

The First-Tier Contractual-Evidentiary Gap in Trust-Based Supply Relationships Without Comprehensive Written Contracts

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Abstract

Supply chain liability studies have predominantly focused on accountability problems arising from complex multi-tier structures. However, liability uncertainty may also emerge within direct first-tier relationships when transactions rely on trust-based practices without comprehensive written contracts. This study examines how contractual uncertainty, evidentiary limitations, and risk allocation problems develop within a first-tier supply relationship in an Indonesian paper-conversion company. Using an empirical socio-legal case study, the research investigates PT Artaniaga Megah Gemilang (PT AMG). Primary data were obtained through two semi-structured interviews with the company director on 10 and 30 July 2026, complemented by purchase orders, internal business correspondence, and relevant Indonesian civil law provisions. The findings indicate that PT AMG's business relationships remain legally valid despite the absence of comprehensive written contracts, as demonstrated by agreement, continuous performance, and transactional consistency. Nevertheless, limited documentation creates difficulties in establishing contractual obligations, proving modifications, allocating risks, and determining responsibility when disputes arise. Based on this case, the study proposes the concept of the First-Tier Contractual-Evidentiary Gap, referring to an operationally established relationship lacking sufficient contractual and evidentiary mechanisms to clarify obligations, liability, and risk allocation. Furthermore, the study develops the Risk-Based Relational Contract (RBRC) framework, integrating relational flexibility with minimum mechanisms for documentation, adaptation, and risk governance. RBRC seeks to preserve trust while strengthening legal certainty.

1. Introduction

The modern industrial supply chain is a complex system, involving raw material suppliers, producers, macropherners, and distributors, so that legal accountability between business actors is an issue that cannot be separated from the issue of traceability and product quality assurance. Failure to¹ maintain quality at one point in the supply chain, especially in raw material-based industries such as paper conversion, can have a domino effect on the entire production process as well as implications for the distribution of legal responsibilities between business actors, especially when the supply failure is sourced from two-way information between buyers and suppliers who do not fully understand each other's specifications and expectations.²

In the Indonesian civil law framework, accountability in business relationships ideally rests on the principle of freedom of contract which gives the parties the flexibility to determine the form and content of the agreement,³ as well as the principle of consensualism which recognizes the validity of the agreement since the conclusion of the agreement, including agreements that are not stated in writing.⁴ However, the application of the principle of consensualism in practice often raises evidentiary problems, especially in the case of unwritten agreements, so it is necessary to reconstruct the understanding of civil law that is more adaptive to the complexity of modern transactions,⁵ even if the courts still recognize the validity of oral agreements as long as the existence of an agreement can be proven.⁶ Outside the classical civil law framework, the study of institutional economics on *relational contracts* explains that business relationships that rely on trust and repeated interactions are actually a form of *governance* that replaces formal contracts, especially in developing countries with weak formal contract enforcement,⁷ while showing that the actual performance of a business relationship often determines the sustainability of cooperation rather than written provisions alone.⁸

¹David C. Hall and Tracy D. Johnson-Hall, "The Value of Downstream Traceability in Food Safety Management Systems: An Empirical Examination of Product Recalls," *Operations Management Research* 14, nos. 1–2 (2021): 61–77, <https://doi.org/10.1007/s12063-021-00184-1>.

²Katri Kauppi et al., "‘If Only We’d Known’: Theory of Supply Failure under Two-sided Information Asymmetry," *Journal of Supply Chain Management* 60, no. 1 (2024): 32–52, <https://doi.org/10.1111/jscm.12312>.

³Kitab Undang-Undang Hukum Perdata, § article 1338.

⁴Kitab Undang-Undang Hukum Perdata, § article 1320.

⁵Muhammad Rakasyah Pratama et al., "Konstruksi Hukum Terhadap Prinsip Konsensualisme Dalam Perjanjian Di Indonesia," *Jurnal Studi Multidisipliner* 9, no. 6 (2025): 696–702. <https://oaj.jurnalhst.com/index.php/jsm/article/view/12638>

⁶Ida Ayu Kade Cahya Dewi and Desak Ayu Dewi Sawitri, "Keabsahan Perjanjian Lisan Dalam Perspektif Hukum Positif Di Indonesia (Studi Kasus Putusan No. 44/Pdt.G/2015/PN.Yyk)," *Kertha Wicara: Jurnal Ilmu Hukum* 12, no. 10 (2023): 508–16. <https://ojs.unud.ac.id/index.php/kerthawicara/article/view/109583>.

⁷Rocco Macchiavello, "Relational Contracts and Development," *Annual Review of Economics* 14, no. 1 (2022): 337–62, <https://doi.org/10.1146/annurev-economics-051420-110722>.

⁸Anthony Davidson Gray, "Relational Contract Theory, the Relevance of Actual Performance in Contractual Interpretation and Its Application to Employment Contracts in the United Kingdom and



Previous studies on *supply chain liability* generally departed from the assumption that there was a formal contractual relationship between buyers and *first-tier suppliers*, so that the liability *gap* raised was more concerned with the breakdown of the chain of accountability between first-tier suppliers and *lower-tier* suppliers who were not directly contractually connected to the main company,⁹ even placing the existence of a direct contractual relationship at the first level as a theoretical starting point that was no longer in question.¹⁰ The business reality of PT Artaniaga Megah Gemilang (hereinafter referred to as PT AMG), a paper conversion company in Probolinggo, East Java, provides a relevant empirical setting for examining this issue. The importance of the problem emerged from an incident involving complaints concerning alleged chemical contamination associated with products produced by one of PT AMG's business partners for international shoe brands.¹¹ According to the Director of PT AMG, the incident raised questions concerning the source of the alleged quality problem and the allocation of responsibility among the relevant business actors. The available empirical materials, however, do not independently establish the technical cause of the alleged contamination. Accordingly, this study does not treat the incident as evidence of established product contamination. Rather, the incident serves as an empirical trigger demonstrating how a quality-related problem may expose uncertainty concerning contractual responsibility and risk allocation within an existing business relationship.¹²

According to the Director of PT AMG, many of the company's business relationships operate without comprehensive written agreements and rely primarily on trust, purchase orders, direct communication, and established transactional practices. The available purchase orders and business correspondence provide evidence of transactions, but do not comprehensively record matters such as detailed quality standards, responsibility allocation, procedures for contractual modification, or the distribution of transaction-related risks. The significance of this empirical condition lies not in establishing a quantitative prevalence of unwritten transactions, but in demonstrating how an established first-tier relationship may operate with limited contractual documentation.

