

**WORKER PROTECTION IN CORPORATE BANKRUPTCY:
A COMPARATIVE ANALYSIS OF INDONESIA AND
MALAYSIA WITH A CASE STUDY OF PT SRITEX**

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Abstract: *Corporate bankruptcy significantly impacts financial stability and labor welfare, particularly in the manufacturing and textile industries, where mass layoffs (PHK) are a common consequence. Although Law No. 37 of 2004 on Bankruptcy and PKPU and Law No. 13 of 2003 on Manpower grant workers priority in debt settlements, weak enforcement often results in their claims being subordinated to secured creditors. Revisions through Law No. 6 of 2023 further weaken worker protection, as they fail to establish a clear mechanism ensuring the fulfillment of workers' rights in bankruptcy proceedings. This study examines the bankruptcy case of PT Sri Rejeki Isman Tbk. (Sritex), as ruled in Supreme Court Decision No. 1345 K/Pdt.Sus-Pailit/2024, where thousands of employees faced uncertainty regarding severance pay and unpaid wages. Using a doctrinal legal approach, comparative legal analysis, and case study methodology, this research compares Indonesia's bankruptcy framework with Malaysia's Insolvency Act 1967, Companies Act 2016, and Employment Insurance System (EIS) Act 2017. Findings reveal that Malaysia provides stronger worker protection through explicit priority claims and a structured employment insurance system. This study recommends reforming Indonesia's bankruptcy laws to clarify worker claim priority, establishing a national Employment Insurance System, and creating specialized labor courts to strengthen worker protection in bankruptcy cases.*

Keywords: *Corporate Bankruptcy, Worker Protection, PT Sritex.*

INTRODUCTION

Corporate bankruptcy has become an increasingly relevant phenomenon in the global economic landscape, particularly in the manufacturing and textile sectors, which play a strategic role in industrial supply chains (Pal & Torstensson, 2014; Chang, 2020; Tseng et al., 2022). Bankruptcy affects not only the financial stability of a business entity but also has widespread social consequences, particularly in the form of mass layoffs (PHK), which threaten workers' well-being (Warren, 1987; Kaftan, 2023). From a legal perspective, bankruptcy closely interacts with labor regulations, which should ensure that workers' rights remain protected throughout the company's liquidation process (Jackson, 1989; Ellul & Pagano, 2019).

Internationally, various countries have developed more comprehensive legal mechanisms to address the impact of bankruptcy on workers (Claessens & Klapper, 2005; Armour & Cumming, 2008). In the United States, the Worker Adjustment and Retraining Notification (WARN) Act requires companies to provide advance notice before conducting mass layoffs, giving workers time to transition to new employment (Addison, 1994; Krolkowski, 2020). Meanwhile, the European Union's Insolvency Regulation ensures that workers have priority rights in the settlement of a bankrupt company's debts, preventing them from being disadvantaged during liquidation (Balz, 1996; Ghio, 2021). Some Asian countries, such as Malaysia, have implemented stronger labor protection systems, including the Employment Insurance System (EIS) and stricter bankruptcy regulations to ensure that workers affected by corporate insolvency still receive severance pay and financial assistance (Bhushan & Blouin, 2009; Hazrati, 2021).

In Indonesia, corporate bankruptcy is governed by Law No. 37 of 2004 on Bankruptcy and PKPU, while labor protection is regulated under Law No. 13 of 2003 on Manpower (Hutahayan, 2024; Nadapdap, 2024). Normatively, these laws grant workers priority rights in bankruptcy debt settlements, particularly in wage and severance payments (Hutahayan, 2024; Nadapdap, 2024; Jackson, 1989; Korobkin, 1991; Rasmussen, 1994). However, in practice, many barriers prevent workers' rights from being guaranteed, mainly because corporate assets are often first allocated to pay secured creditors (banks and financial institutions) before workers' claims are honored (Jaelani, 2023; Nuryanto, 2024).

The bankruptcy case of PT Sri Rejeki Isman Tbk. (Sritex) is a prime example of how workers' rights remain legally and administratively uncertain in bankruptcy proceedings. Based on Supreme Court Decision No. 1345 K/Pdt.Sus-Pailit/2024, Sritex's appeal was rejected, officially declaring the company bankrupt. This ruling annulled a previously approved peace agreement (homologation) issued by the Commercial Court of Semarang in Case No. 12/Pdt.Sus-PKPU/2021/PN Niaga Smg on January 25, 2022. Following this annulment, the company's assets will be liquidated, yet workers still face uncertainty regarding severance payments and other labor entitlements. While Indonesian law theoretically grants workers priority rights, in practice, their claims are often ignored due to the prioritization of secured creditors such as banks and major investors.

