production process activity to produce physical products as outlined in a written agreement where the substance agreed to by the parties bound therein has commercial value with a business content.

The contract implemented in this research is a commercial contract in which the parties tend to have the same position as equals in fighting for their rights and obligations. The purpose of a commercial contract is to create a business cooperation relationship in order to obtain maximum mutual benefit (optimum profit) based on
sound business principles. Commercial contracts make it easier for all types of business transactions to manage and mitigate risks that may arise in the future. In addition, commercial contracts serve as proof of obligations and rights between related parties should conflicts arise later. All terms, conditions and agreements in commercial contracts in Indonesia are regulated based on the Civil Code (Nachrawi, 2020).

It is further explained that in general, a contract is a legal relationship between two or more parties based on an agreement to give rise to legal consequences. Legal consequences, namely the emergence of rights and obligations. The definition of a contract in the manufacturing industry business is a legally binding agreement between two parties regarding the sale and purchase of goods and/or services related to the needs of the manufacturing industry. Based on this understanding, the contract function is divided into two types, namely juridical function and economic function. The juridical function of a contract is to provide legal certainty for the parties involved in the contract, while the economic function is to move resources from lower use value to higher value (Salim et al., 2019). The role of contract law in business activities includes as a basis for business relationships, providing legal protection for parties related to the business relationship, playing a role in resolving disputes that occur between parties and primarily contract law functions to secure business transactions (Abdullah, 2006).

**Procurement of Goods in Manufacturing Business**

Procurement of goods in the manufacturing business is the process of obtaining goods to meet production needs in the factory. This activity is the act of looking for suppliers and purchasing goods from these suppliers, including negotiating and bidding, contract management, and business expense management. In the context of procurement, apart from the value of the goods, administrative costs also need to be taken into account. A long and inefficient process will also result in high administration costs. Implementing the right procurement strategy is a determining factor in procurement success (Jayanti, 2023). The term Supply Chain Management is known in the procurement process, namely a management system for planning, controlling and executing the flow of a product from the planned procurement of an item needed for production to distribution to consumers. Supply Chain Management includes Procurement Management and Purchasing Management (Siahaya, 2016). Careful implementation of Supply Chain Management is very important because it is seen as being able to minimize the possibility of disputes in manufacturing business contracts, both at the Pre-Contract, Contract Implementation and Post-Contract stages.

Providing detailed product specifications is important to avoid misperceptions at the contract implementation stage, which could lead to disputes. Specifications are technical requirements and descriptions of goods to assess quality according to the needs that the Supplier must meet. Goods specifications must be provided in as much detail as possible to avoid mistakes in purchasing/providing
Inaccurate specifications often cause problems and disputes between the parties in the future. Matters that must be explained in detail in the goods specifications include type of goods, size, capacity, designation, function, method of manufacture, materials or raw materials used and quality standards required, including matters relating to supervision by the Supplier over goods ordered by the User that have been sent.

C. METHOD

This research uses a normative juridical method that aims to examine the legal norms contained in laws and regulations starting from the Constitution, UU, PP and Presidential Decree. The results and discussion will be divided into several parts: History of the Development of Manufacturing Business Contracts, Characteristics of Manufacturing Business Contracts, Characteristics of Manufacturing Business Contracts, and ended with a conclusion.

D. RESULT AND DISCUSSION

1. History of the Development of Manufacturing Business Contracts

The history of the formation of Manufacturing Business Contracts in Indonesia is related to the history of the formation of the Dutch Civil Code (KUHPerdata), which cannot be separated from the French Civil Code, namely the Napoleonic Law (in French, it is called the Code civil des Français) which is a French civil law drafted during the reign of Napoleon Bonaparte and came into force on March 21, 1804. Continental European legal systems generally originate from the Roman legal system. During the Napoleonic era in France, legal codification gave birth to various law books in the fields of civil, criminal, commercial law, civil procedure and criminal procedure. In fact, before Napoleon's laws existed, there were the Codex Maximilianus Bavarius Civilis (Bavaria, 1756), Allgemeines Landrecht (Prussia, 1792) and the West Galician Code (Galicia, Austria, 1797). However, Napoleon's law is considered the first successful civil law and has had a great influence on legislation in many countries, including Indonesia (Wikipedia, 2023a).