This condition indicates that liability uncertainty may occur even within a direct first-tier relationship. Unlike the conventional supply-chain liability problem, in which accountability becomes difficult because responsibility is distributed across indirect or lower-tier suppliers, the PT AMG case involves parties that maintain an

Australia," *Common Law World Review* 52, nos. 2-3 (2023): 61-100, <https://doi.org/10.1177/14737795231188384>.

⁹ Kati Schaëfer et al., "Traceability in Multi-Tier Supply Chains: Insights from Five Case Studies," *Supply Chain Management: An International Journal* 30, no. 7 (2025): 77-99, <https://doi.org/10.1108/SCM-07-2024-0428>.

¹⁰ Sangho Chae et al., "Theorizing the Governance of Direct and Indirect Transactions in Multi-tier Supply Chains," *Journal of Supply Chain Management* 60, no. 2 (2024): 3-21, <https://doi.org/10.1111/jscm.12318>.

¹¹ Ari, "Interview with Director of PT Artaniaga Megah Gemilang (PT AMG)," October 7, 2026.

¹² Ibid.



established commercial relationship and continue to transact with one another.¹³ The uncertainty instead concerns the contractual and evidentiary basis for determining the content of obligations, responsibility, and risk allocation within that direct relationship. The alleged chemical contamination complaint is therefore relevant not because the technical occurrence of contamination is established, but because it illustrates how a quality-related problem can expose the limits of available contractual evidence in determining responsibility. This distinction provides the empirical basis for examining what this study terms the First-Tier Contractual-Evidentiary Gap.

The originality of this research does not lie in claiming a universal pattern applicable to all supply chain actors. Instead, this study provides an analytical reconstruction of how liability uncertainty may emerge within a specific first-tier business relationship where trust-based practices operate without comprehensive contractual documentation. The case of PT AMG provides an empirical basis for understanding the interaction between relational governance, contractual incompleteness, and evidentiary challenges under Indonesian civil law. Accordingly, this article addresses two research questions: (1) How are PT AMG's first-tier business relationships legally and operationally constructed when transactions rely primarily on trust-based practices and limited contractual documentation? and (2) How can contractual and evidentiary mechanisms for responsibility and risk allocation be reconstructed to reduce uncertainty while preserving the flexibility of trust-based first-tier business relationships? The problem identified in PT AMG does not necessarily imply that trust-based governance should be replaced by comprehensive formal contracting. Repeated transactions and relational trust provide operational flexibility and facilitate business continuity. The more relevant legal and governance challenge is therefore how minimum contractual and evidentiary mechanisms can complement relational governance by making material obligations, risk allocation, and contractual modifications legally traceable. This perspective provides the basis for developing the Risk-Based Relational Contract (RBRC) as a conceptual reconstruction from the empirical case.

This study contributes in two ways. Theoretically, it introduces the concept of the First-Tier Contractual-Evidentiary Gap as an analytical lens derived from a single socio-legal case. Legally, it demonstrates how contractual validity and evidentiary certainty represent separate dimensions within business relationships under Indonesian civil law. Practically, it provides a conceptual framework for business actors to strengthen responsibility allocation mechanisms without eliminating relational flexibility.

2. Method

This study employs an empirical socio-legal case study approach to examine the relationship between business practices and legal governance mechanisms within a real commercial setting. The socio-legal approach was selected because the research does not only analyze legal norms but also investigates how contractual

¹³Cecep Tedy Siswanto and Lucia Setyawahyuningtyas, "Perlindungan Konsumen Terhadap Kerugian Akibat Cacat Produk Dan Tanggung Jawab Pelaku Usaha," *Jurnal Hukum Caraka Justitia* 6, no. 1 (2026): 225–40, <https://doi.org/10.30588/jhcj.v6i1.2585>.

relationships operate in practice, particularly within trust-based business arrangements. The case was conducted at PT Artaniaga Megah Gemilang (PT AMG), a paper-conversion company located in Probolinggo, East Java, Indonesia. PT AMG was selected because the company represents a relevant case of a first-tier business relationship where cooperation has developed through repeated transactions, personal trust, and operational experience, while comprehensive written contractual arrangements remain limited. Therefore, the case provides an opportunity to examine the relationship between relational governance practices and legal certainty mechanisms.

Primary data were collected through two semi-structured interviews with the Director of PT AMG conducted on 10 July 2026 and 30 July 2026. The interviews explored the company's contractual practices, relationship management mechanisms, documentation procedures, transaction adjustments, quality responsibility arrangements, and perceived legal risks. In addition, this study examined transaction-related documents provided by PT AMG, consisting of purchase orders and internal business correspondence. These materials were used alongside the interview data to assess whether key contractual matters, including product specifications, payment arrangements, responsibility allocation, and subsequent transaction changes, were documented. The collected empirical materials were analyzed using thematic analysis by categorizing recurring issues into four analytical dimensions: contractual completeness, evidentiary capacity, risk allocation, and relational governance. The legal analysis applied a doctrinal approach by examining relevant provisions of the Indonesian Civil Code, particularly provisions concerning contractual validity, freedom of contract, good faith, and civil evidence. This legal analysis was used to evaluate how trust-based business practices interact with formal legal requirements and evidentiary mechanisms.