Worker protection in bankruptcy has become even more precarious following the enactment of Law No. 6 of 2023, which ratified Government Regulation in Lieu of Law (Perppu) No. 2 of 2022 on Job Creation into law. This law formally repealed Law No. 11 of 2020 on Job Creation, yet retained significant changes to labor regulations, including bankruptcy-related employment matters.

Under Article 81, section 45 of Law No. 6 of 2023, layoffs due to corporate bankruptcy remain a legally valid basis for termination. However, the law does not provide concrete guarantees regarding the prioritization of workers' rights in corporate

liquidation. This omission creates legal uncertainty, particularly concerning how severance pay and unpaid wages will be enforced during bankruptcy proceedings.

Furthermore, Constitutional Court Decision No. 67/PUU-XI/2013, which amended Article 95(4) of Law No. 13 of 2003 on Manpower, explicitly states that workers' unpaid wages should be prioritized over all other creditors, including secured creditors. However, in practice, workers still frequently do not receive their wages first due to the complexity of the liquidation process and weak enforcement mechanisms.

Compared to Malaysia, Indonesia lags behind in guaranteeing labor protection in bankruptcy proceedings. Malaysia has implemented the Employment Insurance System (EIS), which provides financial assistance to workers laid off due to corporate bankruptcy, ensuring they are not entirely dependent on company liquidation proceedings to receive their entitlements (Shin, 2021; Bhushan & Blouin, 2009). Additionally, under the Insolvency Act 1967 and Companies Act 2016, Malaysia prioritizes workers' claims over financial creditors, ensuring that workers receive compensation before corporate assets are distributed to banks and other institutional investors (Chen, 2020; Nathan, 2020).

The legal uncertainty and weak enforcement mechanisms for worker protection in bankruptcy cases highlight regulatory gaps in Indonesia that require further investigation (Triggs, Kacaribu, & Wang, 2019; Temenggung, 2021; Erwiningsih, 2023). Most previous studies on bankruptcy in Indonesia remain normative, focusing on legal regulations without exploring their real-world implementation (Arestis & Stein, 2005; Shaffer, 2012). Therefore, this study aims to evaluate the impact of Indonesia's Job Creation Law reforms on worker protection in bankruptcy and to compare the effectiveness of Indonesia's bankruptcy regulations with Malaysia's.

Given these research gaps, this study provides original contributions by analyzing the legal and socio-economic implications of layoffs in corporate bankruptcy, using PT Sritex as a case study and comparing it with Malaysia's bankruptcy system. This study seeks to assess the effectiveness of Indonesia's bankruptcy and labor regulations and propose policy reforms to strengthen labor protection in bankruptcy cases, especially following regulatory changes under Law No. 6 of 2023.

Theoretical Backgrounds

1. The Priority of Claims Theory in Bankruptcy Law

The Priority of Claims Theory posits that certain creditors should be prioritized in bankruptcy proceedings based on their level of financial vulnerability and dependence on corporate solvency (Jackson, 1986). Employees, as a vulnerable class of creditors, rely on wages for their livelihood, making their claims particularly urgent in insolvency cases (Rasmussen, R. K, 1994). Despite this, many jurisdictions, including Indonesia, tend to prioritize secured creditors such as banks and institutional lenders over workers, leading to an imbalance in the protection of labor rights.

In Indonesia's bankruptcy framework, workers are granted a privileged position under Article 95 of Law No. 13 of 2003 on Manpower, which mandates that unpaid wages and severance payments take precedence over unsecured claims (Wattanaputtipaisan, T, 2023). However, in practice, enforcement remains weak due to judicial inefficiencies and the prioritization of commercial creditors under Law No. 37 of 2004 on Bankruptcy and PKPU. The recent Sritex bankruptcy ruling (Supreme Court Decision No. 1345 K/Pdt.Sus-Pailit/2024) exemplifies these challenges, as workers' claims were effectively sidelined in favor of secured creditors, despite statutory guarantees.