The legal system in Indonesia adheres to the Continental European legal system or Civil Law, which is a legacy of the Netherlands. This can be seen from the history and politics of law, legal sources and the law enforcement system. This system is used in European countries, such as the Netherlands (including former Dutch colonies), France, Italy, Germany, Argentina, Austria, and others. The origins of the civil law legal system come from the codification of law in force in the Ancient Roman Empire during the reign of Emperor Justinian in the sixth century BC. Furthermore, this legal system further developed in the 13th century in Germany and since then has experienced an evolution in its development.

Codification is a legal system that prioritizes laws. This main principle is adhered to because the main basic value, which is the goal of the law is legal certainty. Codification has also begun since the time of the Ancient Germanic
kingdom, which spread widely to Western Europe, where in this region Mixed Roman Law also developed. At that time, the kings of Ancient Germany really appreciated the laws in force in their new territories, apart from developing their own laws, including laws relating to trade. This means that in Western Europe two types of law developed side by side, namely Roman Law and Old German Law. Legal codification has been carried out, especially in relation to Roman Law, while Old Germanic Law remains unwritten customary law (Wikipedia, 2023b). France, during the time of Napoleon Bonaparte, brought law through its troops to its colonies, such as the Netherlands, Belgium, Italy and Poland. Apart from that, it also brought its laws to colonial territories outside Europe, such as the Middle East, Oceania, Vietnam, Cambodia, Laos, the Caribbean Islands, the French Guiana Islands, North Africa and Sub-Saharan Africa. Subsequently, countries that implemented French codification, such as the Netherlands, Portugal and Spain, brought and enforced its laws to their colonies. Countries that apply the Continental European legal system consider a law to be complete; judges just have to apply it. This assumption is supported by the flow of positivism in the field of law, which developed rapidly in the 18th and 19th centuries, such as the analytical jurisprudence teachings of John Austin (Fuady, 2010).

Engagement Law, often called Contract Law, is part of Civil Law. Engagement law in Indonesia is regulated in Book III of the Civil Code. The agreement itself is defined as a legal relationship in the field of property law, where one party has rights, and the other party has obligations. At the same time, wealth can be interpreted as a legal relationship that can be valued at a certain amount of money. So, without the element of monetary value, an agreement has no legal consequences unless society or a sense of justice requires that a relationship be given legal consequences as an agreement. European civil law, including that which applies in Indonesia BW (Burgelijk Wetboek), recognizes that an agreement can originate from an agreement or law. The formulation of Article 1233 of the Civil Code concerning General Engagements states that: "Every agreement is created either by agreement or by law." This article emphasizes that apart from agreements, the Civil Code determines that agreements can arise from law. Engagements originating from agreements include agreements for borrowing and borrowing money, buying and selling, exchanging, leasing, credit, insurance, etc. Meanwhile, the form of engagement created by law (sourced from the law) is in the form of provisions that regulate a situation when a particular event occurs, for example, a birth event, the birth of a child creates a bond between father and child, where the father is obliged to maintain the child. Likewise, in the event of death, where when someone dies, the obligation passes to his heirs. Another example is when an airplane crashes, a train accident, or a ship sinks. This kind of event is likely to cause losses for third parties, so the resolution of everything related to this event is regulated by law (Utami & Adipradana, 2017). So, an engagement that arises from an agreement is a form of engagement that is desired from the start by the two
parties making an agreement, whereas an engagement that arises from law occurs beyond the ability of the parties concerned.

