The Impact of the Job Creation Law on the Concept of Limited Liability Companies in Indonesia

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ABSTRACT

Various controversies are present along with the issuance of the omnibus law with its copyright law. The presence of this regulation revokes at least 80 other special laws, one of which is the Limited Liability Company Law Number 40 of 2007 concerning Limited Liability Companies. The issues raised in this research are the concept and implications of the issuance of the copyright law on the legal arrangements of limited liability companies. This research study uses doctrinal normative research with primary, secondary, and tertiary legal materials from literature studies. After the research, the results show that the applied method of this omnibus law is the method of legislation by combining various types of laws in a special law. This gives room to eliminate the various interests of each into just one name of interest. In the drafting process, it has violated the principles of openness and participation and is vogue in its legal basis. The implication in the limited liability company law is that it raises provisions regarding the individual company model whose concept is contradictory and provisions that eliminate the minimum capital limit of the company, which is feared to result in the vulnerability of a business continuity.

1. Introduction

The birth of the omnibus law in Indonesia began when the President called on the People’s Representative Council or DPR to work together to draft a law that would reduce many laws and regulations at once and carry the name omnibus law. Although it can be said that the omnibus law with all its controversies, its birth is considered part of the decision to save the condition of the Indonesian economy, especially with the small investment rate in Indonesia which only reached IDR 1.207.2 trillion by 2023. This is compounded by the difficulty of licensing and a number of exclusive rules that exceed the function of a regulation (over

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regulation). Through the concept of omnibus law, simplicity is achieved in various regulations that are united in one specific regulation that paves the way for a policy of synchronisation and streamlining of written legal provisions in Indonesia. This is being done to realise the President’s vision for his second term, which is to create an easy and conducive investment climate and ease the long and complicated licensing process, including the eradication of illegal levies.

The Omnibus Law on Job Creation, which was enacted through Law of the Republic of Indonesia Number 11 of 2020 on Job Creation, at least has implications for the substance of a number of laws. One of them is Law of the Republic of Indonesia Number 40 Year 2007 on Limited Liability Companies. The assessment of those who consider that the current limited liability company law is still sufficient and able to accommodate various company rules, from the addition of new provisions, improvements to maintaining old provisions that are still related. In order to be clearer about the nature of the company, the Indonesian Law Number 40 of 2007 explicitly explains what is meant by a limited liability company, both in the perspective of the law and its implementing regulations.

The application of a limited liability company has been chosen as the company model that is most in demand by people who are in the field of trade and business compared to other forms of business. In addition to economic considerations, the choice of a limited liability company is also due to its own advantages, such as the legal aspect as a legal entity, the concept of company wealth that is separate from the personal wealth of the owner to the limited liability of shareholders. However, it cannot be ruled out that during approximately 14 years of implementation of the limited liability company law, there are also many challenges to surprising and fairly new developments in the community related to limited liability companies that are no longer well accommodated. It is also impossible to make perfect laws. Therefore, some aspects of the limited liability company law have begun to be considered rigid and less flexible with the level of contemporary business needs, especially those with Indonesian nuances, which are full of efforts to increase business investment but are easily obtained without obstacles.

The birth of the omnibus law with its copyright law was envisioned to be an instrument in realising all the desires for ease of investment and business. However, it would be unfair to only look at the omnibus law from the positive aspects without analysing its weaknesses that will eventually become negative aspects. A number of parties have come to doubt the government’s legislative product. Seeing the many problems and controversies arising in the

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10 Law of the Republic of Indonesia Number 25 Year 2009 on Public Services.
11 A company is a legal entity that is a capital alliance, established based on an agreement, conducting business activities with authorized capital which is entirely divided into shares and fulfils the requirements set out in the Limited Liability Company Law and its implementing regulations.
13 Based on the World Bank’s, Ease of Doing Business (EoDB) index, which is generally used as an indicator and reference for foreign investors in investing in a country. This index records that Indonesia is still in the 73rd position in the world since 2019 compared to 2014 which placed Indonesia in the 140th position in the world, which the government considers is still quite far from expectations. See page, Tempo. (2020). *Kemudahan Berbisnis Naik ke Peringkat 73, Jokowi Minta Posisi 40*. Available online from: https://bisnis.tempo.co/read/1306661/kemudahan-berbisnis-naik-ke-perangkat-73-jokowi-minta-posisi-40 . [Accessed June 12, 2023].
process of drafting this regulation, the author is interested in further researching the impact of the job creation law on the concept of limited liability companies in Indonesia.