Ethical considerations were addressed through informed consent from the participant and anonymization of sensitive commercial information where necessary. The company identity is retained because PT AMG provided permission for the case discussion, while specific confidential business information unrelated to the research objectives was excluded. This study has several limitations. First, the empirical data primarily represent the perspective of PT AMG management and do not include interviews with business partners. Second, as a single-case study, the findings are not intended for statistical generalization. Instead, the study aims to provide an analytical framework that may support further investigation of similar contractual and evidentiary challenges in other business contexts.

3. Analysis or Discussion

3.1. Characteristics of Business Relations of PT Artaniaga Megah Gemilang: Between Relational Governance and the Need for Legal Certainty

3.1.1. Trust-Based Business Relationships as a Supply Chain Governance Mechanism

The empirical findings indicate that PT Artaniaga Megah Gemilang (PT AMG) develops business relationships through repeated transactions, accumulated



experience, and interpersonal trust, often without comprehensive written contractual arrangements. Based on two interviews with the Director of PT AMG, the company's cooperation with business partners generally operates through purchase orders, direct communication, and established transaction practices. The existing documents primarily record transactional information, while broader contractual elements, such as detailed quality standards, liability allocation, dispute mechanisms, and procedures for adjusting obligations, remain insufficiently documented.¹⁴

For analytical purposes, the business relationships examined in this study are understood in terms of their directness to PT AMG rather than solely by the type of business actor involved. PT AMG maintains direct business relationships with its business partners, which may include parties operating under maklon-type arrangements as well as international business customers. These direct relationships constitute the first-tier relationships examined in this study. Accordingly, the term "first-tier" refers to the immediate contractual or transactional proximity of a business partner to PT AMG, rather than to a particular category of actor within the broader supply chain.

The existence of a direct first-tier relationship does not, however, automatically determine the allocation of responsibility. Responsibility depends on the obligations undertaken by the respective parties, the risks within their control, and the available evidence concerning the relevant transaction or product-related event.

From the perspective of Indonesian contract law, the absence of a comprehensive written agreement does not automatically eliminate the legal validity of the relationship. Article 1320 of the Indonesian Civil Code establishes four essential requirements for a valid agreement, namely consent, legal capacity, a certain object, and a lawful cause. These requirements do not impose written form as an absolute condition for contractual validity. Therefore, a business relationship supported by mutual agreement and continuous performance may still constitute a legally recognized contractual relationship despite the absence of a formal written contract.¹⁵

However, the findings demonstrate that the main issue faced by PT AMG is not the existence of contractual validity, but rather the weakness of contractual evidence and clarity regarding the substance of obligations. Purchase orders and transaction records demonstrate the existence of commercial interaction, yet they do not comprehensively regulate risk allocation, responsibility standards, or procedures for handling unexpected circumstances. Consequently, when disputes emerge, the challenge is not necessarily proving that a business relationship exists, but proving what obligations each party actually accepted within that relationship.¹⁶

This condition reflects the distinction between contractual existence and contractual completeness. Relational business arrangements frequently operate effectively because repeated interaction creates informal norms, mutual expectations, and behavioural commitments among parties. Nevertheless, relational

¹⁴Ari, "Interview with Director of PT Artaniaga Megah Gemilang (PT AMG)."

¹⁵ Pratama et al., "Konstruksi Hukum Terhadap Prinsip Konsensualisme Dalam Perjanjian Di Indonesia."

¹⁶ Cita Based on the analysis of purchase orders and internal business correspondence provided by PT Artaniaga Megah Gemilang (PT AMG), July 2026



mechanisms may become insufficient when transaction complexity increases and parties require clearer responsibility boundaries. Research on relational contracts demonstrates that trust and repeated performance can function as governance mechanisms, but they do not entirely eliminate the need for formal contractual structures when uncertainty and risk exposure increase.¹⁷

Therefore, this study does not position trust-based relationships as legally weak or economically inefficient. Instead, the PT AMG case demonstrates that relational governance provides significant operational advantages, including reduced transaction costs, faster decision-making, and flexibility in responding to business changes. The limitation emerges when relational governance operates without sufficient documentation mechanisms capable of transforming practical expectations into legally identifiable obligations.

In this context, the problem identified in PT AMG is not a conflict between trust and contract. Rather, it represents a situation where relational governance has developed faster than the contractual infrastructure supporting it. The business relationship remains functional under normal circumstances, but its ability to allocate responsibility becomes uncertain when facing disputes, product quality issues, payment adjustments, or changes in business conditions.

3.1.2. Personal Trust, Organizational Continuity, and the Limits of Relationship-Based Governance

An important analytical implication emerging from the PT AMG case concerns the dominant role of personal trust in maintaining business continuity. The empirical evidence suggests that trust within the company's business relationships is primarily developed through direct interaction between individuals who have maintained long-term cooperation. This condition indicates that trust operates mainly through interpersonal mechanisms rather than through formal organizational systems.

However, this study treats the issue of trust continuity as an analytical implication rather than a direct empirical finding regarding actual generational transition. The available evidence does not demonstrate that PT AMG has experienced succession problems. Instead, the case indicates a potential vulnerability that may arise when business relationships depend excessively on specific individuals rather than institutionalized procedures. Previous studies on family and relationship-based businesses explain that interpersonal trust provides strong relational advantages because it reduces uncertainty and strengthens commitment between actors. Nevertheless, researchers also highlight that organizations require mechanisms to transform individual-based trust into organizational capabilities to ensure continuity beyond specific persons.¹⁸

Accordingly, the PT AMG case suggests two dimensions of trust governance. The first dimension is interpersonal trust, which facilitates cooperation through familiarity, reputation, and previous experience. The second dimension is

¹⁷ Macchiavello, "Relational Contracts and Development."