It is common for every collaboration to be carried out with an agreement or contract. Even in the business world, making a contract is a necessity, although it is also possible to make an agreement verbally. An agreement made in writing, which is then called a contract, is evidence for the parties that explains that an agreement has been entered into and also serves as a guideline for cooperation for the parties (Emirzon & Is, 2021).

2. Characteristics of Manufacturing Business Contracts

The main operational activity of a manufacturing company is carrying out production activities, namely processing raw materials or raw goods into semi-finished goods or finished goods. Two vital aspects that influence the production performance of a manufacturing industry are the availability of raw materials and the availability of spare parts. It is not surprising that the most prominent characteristic of a Manufacturing Business Contract is the existence of an agreement that contains a clause regarding the Supplier’s ability/competence to guarantee the continuous availability of raw materials and/or spare parts on time and in the exact quantities required by the User. Manufacturing industry production activities can stop when there are problems related to the availability of raw materials and/or spare parts. What manufacturing companies really avoid is not only the unavailability of raw materials for production but also the availability of spare parts for production machines, especially when there is sudden damage to production machines, which causes production activities to stop immediately. Stopping production due to the unavailability of raw materials or unavailability of replacement parts when production machines are damaged results in enormous losses for the manufacturing industry. Forms of loss can be in the form of employees still having to be paid even though the production process has stopped, customer claims for late delivery of ordered goods, a decline in good reputation with customers, and other losses.

Contract Law is guided by contracts made in the context of business transactions. All parties must agree to the terms of the contract. Business activities, apart from requiring clear legal provisions, also require the expertise of the parties in carrying out business activities, especially in terms of making contracts. Skills in drafting contracts are critical because the contract contains the rights and obligations that the parties have in collaboration. The existence of unclear clauses in the contract can result in disputes or conflicts that are difficult to resolve. The preparation of contracts also cannot be done at will (haphazardly), meaning that it is necessary to pay attention to applicable statutory provisions, propriety, public order, customs and morals (Emirzon & Is, 2021).

The business relationship between GLP and CTS has existed for decades. In that short period of time, the collaboration between the two companies went well, was mutually beneficial and without problems. However, even though good
relations have been established for a long time, it is possible that misunderstandings may occur in carrying out a business contract. The business contract disputes that occurred in this research were caused by CTS errors in interpreting clauses at the contract implementation stage. Differences in interests between parties in the same object are the cause of disputes. It is necessary to understand how the process of disputes occurs and how to choose the most ideal resolution process that can be taken so that business relationships can continue. It is also necessary to study in-depth matters relating to the dispute. Strategy and accuracy is needed in resolving business contract disputes, including immediately resolving problems when there is a complaint from one of the parties, prioritizing good faith, building trust, analyzing existing complaints, maintaining commitment, managing conflicts that occur and compromising mutual solutions.

The legal relationship between Users and Providers is the legal relationship between consumers and producers. The relationship that occurs between legal subjects in this research involves two legal subjects, namely GLP and CTS. In this legal relationship, the rights and obligations of one-party conflict with the rights and obligations of the other party. Legal relationships are regulated and recognized by law, which occurs automatically with or without a written agreement. Legal relationships between consumers and producers arise due to legal actions or legal events which will ultimately give rise to certain legal consequences. Legal relations give legal subjects a right to do something or demand something required by that right, as well as the implementation of authority/rights and obligations guaranteed by law. The requirements for a legal relationship are that it has a legal basis and the existence of legal events (Soeroso, 2006).

Referring to Article 1338 paragraph (3), which states, "An agreement must be implemented in good faith". This means that good faith is the main capital and moral that must be prioritized in all stages of a business contract, including when there is a dispute between the parties. Likewise, Article 1339 reads: "An agreement is not only binding for things that are expressly stated in it but also for everything that according to the nature of the agreement is required by propriety, custom and law." Appropriateness, in this case, means that as a good business relationship, the Provider should be able to be relied on and seriously help with problems related to meeting the User's needs. Likewise, when there is a problem with the ordered goods sent by the Provider, the User must make transaction payments according to what has been agreed.