2. Method

This research is a normative-juridical research\textsuperscript{14} by analysing the policy through a conceptual approach and legislation specifically related to regulations on limited liability companies.\textsuperscript{15} Conceptually, this approach seeks to provide an analytical point of view of problem solving referred from the concepts and values contained in the norming of a rule or policy. The statutory approach is carried out by examining every regulation related to the problems found. Analysis of secondary data derived from literature studies by relying on primary legal materials and secondary legal materials.\textsuperscript{16}

3. Issues that Follow the Omnibus Law Concept

Omnibus Law is a term that does not refer to a particular type of rule but is only a term of reference for rules whose preparation uses a certain method (\textit{omnibus}) or is defined as one rule that is full of substance.\textsuperscript{17} In legal terms, an omnibus law is a single document that covers a variety of topics based on several categories and criteria.\textsuperscript{18} O’Brien further refers to omnibus laws as modifying, repealing or umbrella laws that implement several provisions in various laws.\textsuperscript{19}

The advantage of an omnibus law is its efficiency as the government can package changes to a large number of laws through a single regulation. If the material content of the rules is changed but is still related to other rules, it can be said that it will accommodate discussions between the government and the legislature together and at once. What will be difficult if the content of the rules discussed is so broad that it may not be related at all, of course this is a problem in terms of democracy.\textsuperscript{20} This is reflective of the Omnibus Bill in the Canadian Parliament, which at the time generated a lot of controversy and heated debate in the Canadian Parliament, resulting in several countries prohibiting the application of omnibus laws.\textsuperscript{21}

At first glance, the concept of omnibus law is similar to the model of codification and compilation of laws, although in principle there are differences. The difference is that in codification, the preparation of the law is by collecting a number of regulations and recording them in a simple and well-systematised law book.\textsuperscript{22} In an omnibus law, all the provisions collected cover a variety of topics and are very often not even interrelated, so this is what makes the omnibus law seem complicated and very far from simple. Several experts on legislation in Indonesia have warned of this, such as Maria Farida Indrati who noted several important and critical notes on the omnibus law method, including:\textsuperscript{23}

1) Every law is prepared based on the principles of the formation of proper legislation called beginelen van behoorlijke regelgeving and the whole is based on

\textsuperscript{21} Ibid.
philosophical, juridical and sociological foundations which are certainly different from one another; and

2) The various laws whose provisions are transferred and placed in the omnibus law, in addition to regulating different content material, also regulate different subjects or addresses.

The problem is then in the understanding that in the name of simplification, it’s considered possible to deviate from the philosophical basis, principles and conception of a law that has been replaced. It’s even assumed that the diversity of backgrounds and objectives of various types of laws and regulations can be uniformed on the basis of one interest that is forced to be the same. This problem becomes very logical to be questioned considering that in the context of the omnibus law on labour copyright law, it is very apparent that changes do not only touch regulations in the business and labour sectors, for example, but also environmental laws, spatial planning, forestry, government administration, licensing, land and even health laws and so on.

The effort to combine this with various types of laws eventually seems very ambitious, especially if it is done very negligently without the principle of prudence, in a hurry to pass certain interests, this will later reduce the interests of each law in the name of simplicity and uniformity. The negative potential of omnibus laws is so great that even the Commonwealth Court in Pensylvania has called omnibus laws a crying evil in the legislative process. This is because parliament can be suspected of using the omnibus law method with all its complexities as a brief attempt to smuggle in a number of laws that in the normal process are difficult to pass.24

In fact, it is not only a conceptual problem, but also a normative-juridical problem, which raises the issue of position due to not having a legal basis in the Law of the Republic of Indonesia Number 12 of 2011 concerning the Formation of Legislation.25 The principle of good law formation is in accordance with Article 5 of the law. The mandate of this principle is that the process of forming regulations must be transparent and open, starting from planning, preparation, drafting and discussion. This allows the public to provide input and control the process as widely as possible. Unfortunately, the government does not practice this. The government has never opened access to the public in submitting suggestions for the drafting process of the labour copyright law. Not only is this contrary to the principle of openness in Law of the Republic of Indonesia Number 15 of 2019 concerning Amendments to Law of the Republic of Indonesia Number 12 of 2011 concerning the Establishment of Laws and Regulations, the drafting process of the copyright law is also contrary to the principle of participation in Law of the Republic of Indonesia Number 14 of 2008 concerning Public Information Disclosure.