¹⁸ Marie Deferne et al., "The Role of Trust in Family Business Stakeholder Relationships: A Systematic Literature Review," *Journal of Family Business Strategy* 14, no. 1 (2023): 100501, <https://doi.org/10.1016/j.jfbs.2022.100501>.



organizational trust, which emerges when expectations and responsibilities become embedded within organizational procedures, documentation systems, and formal mechanisms.

The analytical implication is that contracts should not be viewed merely as instruments for controlling opportunistic behaviour. In relational business environments, contracts may function as mechanisms for preserving trust by translating informal expectations into stable organizational arrangements. Therefore, contractual formalization does not necessarily replace relational governance; rather, it can strengthen and preserve relational governance when business complexity increases. This interpretation is consistent with contemporary relational contract scholarship, which emphasizes that formal contracts and relational mechanisms frequently operate as complementary governance instruments rather than competing alternatives.¹⁹ The PT AMG case therefore demonstrates that the challenge is not eliminating trust-based relationships, but designing minimum contractual structures capable of protecting the value created by trust.

3.1.3 From *Relational Governance* to *Risk Based Relational Contract (RBRC)*

The findings from PT Artaniaga Megah Gemilang (PT AMG) demonstrate that trust-based business relationships provide important governance functions, particularly in maintaining flexibility, reducing negotiation costs, and supporting long-term cooperation. Nevertheless, the empirical evidence also indicates that relational governance alone may become insufficient when business relationships encounter uncertainty involving transaction adjustments, product quality issues, responsibility allocation, and evidentiary requirements.

Therefore, this study does not argue that trust-based relationships should be replaced by formal contracts. Instead, the findings suggest that relational governance requires complementary contractual mechanisms that preserve flexibility while strengthening legal certainty. This argument is consistent with contemporary contract governance literature, which explains that formal contracts and relational mechanisms frequently operate as complementary rather than substitutive governance instruments.²⁰ In the context of PT AMG, the main challenge is not the absence of trust, but the absence of minimum contractual structures capable of translating trust-based expectations into identifiable rights, obligations, and risk allocation mechanisms. The company's existing practices demonstrate that cooperation can function effectively under stable conditions; however, uncertainty emerges when parties must determine responsibility during exceptional situations.

Based on this finding, this study develops the concept of the Risk-Based Relational Contract (RBRC) as a conceptual framework and drafting approach. The proposed Risk-Based Relational Contract (RBRC) is also relevant to the regulatory framework governing business partnerships involving Micro, Small, and Medium

¹⁹ Ki-Hyun Um, "Strategic Governance Dynamics in Manufacturing Firms: Navigating Operational Performance through Contractual and Relational Mechanisms in the Face of Product Complexity," *Journal of Manufacturing Technology Management* 35, no. 3 (2024): 502–23, <https://doi.org/10.1108/JMTM-09-2023-0411>.

²⁰ Ibid.

Enterprises (MSMEs) in Indonesia. Law No. 20 of 2008 concerning Micro, Small, and Medium Enterprises, as amended, recognizes partnership as an instrument for developing mutually beneficial business relationships and strengthening the position of MSMEs in business transactions.

The current regulatory framework is further implemented through Government Regulation No. 7 of 2021 concerning the Facilitation, Protection, and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises. In this context, the RBRC does not replace the statutory framework governing MSME partnerships. Rather, it provides a contractual and evidentiary perspective that may complement the partnership framework by translating relational principles into mechanisms for documenting material obligations, allocating transaction-related risks, and managing subsequent contractual adjustments.

RBRC does not represent a replacement for relational governance, nor does it propose a rigid contractual structure. Instead, RBRC provides a minimum contractual architecture that allows business actors to preserve relational flexibility while introducing mechanisms for managing foreseeable risks. The RBRC framework consists of five interconnected elements:

1. Relational Flexibility Recognition

The first element recognizes that long-term business relationships require adaptation mechanisms. Contracts should not eliminate the ability of parties to adjust transaction arrangements according to changing business conditions. Instead, contracts should acknowledge existing relational practices and establish procedures for legitimate adaptation. In the case of PT AMG, payment adjustments from thirty days to forty-five or sixty days illustrate how business relationships evolve through practical negotiation. However, such adjustments require documentation mechanisms to ensure that flexibility does not create uncertainty regarding contractual obligations.

2. Risk Documentation Mechanism

The second element concerns the documentation of essential business risks. The objective is not to document every operational interaction, but to identify aspects that may create future disputes. Based on the PT AMG case, several risk categories require clearer documentation, including: a) product specifications and quality standards; b) responsibility allocation between parties; b) payment adjustment mechanisms; c) procedures for handling product defects; d) evidence of contractual modifications. This element addresses the central weakness identified in the case, namely the gap between operational practices and available legal evidence.

3. Adaptive Modification Procedure

The third element provides a structured mechanism for modifying contractual arrangements. Business relationships frequently require adjustment because market conditions, production capacity, and customer requirements continuously change. Under Indonesian contract law, modifications remain dependent on agreement between parties. Therefore, RBRC does not treat flexibility as unilateral adaptation. Instead, it requires parties to record significant changes through mutually acknowledged mechanisms consistent with contractual consent principles. This approach distinguishes three separate legal issues: a) whether a modification is legally valid; b) whether the modification can be proven; c) how good

faith influences contractual interpretation. Accordingly, Article 1338 paragraph (3) of the Indonesian Civil Code concerning good faith functions as an interpretative principle and behavioural standard, but it does not replace the evidentiary function of contractual documentation.²¹