In a legal context, sanctions mean punishment imposed by a court, while in a sociological context, sanctions are defined as a social control mechanism. Punishment (negative sanctions) and rewards (positive sanctions) regulate behavior according to social norms in society. Sanctions are a coercive tool used to make someone comply with applicable norms, where sanctions not only include organized punishment but also formal and informal rewards (Rozak, 2019).

Positive sanctions are an ideal approach that can be emphasized in many cases because the demands given by the law are based on human rationality, where
the law wants something good and noble to happen in human life. With demands like this, humans do not need coercion to submit to the law. The selection and application of positive sanctions in resolving a business contract dispute is a noble and responsible attitude for the parties in resolving the dispute that occurs, where each party wishes to provide the best solution in resolving problems in a mutually beneficial business contract. Complying with ethics and norms of propriety in doing business will make each party respect the other.

The business contract, in this case, contains the purchase of spare parts from GLP to CTS. The spare parts in question are spare parts made by producing and modifying them for one of the production machines at the GLP factory. The aim of modifying spare parts is to improve their performance and durability so as to provide added value in the form of increasing engine performance and extending the life of the engine parts themselves. There are three important stages in the process of making these spare parts, namely design, analysis and production process. Included in the manufacturing process are planning spare part specifications, determining raw materials, and so on, all of which are determined by GLP.

Differences of opinion had colored GLP’s complaint process regarding goods sent by CTS. However, in responding to customer complaints, CTS is guided by relationship marketing, namely the underlying mindset that the essence of business focuses on customer comfort and satisfaction. This means that as a provider, CTS really understands how a customer behaves towards its product. Relationship marketing is a marketing strategy that must be understood and implemented in companies in order to retain old customers. Because retaining customers is an essential element so that business can continue. As a provider, CTS focuses on the development and quality of relationships between CTS and its customers. Customers are one of the crucial aspects of the business. Without customers, a business will be meaningless, no matter how much capital is spent. Service with good quality relationships is a long-term strategy that makes customers interested and comfortable in establishing business relationships.

Responding to these differences of opinion, both parties carried out negotiations, and finally, CTS and GLP agreed to fulfill all their obligations as agreed upon in the contract. Dispute resolution in an effort to achieve a win-win solution can be carried out by the parties by applying positive sanctions. The Provider is willing to accept claims and perfect the ordered goods according to the User’s needs, as well as the User is willing to provide compensation in the form of additional processing time and costs as well as additional orders.

E. CONCLUSION

The efforts made by GLP and CTS to resolve disputes that occur in the procurement of goods in the manufacturing industry are to find the best way so that the implementation of business contracts continues and is mutually beneficial by applying the win-win solution principle. CTS’s effort is to offer repairs and
enhancements to GLP ordered spare parts that GLP approves. As the goods supplier and technical consultant, CTS also oversees the application of these spare parts in the form of supervision until they are completely complete and meet GLP’s technical requirements. GLP’s efforts are to invite and provide opportunities to discuss problems that occur and focus on finding solutions. Both parties agreed to hold negotiations that focused on resolving problems without blaming each other. Due to CTS’s efforts, GLP provided compensation to CTS in the form of additional work time and costs for improving the spare parts it ordered. GLP also agreed to provide additional orders in the form of other projects after the problems were resolved.

The process of resolving disputes that occur due to non-compliance with the delivery of goods that are in accordance with the contents of the contract but which are claimed not to meet the technical specifications stated in the business contract is carried out through negotiations based on good faith and propriety in doing business by both parties. The success of the negotiations is demonstrated by CTS’s willingness to accept claims from GLP by repairing and perfecting the spare parts ordered by GLP so that the agreement can be implemented well and the continuity of the business relationship is maintained and running well.

REFERENCES