The non-realisation of the principles of openness and participation in the context of the drafting of the copyright law, has been predicted as before. As the diversity of the omnibus law substance causes complexity in the discussion and quantity of articles produced, so it can almost be said to be impossible to control properly and thoroughly. It’s like the government always says that in certain cases, the government can also accelerate the process of drafting a regulation as long as the need is urgent.

Starting at the planning and drafting stage, the omnibus law is considered to be formally flawed. This is evidenced by the absence of the draft bill and the Academic Script of the bill, even though it is a mandatory prerequisite of a bill in the National Legislation and Priority Bill. It also includes the circulation of three versions of the draft bill that differ in content, so there could be great potential for the inclusion of “contraband” articles. The Policy Paper document related to the omnibus law on work copyright states that one of the problems in the legislative process is the neglect of the principle of participation. there are 64 times claimed by the government as the fulfilment of public participation, considered still far from the ideal concept of participation according to the rules, which in this work copyright law there are 1200 articles that accommodate dozens of laws. So that violations that occur in the legislative process of the copyright law are at least three things, namely discussions that are carried out in a hurry, not transparent and without participation.

4. Implication of Omnibus Law on Job Creation for Limited Liability Company Arrangement

Officially promulgated on 2 November 2020, the birth of the omnibus law a cipta kerja has revoked at least 2 (two) regulations and amended at least 80 other laws. One of the most affected is Law of the Republic of Indonesia Number 40 of 2007 concerning Limited Liability Companies, which in the fifth section concerning Limited Liability Companies. Article 109 of Law Number 11 of 2020 concerning Job Creation regulates a number of articles that amend a number of regulations in Law Number 40 of 2007.

Previously, the government had also promulgated 49 implementing regulations from changes related to limited liability companies into the State Gazette of the Republic of Indonesia. Law Number 11 of 2020 concerning Job Creation is then reaffirmed in Government Regulation Number 8 of 2021 concerning The Authorized Capital of Limited Liability Companies as well as Registration of Establishment, Change and Dissolution of Companies that Meet the Criteria for Micro and Small Enterprises.

4.1. The Concept of a Company with the Presence of an Individual Company

The first change since the enactment of the omnibus law a job creation is regarding the definition of a limited liability company, which previously in Article 1 point 1 of Law Number 40 of 2007 states that a limited liability company is a legal entity which is a capital partnership, established based on an agreement, conducting business activities with an authorized capital which is entirely divided into shares and fulfils the requirements set out in Law Number 40 of 2007 and its implementing regulations. The provision was later amended in the labour copyright law to: “a limited liability company, hereinafter referred to as a company, is a legal entity which is an alliance of capital, established by agreement, conducting business activities with authorized capital which is entirely divided into shares or an individual legal entity which fulfils the criteria of micro and small enterprises as stipulated in the laws and regulations concerning micro and small enterprises.”

The formulation has expanded its definition into the concept of a limited liability company as Article 1 number 1 of the work copyright law takes the same definition as the Indonesian Law Number 40 of 2007 but added provisions regarding: “… or individual legal entities that fulfil the criteria of micro and small enterprises as stipulated in the laws and

regulations concerning micro and small enterprises.” The impact of the inclusion of this sentence is the birth of a new type of business entity that is categorised as a company, namely an individual company. Article 109 Number 5 of the law further amends the provisions of Article 153A Paragraph 1 of Law Number 40 Year 2007, which stipulates that a company that meets the criteria of micro and small enterprises can be established by one person through a statement of establishment and will be further regulated through government regulations. This is reaffirmed in Government Regulation Number 8 Year 2021, for example in the provisions of Article 2 which divides companies in the context of Micro and Small Enterprises or MSEs into companies by two or more persons and individual companies.

This provision clearly contradicts Article 7 Paragraph 1 of the Company Law, which explains that a company must be established by two or more persons. Even if at the beginning of its establishment it turns out that the limited liability company was formed by one person, within a period of six months from this situation. The sole shareholder is still obliged to transfer some of his shares to another person or another limited liability company in order to fulfil the requirement on the basis of two or more persons. There are exceptions to this rule as stipulated in Article 7 Paragraph 7, which states that the provision requiring a company to be established by two or more persons does not apply to a company whose shares are wholly owned by the state or a company that manages a stock exchange, a clearing and guarantee institution, a depository and settlement institution, and other institutions as stipulated in the Law on Capital Markets.

However, the list of exceptions is amended and expanded again as stated in Article 109 number 2 of the Job Creation Law. In detail, the provision states that, the obligation to establish a limited liability company by two or more persons does not apply to:

1) Companies whose shares are wholly owned by the state;
2) Regionally-Owned Enterprises;
3) Village-Owned Enterprises;
4) Companies that manage stock exchanges, clearing and guarantee institutions, depository and settlement institutions, and other institutions in accordance with the Law on Capital Markets; or
5) Companies that fulfil the criteria for micro and small enterprises.