4. Risk Allocation and Responsibility Clarification

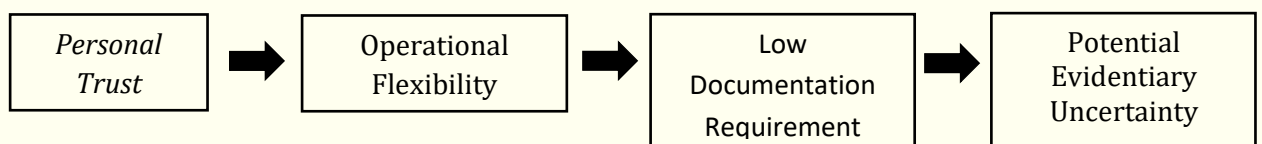
The fourth element focuses on establishing responsibility boundaries among business actors. The PT AMG case shows that product-related risks may involve multiple stages, including material suppliers, conversion companies, business partners, and end customers. Without clear responsibility allocation, disputes may emerge regarding whether a problem originates from raw materials, production processes, product specifications, or post-delivery handling. Therefore, RBRC encourages parties to define responsibility allocation based on their respective control, knowledge, and ability to manage risks. This approach reflects the principle that effective risk allocation should place responsibility on the party best positioned to prevent or manage specific risks.

5. Organizational Continuity Mechanism

The fifth element addresses the need to transform personal trust into organizational continuity. This element does not assume that PT AMG currently experiences succession problems. Instead, it identifies a potential governance challenge when long-term relationships depend excessively on specific individuals. Documentation, internal procedures, and contractual records allow business relationships to survive changes in personnel and organizational structure. Therefore, RBRC views contracts as instruments that preserve relational value rather than merely instruments for enforcing sanctions.

The RBRC framework proposed in this study therefore represents a conceptual reconstruction derived from the PT AMG case. Its purpose is not to establish a universal contractual formula, but to provide an analytical and practical framework explaining how trust-based relationships can incorporate minimum legal mechanisms without losing relational advantages. In this sense, the contribution of RBRC lies in connecting relational governance theory with contractual evidence requirements. The framework demonstrates that sustainable first-tier relationships require neither purely informal trust nor purely formal contracts, but a balanced arrangement where trust operates alongside mechanisms for documentation, adaptation, and responsibility allocation.

Chart 1. Traditional Trust-Based Relationship Structure



Source: Author's analysis based on PT AMG case study, 2026

The above chart 1 illustrates the governance structure of a traditional trust-based business relationship as identified from the empirical findings concerning PT Artaniaga Megah Gemilang (PT AMG). The structure begins with a long-term business relationship that is primarily sustained by personal trust between the

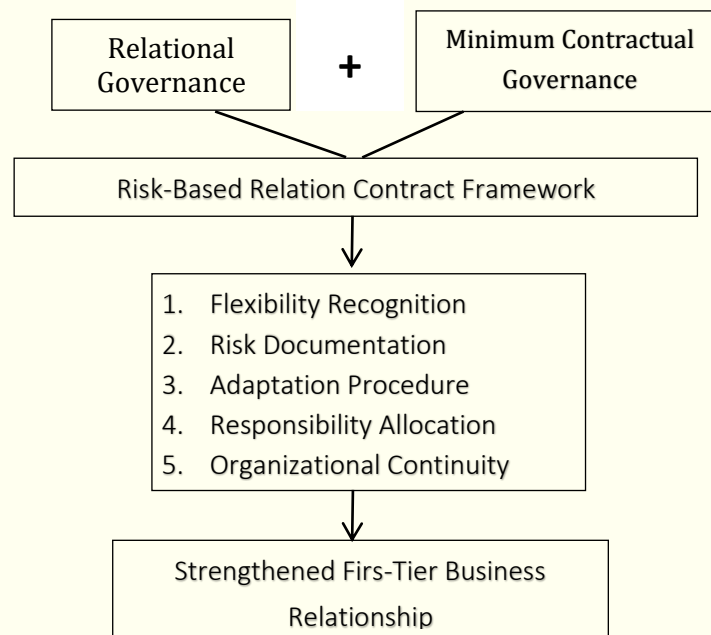
²¹ Kitab Undang-Undang Hukum Perdata, n.d.

parties. This trust facilitates operational flexibility, allowing the parties to adjust business arrangements in response to changing circumstances without relying extensively on formal contractual procedures.

The reliance on trust and established relational practices may reduce the perceived need for extensive documentation. While this arrangement can support efficient cooperation under stable business conditions, limited documentation may create evidentiary uncertainty when disputes or exceptional circumstances arise. In particular, the absence of sufficient written evidence may make it difficult to determine the precise content of contractual obligations, subsequent modifications, allocation of responsibility, and distribution of risks.

Accordingly, the chart does not suggest that trust-based governance is inherently deficient or legally ineffective. Rather, it demonstrates a structural vulnerability that may arise when relational governance operates without complementary contractual and evidentiary mechanisms. The final stage of the chart, namely Potential Evidentiary Uncertainty, therefore represents the principal legal issue identified in the PT AMG case: the possibility that an effectively functioning business relationship may nevertheless lack sufficient evidence to establish the parties' respective rights, obligations, and responsibilities when uncertainty or disputes occur.

Chart 2. Risk-Based Relational Contract (RBRC) Framework



Source: Author's reconstruction based on empirical findings and contractual governance literature, 2026

The Chart 2 presents the conceptual reconstruction proposed by this study through the Risk-Based Relational Contract (RBRC) framework. The framework begins with the recognition that relational governance remains an important foundation of long-term business relationships. Rather than replacing trust with formal contractual arrangements, RBRC introduces minimum contractual governance mechanisms that complement existing relational practices and strengthen legal certainty.



The five elements of RBRC represent interconnected safeguards designed to address the vulnerabilities identified in the PT AMG case. Flexibility recognition preserves the parties' ability to adapt their business arrangements to changing circumstances. Risk documentation provides evidence concerning material aspects of the transaction that may become relevant in the event of a dispute. The adaptation procedure establishes a mechanism for recording significant contractual modifications based on mutual consent. Responsibility allocation clarifies the distribution of risks and obligations according to the respective roles and capacities of the parties. Finally, organizational continuity ensures that the substance of established business relationships can be maintained beyond dependence on particular individuals through documentation, internal procedures, and contractual records.

The framework ultimately aims to strengthen first-tier business relationships without eliminating their relational character. Thus, RBRC represents a complementary governance model in which relational trust provides flexibility and continuity, while minimum contractual mechanisms provide documentation, evidentiary support, and clearer allocation of responsibility. The framework consequently addresses the First-Tier Contractual-Evidentiary Gap identified in this study by seeking to balance relational flexibility with contractual and evidentiary certainty.

3.1.4 Limitations of Informal Business Relationships in Managing Transaction Risk

The findings from PT Artaniaga Megah Gemilang (PT AMG) demonstrate that trust-based business relationships provide significant operational advantages. Long-term cooperation enables parties to adjust transaction arrangements, respond to changing business conditions, and maintain supply continuity without repeatedly renegotiating formal agreements. In the observed case, payment terms that initially operated within thirty days could be adjusted to forty-five or sixty days based on business circumstances and mutual understanding between the parties.²² From a business perspective, this flexibility represents an important function of relational governance. Repeated transactions allow parties to develop shared expectations concerning product requirements, payment practices, and operational coordination. Relational governance reduces transaction costs because parties do not need to formalize every minor adjustment through extensive contractual procedures.²³

However, this study finds that flexibility becomes legally vulnerable when significant adjustments are not supported by adequate documentation. Changes involving payment terms, product specifications, order quantities, or responsibility allocation may be practically accepted by the parties but become difficult to establish when disagreement occurs. Therefore, the issue does not concern whether the parties may adapt their relationship, but whether such adaptation produces sufficient evidence regarding the existence and content of the agreement.

Under Indonesian civil law, agreements may exist without written form. Nevertheless, legal enforcement depends substantially on the ability of parties to

²² Ari, "Interview with Director of PT Artaniaga Megah Gemilang (PT AMG)."

²³ Stefanos Mouzas and N. T. Sudarshan Naidu, "Overcoming Contract Incompleteness: Evidence from Long-Term Supply Relationships," *Production Planning & Control* 36, no. 9 (2025): 1155–74, <https://doi.org/10.1080/09537287.2024.2348518>.

prove the existence and substance of their obligations. Article 1866 of the Indonesian Civil Code recognizes several forms of civil evidence, including written evidence, witness testimony, presumptions, acknowledgment, and oath.²⁴ A purchase order may provide written evidence of a transaction and its documented terms, but where it does not contain the parties' complete contractual arrangement, additional evidence may be required to establish matters that are not recorded in the document. In the context of the present study, this is particularly relevant to subsequent changes in transaction arrangements, including changes in payment terms that were communicated through informal or electronic business communications.

In contemporary commercial transactions, the relevant documentary evidence may also exist in electronic form. Indonesian law recognizes electronic information and/or electronic documents as lawful evidence, subject to the requirements governing their use as evidence under the electronic transactions framework. This is particularly relevant to the PT AMG case because business relationships are not documented exclusively through conventional written instruments, but may also involve business correspondence and transaction records maintained through electronic means. Accordingly, the evidentiary analysis should not be limited to whether a document constitutes conventional written evidence, but should also consider whether electronic records can establish the existence, content, and subsequent modification of the parties' obligations.

However, neither a purchase order nor an electronic business communication necessarily represents the entire agreement between the parties. Such records may demonstrate that a transaction occurred or that a particular instruction, request, or modification was communicated, but they may not necessarily clarify issues such as liability allocation, quality standards, modification procedures, or risk distribution. The evidentiary challenge therefore concerns not merely the existence or admissibility of a document, but whether the available documentary record is sufficiently complete to establish the specific obligations assumed by each party.

This condition illustrates the central tension within trust-based business relationships. Trust enables flexibility, but legal certainty requires traceable obligations. The challenge is therefore not choosing between relational governance and contractual governance, but developing mechanisms that allow both systems to operate simultaneously. The relationship between relational benefits and legal risks can be summarized as follows:

Table 1. Relational Advantages, Vulnerability Conditions, and Legal Risks in Trust-Based Business Relationship

Relational Advantages	Vulnerability Conditions	Potential Legal Risks
Flexibility in adapting transaction arrangements	Changes communicated without adequate documentation	Difficulty proving the existence and content of modified agreements

²⁴ Kitab Undang-Undang Hukum Perdata, § article 1866.

Faster decision-making process	Parties rely on shared understanding rather than written obligations	Uncertainty regarding rights and responsibilities during disputes
Lower transaction costs	Business risks are not explicitly allocated	Disputes regarding cost burdens, losses, or liability allocation
Strong relationship continuity	Trust depends heavily on specific individuals	Difficulty maintaining relationship continuity during organizational changes

Source: Author's analysis based on interviews with PT AMG (10 and 30 July 2026), purchase orders, business correspondence, and contractual governance literature.

The table demonstrates that relational governance does not inherently create legal weakness. Instead, legal uncertainty emerges when relational practices expand beyond the supporting capacity of available documentation. Therefore, the relevant analytical problem is the mismatch between increasingly complex business relationships and insufficient contractual-evidentiary mechanisms.