The expansion of the meaning of a limited liability company to include an individual company may blur the conceptual boundaries between a limited liability company and other forms of business such as an individual company. In the study of civil law, particularly in relation to corporate law, the concept of a sole proprietorship is also commonly referred to as a sole proprietorship or sole trader, which Permwanichagun, et al. defines as a one-person entity that is not registered with the state to exist.28 In line with this understanding, Asikin and Suhartana define an individual company as a company that is run by one individual entrepreneur.29 The company is formed by one person, with capital and operated by the same person.30

The form of an individual company is not formally recognized in Indonesian legislation, although in practice it’s commonly known by the public in the form of a Trading Company or PD or Trade Business or UD. The Law Number 3 of 1982 concerning

Compulsory Registration of Companies includes companies that must be registered with the Company Registration Office, except:

1) If the company is personally managed, run, or managed by the owner by employing only family members;
2) Really only to meet the daily needs of the owner; and
3) Not a legal entity or partnership.

From the explanation above, it can be understood that the basic concept of an individual company is clearly different from a limited liability company. Basically, the choice to do business in the form of a sole proprietorship is based on considerations of simplicity and convenience. Because it is only formed by one person, this company does not require a deed of agreement for its establishment or the consent of other parties in dissolution. As such, it does not need to be registered either. This contrasts with the concept of a Company as a legal entity (rechts persoon) whose basic element is an alliance of capital (shares), including also an alliance of persons or investors (shareholders). Due to its form as a legal entity, its formation must follow the method stipulated by law, including the obligation to obtain authorization by the government.

A legal entity in which there is a separation of wealth between the owners of capital and the company treasury. This element of separation of wealth is the main characteristic that distinguishes limited liability company from individual companies. Yahya explained that a limited liability company is based on the concept of capital alliance, which is obtained from the shareholders. This makes the responsibility of shareholders in a limited liability company only limited to the capital that has been deposited in the limited liability company concerned, and no more than that. Thus, if there is a problem with the limited liability company, it will not drag the personal assets of the shareholders. This can be seen in Article 3 of the Limited Liability Company Law which states that the shareholders are not personally liable for the actions of the limited liability company and the agreements entered into by the limited liability company exceeding the shares owned by each shareholder.

In the presence of an individual company as regulated in the Omnibus Law on Job Creation, the aspect of separation of wealth becomes less important and cannot be clearly identified. The mixing of the company’s wealth with the personal assets of the company owner is very likely to occur, given that the organ is one-tier, where the sole shareholder also doubles as a director without the need for commissioners. This is different from the Company Concept in the Limited Liability Company Law which has three main organs, namely the General Meeting of Shareholders, the Board of Directors and the Board of Commissioners. The three organs have clear roles and functional boundaries so that every decision and transaction of the company is properly recorded and supervised. In other words, the absence of these organs in the structure of an individual company has negated the element of supervision that is important in the basic concept of a company.

Specifically related to the General Meeting of Shareholders, Article 13 of Government Regulation Number 8 Year 2021, explicitly states that the dissolution of an Individual

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32 Ibid.
33 Article 77 Paragraph 2 of Law of the Republic of Indonesia Number 40 Year 2007.
Company is determined through a General Meeting of Shareholders. This becomes ambiguous and creates confusion regarding what kind of General Meeting of Shareholders model exists in an Individual Company. Furthermore, Article 8 explains the resolution of the shareholders of an Individual Company which has the same legal force as a General Meeting of Shareholders. Thus, there is an attempt to equate the legal status between the resolution of the General Meeting of Shareholders and that of one owner of an Individual Company. In fact, the concept of General Meeting of Shareholders is an organ that has authority that is not given to the Board of Directors or the Board of Commissioners, whereas in an Individual Company the two organs are united in one person. Therefore, equating the two types of decisions is an oversimplification that can actually have implications for new problems.

Unfortunately, the Omnibus Law on Job Creation does not explain the concept of an Individual Company in a separate definition. Based on the construction of the regulation, it seems that the government is trying to combine two business concepts, namely the Limited Liability Company and the individual company at the same time, by trying to take advantage of the advantages of each. The company business model has stronger legality as an artificial legal subject, but an individual company has flexibility and simplicity in its formation. From this formulation, a new concept of an individual company was developed. Although at first glance this is possible, it has implications for contradictions in the basic concept of a Limited Liability Company and difficulties in identifying it with a personal company.

4.2. The Disappearance of the Minimum Capital Requirement of a Company

Another implication of the Job Creation Law is the abolition of the minimum capital requirement for companies. Normally, a limited liability company must have authorized capital, the amount of which is determined by law. Harahap explains authorized capital as the entire nominal value of the company’s shares mentioned in the articles of association.

The authorized capital of a company is in principle the total number of shares that can be issued by a limited liability company. Basically, every company must have an authorized capital divided into shares which is also called statute capital. The authorized capital is the property of the limited liability company which is separate from the personal property of the founders, company organs, shareholders. Article 32 Paragraph 1 of the Company Law states that the authorized capital of the company is at least IDR 50,000,000,00. However, Article 32 this provision is drastically changed in the Job Creation Law to the following:

1) A company must have an authorized capital of;
2) The amount of the authorized capital of the company as contemplated in paragraph 1 shall be determined by resolution of the founders of the company; and
3) Further provisions concerning the authorized capital of companies shall be set out in a government regulation.

Based on the formulation of the above article, there is practically no longer any provision regarding the minimum limit of authorized capital for establishing a company. As instructed in paragraph 3 of the article, this provision is reaffirmed in Article 3 of Government Regulation Number 8 Year 2021, where the amount of the company’s authorized capital is only determined based on the decision of the founders of the company. Indirectly, this is tantamount to saying that there is no need for an authorized capital or

minimum wealth that must be owned by the company. As explained by Gunawan Widjaja, the main characteristic of a limited liability company is the requirement to have its own assets registered in its own name, and its own responsibility for every action, deed, including agreements made. The existence of this element of company wealth is intended so that in its status as a legal subject, the company is able to act in law to protect its rights, and carry out its obligations in and legal relations with other legal subjects. Therefore, the existence of minimum capital is essential. This is because the amount of capital also signifies the ability and capacity of the company to perform legal acts.

The absence of regulations related to the minimum limit of authorized capital has implications for the absence of legal protection of the company’s capital, so that in essence it is unable to guarantee the company’s ability to pay to third parties. In fact, according to Sulistyowati, the philosophy of protecting the company’s capital and assets as referred to in Article 32 Paragraph 1 of the Company Law before being amended is to unite and maintain the integrity of the company’s assets so that dividend and interim dividend payments made by the company to shareholders or those entitled to profits will not interfere with the company’s capital reserve funds.  

The conditions as regulated in Article 109 Number 3 of the Omnibus Law on Job Creation, as well as Articles 3 and 4 of Government Regulation Number 8 Year 2021, where it is possible to establish a company by one individual and there is no provision for a minimum capital limit, the risk of default by the company is very likely to occur. This arrangement has the potential to accommodate vulnerability to the inability to provide guarantees of payment ability to third parties due to the absence of capital guarantees that can be used as a means of interest in the settlement of creditors’ receivables. This is due to the absence of capital collateral that can be used as a means of interest in the repayment of creditors’ receivables. Thus, it will be difficult for the company to obtain capital from outside parties (banks), especially for large amounts.

5. Closing

First, the omnibus law concept is a law or legal document that seeks to amend, revoke, or enact several provisions in various laws into one law. The conceptual problems in the omnibus law method of job creation can be seen from two aspects. The diversity of laws brought together in a single law has the potential to negate the diverse philosophies and interests of each rule. In addition, the complexity of the omnibus law job creation makes it almost impossible to be monitored optimally. In terms of implementation, the drafting process of the omnibus law on job creation does not have a clear juridical basis in the laws and regulations, and violates the principles of openness and participation. Regarding its implications for the Limited Liability Company Law and the Limited Liability Company Concept, there has been an expansion of the definition of the Limited Liability Company Concept, so that there are individual corporate business entities in the form of MSEs.

This provision contradicts the general doctrine that a company must be established by two or more persons. This provision causes the conceptual boundaries between a limited liability company and other forms of business in the form of individual companies to be blurred. In addition, it also causes the aspect of separation of wealth which is the main characteristic of a limited liability company to be lost. so important that liability cannot be clearly identified. Another thing about the Job Creation Law is the removal of the minimum capital limit for the company. Where this has eliminated the element of legal protection of

the company’s capital, so that in essence it is not able to guarantee the company’s ability to pay to third parties, the risk of payment failure by the company is very likely to occur. This arrangement has the potential to accommodate the vulnerability of the inability to provide guarantees of payment ability to third parties.

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**Conflict of Interest Statement:**
The author declares that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.

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