3.1.5 The Tension between Business Flexibility and Legal Certainty

One of the central findings of this study concerns the tension between business flexibility and legal certainty. PT AMG's business practices demonstrate that flexibility enables cooperation continuity because parties can adjust their arrangements according to operational needs. However, legal certainty requires identifiable obligations, reliable evidence, and predictable responsibility allocation. This tension should not be interpreted as a contradiction between trust and contract. Modern contract theory increasingly recognizes that contracts and relational mechanisms perform complementary governance functions. Relational governance provides flexibility and adaptation, while contractual mechanisms provide structure and accountability.²⁵

Within Indonesian contract law, the principle of freedom of contract under Article 1338 paragraph (1) allows parties to determine the content of their agreements. However, contractual modifications remain dependent on mutual agreement between the parties. Therefore, Article 1338 paragraph (3), which establishes the principle of good faith, should not be interpreted as creating unilateral authority to modify contractual obligations. Instead, good faith functions as a principle guiding contractual performance and interpretation.²⁶

Accordingly, three separate legal dimensions must be distinguished: *First*, contractual validity. The parties may establish contractual relationships through agreement and performance even without comprehensive written documentation. *Second*, contractual modification. Changes in payment terms, specifications, or obligations require agreement between parties, whether expressed explicitly or demonstrated through conduct. *Third*, evidentiary certainty. Even when modifications are valid, parties require sufficient documentation to prove the

²⁵ Um, "Strategic Governance Dynamics in Manufacturing Firms."

²⁶ Kitab Undang-Undang Hukum Perdata, n.d.

existence and content of such modifications. This distinction explains why trust-based relationships may operate successfully during normal circumstances but encounter difficulties during disputes. The problem is not the absence of contractual relations, but the inability to clearly establish the boundaries of responsibility.

3.2. First-Tier Contractual Evidentiary Gap as a Conceptual Reconstruction

Previous supply chain liability studies have primarily focused on accountability problems caused by complex multi-tier structures, particularly situations where focal firms experience limited visibility over indirect suppliers. In such contexts, liability uncertainty emerges because responsibility becomes fragmented across multiple organizational levels.²⁷

The PT AMG case reveals a different configuration. The uncertainty does not originate from the absence of connection between focal firms and lower-tier suppliers. Instead, it emerges within a direct first-tier relationship where cooperation exists, transactions continue, and mutual trust has developed, but contractual and evidentiary mechanisms remain incomplete. Therefore, this study reconstructs the concept of *First-Tier Contractual-Evidentiary Gap*. The concept refers to a condition where a direct first-tier business relationship operates effectively through trust-based practices and repeated transactions, yet lacks sufficient contractual and evidentiary mechanisms to clearly establish obligations, responsibility allocation, risk distribution, and proof mechanisms when disputes arise. This definition emphasizes four characteristics:

- 1) The relationship itself exists and functions.
- 2) The problem does not originate from supply chain distance.
- 3) The weakness concerns contractual completeness and evidence.
- 4) The consequence involves uncertainty in determining responsibility.

Table 2. Distinction between First-Tier Contractual-Evidentiary Gap and Related Concepts

Concept	Main Focus	Limitation Compared with This Study
Contractual Incompleteness	Contracts cannot anticipate all future conditions and uncertainties	Focuses mainly on incomplete contractual provisions, not specifically evidentiary problems in trust-based first-tier relationships
Information Asymmetry	Unequal access to information among parties	Does not primarily explain weaknesses in documenting obligations
Relational Governance Failure	Breakdown of trust and cooperative norms	PT AMG demonstrates that trust remains functional; the problem concerns legal reinforcement

²⁷ Chae et al., "Theorizing the Governance of Direct and Indirect Transactions in Multi-tier Supply Chains."

Supply Chain Liability Gap	Accountability problems across multiple supply chain tiers	Usually focuses on indirect supplier relationships rather than direct first-tier contractual uncertainty
First-Tier Contractual-Evidentiary Gap	Weakness in contractual clarity and evidence within direct first-tier relationships	Explains the specific condition identified in the PT AMG case

Source: Author's conceptual reconstruction based on PT AMG case analysis and previous literature.

The conceptual contribution of this study therefore does not replace existing supply chain liability theories. Instead, it extends analytical attention toward an underexamined dimension: the possibility that accountability uncertainty may emerge before supply chain fragmentation occurs, namely within direct relationships where trust exists but contractual evidence remains insufficient.

3.3. Reconstruction of the Responsibility Allocation through Risk-Based Relational Contract (RBRC)

The identification of the First-Tier Contractual-Evidentiary Gap demonstrates that trust-based relationships require additional mechanisms to maintain accountability as business complexity increases. However, strengthening legal certainty does not necessarily require replacing relational governance with rigid contractual arrangements. Instead, the findings indicate the need for a contractual approach that preserves flexibility while providing minimum structures for risk management.

Based on the PT AMG case, this study proposes the Risk-Based Relational Contract (RBRC) as a conceptual framework and drafting approach. RBRC is designed to bridge the gap between relational governance practices and contractual certainty by focusing on foreseeable risks rather than attempting to regulate every possible business interaction.

The proposed RBRC is also situated within the broader Indonesian regulatory framework governing business relationships involving Micro, Small, and Medium Enterprises (MSMEs). Law No. 20 of 2008 concerning Micro, Small, and Medium Enterprises, as amended, recognizes partnership as an instrument for developing mutually beneficial business relationships and strengthening the position of MSMEs. This framework is further implemented through Government Regulation No. 7 of 2021 concerning the Facilitation, Protection, and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises. In this context, the RBRC does not replace the statutory framework governing MSME partnerships. Rather, it complements that framework by providing contractual and evidentiary mechanisms for documenting material obligations, allocating transaction-related risks, and recording subsequent modifications while preserving relational flexibility.

The framework is developed from five interconnected elements:

- 1) recognition of relational flexibility;
- 2) risk documentation mechanism;

- 3) adaptive modification procedure;
- 4) responsibility allocation mechanism;
- 5) organizational continuity mechanism.

These elements do not represent a fixed contractual template. Instead, they function as analytical guidance for business actors seeking to strengthen trust-based relationships through minimum contractual safeguards.

Table 3. Reconstruction of Responsibility Allocation through RBRC

RBRC Element	Empirical Problem Identified in PT AMG	Contractual Function	Relevant Legal Principle
Recognition of relational flexibility	Business adjustments occur through mutual understanding without formal modification records	Maintains operational adaptation while ensuring traceability of changes	Freedom of contract and consensualism (Article 1320 and Article 1338 Civil Code)
Risk documentation mechanism	Purchase orders exist but do not comprehensively record liability standards and risk allocation	Creates evidence regarding obligations, specifications, and transaction conditions	Civil evidence principles (Article 1866 Civil Code)
Adaptive modification procedure	Payment terms and transaction arrangements change informally	Provides procedures for documenting mutually agreed modifications	Agreement principle and good faith principle
Responsibility allocation mechanism	Product problems may involve multiple actors with unclear responsibility boundaries	Clarifies responsibility according to control and risk ownership	Principle of contractual fairness and obligation clarity
Organizational continuity mechanism	Trust is strongly connected to personal relationships	Transforms personal expectations into organizational procedures	Principle of legal certainty and sustainable contractual relations

Source: Author's reconstruction based on PT AMG case analysis, Indonesian Civil Code provisions, and contractual governance literature.

The first element, recognition of relational flexibility, addresses the misconception that contractual formalization must eliminate business adaptability. In reality, the PT AMG case demonstrates that flexibility represents an important business capability. Therefore, the purpose of RBRC is not to prevent adaptation but to ensure that adaptation remains legally traceable. *The second* element, risk



documentation, represents the central response to the contractual-evidentiary gap. The empirical findings indicate that PT AMG already maintains transactional records through purchase orders. Nevertheless, these documents do not fully capture responsibility allocation and risk management mechanisms.

Therefore, RBRC emphasizes documentation of critical risks rather than excessive contractual formalization. *The third* element concerns adaptive modification procedures. Business relationships inevitably experience changes due to market conditions, operational requirements, and customer demands. However, adaptation requires mechanisms that distinguish legitimate contractual adjustment from uncertain informal practice. *The fourth* element concerns responsibility allocation. In supply relationships involving multiple actors, responsibility cannot be determined only after losses occur. Instead, parties require prior clarification regarding quality standards, inspection responsibilities, product handling, and liability boundaries. *The fifth* element concerns organizational continuity. This element does not assume that PT AMG currently experiences succession-related problems. Rather, it highlights the importance of transforming individual-based trust into organizational knowledge through documentation and internal procedures.

Table 4. RBRC Compared with Conventional Contractual Arrangement

Aspect	Conventional Contractual Arrangement	RBRC Approach
Main orientation	Defining rights and obligations through formal clauses	Combining contractual certainty with relational flexibility
Documentation approach	Comprehensive regulation of transactions	Documentation focused on significant risks and responsibilities
Adaptation mechanism	Often requires formal amendment procedures	Provides flexible but traceable modification mechanisms
Relationship basis	Primarily legal obligation	Legal obligation supported by relational commitment
Risk management	Often addressed after disputes occur	Anticipates risks through allocation mechanisms

Source: Author's conceptual reconstruction.

3.4. Theoretical and Legal Implications of the First-Tier Contractual-Evidentiary Gap

The concept developed in this study contributes to supply chain liability literature by shifting analytical attention from liability uncertainty caused by supply chain distance toward uncertainty emerging within direct first-tier relationships. Existing supply chain liability discussions commonly examine situations where focal companies lack control over indirect suppliers. In contrast, the PT AMG case demonstrates that accountability uncertainty may also emerge where direct business relationships already exist but lack sufficient contractual and evidentiary mechanisms.



Therefore, the First-Tier Contractual-Evidentiary Gap does not replace existing supply chain liability concepts. Instead, it complements previous approaches by identifying another source of liability uncertainty, namely incomplete contractual governance within direct relationships. From a legal perspective, this study highlights the distinction between contractual validity and contractual enforceability. Indonesian civil law recognizes agreements based on consent and agreement requirements even without written form. However, effective enforcement depends on the ability of parties to demonstrate the content of their obligations. Consequently, the existence of trust-based relationships should not be interpreted as eliminating the need for documentation. Rather, documentation functions as a mechanism to preserve trust by reducing uncertainty when normal cooperation becomes disrupted.

4. Conclusion

This study concludes that PT AMG's first-tier business relationships remain legally valid despite the absence of comprehensive written contracts. Repeated transactions, mutual consent, purchase orders, continuous performance, and established business practices demonstrate the existence of contractual relationships under Indonesian civil law. However, the reliance on trust-based governance creates a First-Tier Contractual-Evidentiary Gap, in which the principal uncertainty concerns not the existence of the relationship, but the ability to establish the content of obligations, contractual modifications, risk allocation, and responsibility when disputes arise. To address this uncertainty, responsibility allocation should be reconstructed through a Risk-Based Relational Contract (RBRC) framework. RBRC combines relational flexibility with minimum contractual safeguards through five mechanisms: recognition of relational flexibility, risk documentation, adaptive modification procedures, responsibility allocation, and organizational continuity. This framework enables parties to preserve trust-based cooperation while making critical obligations and risk boundaries legally traceable.

Theoretically, this study extends relational contract and supply chain liability scholarship by identifying contractual-evidentiary uncertainty as a distinct source of liability problems within direct first-tier relationships. Legally, it demonstrates that contractual validity and evidentiary certainty are separate dimensions under Indonesian civil law. Practically, RBRC provides business actors with a flexible approach to documenting material risks without requiring excessive formalization. The study is limited by its single-case design and reliance primarily on PT AMG's management perspective. Further research should examine multiple first-tier relationships and incorporate the perspectives of suppliers and buyers to test and refine the RBRC framework across different industries and contractual contexts.

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