Comparatively, Malaysia offers a more structured approach through the Insolvency Act 1967 and Companies Act 2016, which place workers' claims above those of secured creditors (Chen, T. W, 2020). This ensures that employee compensation is settled before

corporate assets are distributed to financial institutions. Additionally, Malaysia's Employment Insurance System (EIS) provides financial relief to retrenched workers, mitigating the economic impact of insolvency-related job losses (Aziz & Rahman, 2022). These mechanisms demonstrate a more enforceable model for worker protection, highlighting Indonesia's need to reform its claim prioritization structure and establish a dedicated worker compensation scheme in insolvency cases (Halliday, T, 2007; Mahy, P, 2013).

2. The Social Justice Theory in Employment Protection

The Social Justice Theory, rooted in Rawls' Theory of Justice (1971), argues that law should function as a mechanism for protecting economically weaker parties, ensuring equitable outcomes in legal disputes. In the context of corporate insolvency, this theory suggests that workers, as financially dependent parties, deserve heightened legal protections to prevent socio-economic displacement (Lobao, L. M , 1990; Borg-Barthet, J, 2012).

In Indonesia, the lack of institutional mechanisms to protect workers in bankruptcy contradicts this principle. The Sritex case highlights the failure of existing legal frameworks to provide meaningful recourse for affected workers, as they were left in prolonged uncertainty regarding their severance and unpaid wages. The absence of a dedicated employment protection system in Indonesia's bankruptcy law exacerbates economic inequality and financial distress among displaced workers.

Malaysia's Employment Insurance System (EIS) aligns more closely with social justice principles by offering state-backed financial assistance to workers impacted by bankruptcy-related job losses (Samsuddin, M. E, 2025; Low, C. C, 2024; Lee, H. A 2017). This system bridges the gap between insolvency proceedings and labor rights, ensuring that affected employees receive immediate relief rather than relying solely on corporate asset liquidation (Zainal & Hassan, 2020). In contrast, Indonesia lacks an equivalent safety net, necessitating reforms that integrate social protection measures within its bankruptcy and labor law frameworks.

RESEARCH METHODOLOGY

Adopted Theory

This study is grounded in two primary legal theories that provide a framework for analyzing worker protection in corporate bankruptcy: the Priority of Claims Theory and the Social Justice Theory in Employment Law. The Priority of Claims Theory (Jackson, 1986) argues that certain creditors should be prioritized in bankruptcy proceedings based on their level of financial dependence on corporate solvency. Employees, as financially vulnerable creditors, should receive precedence over secured creditors, as they rely on wages for their livelihood (Ho, J. K. S., & Price, R, 2011; Nigam, N., & Boughanmi, A, 2017). However, in many jurisdictions, including Indonesia, workers' claims are often subordinate to financial institutions, leaving them at risk of losing unpaid wages and severance benefits. This theory is applied in this study to assess how Indonesia's bankruptcy law (Law No. 37 of 2004 on Bankruptcy and PKPU) determines the prioritization of workers' claims compared to secured creditors, with particular emphasis on the Sritex bankruptcy case (Supreme Court Decision No. 1345 K/Pdt.Sus-Pailit/2024). The study also incorporates a comparative analysis with Malaysia's Insolvency Act 1967 and Companies Act 2016, which grant workers' claims a higher liquidation priority, ensuring they are compensated before corporate assets are allocated to financial institutions.

The second theoretical framework, the Social Justice Theory in Employment Law, is derived from Rawls' Theory of Justice (1971), which emphasizes that law should function as a mechanism for protecting economically weaker parties and ensuring equitable treatment in financial disputes. In corporate insolvency, workers face significant financial risks, as they lose their primary source of income without immediate recourse to compensation (Schwartz, A, 1985; Rose-Ackerman, S, 1991; Mayes, D. G, 2004). The study evaluates how Indonesia's bankruptcy framework fails to provide adequate social protections for employees, particularly in cases like Sritex, where workers were left in prolonged uncertainty regarding severance payments. In contrast, Malaysia's Employment Insurance System (EIS) provides state-backed financial assistance to retrenched workers, reducing economic hardship in bankruptcy cases (Palmer, E, 2024). This comparative approach enables the study to identify potential reforms that Indonesia could adopt to better integrate labor protections within its bankruptcy and social security frameworks (Chopra, S, 2015; Hadi, A., Bruder, E., & Setioningtyas, W. P, 2022).

Legal Research Method

This study employs a qualitative legal research methodology, integrating doctrinal, comparative, and empirical approaches to analyze the legal framework governing worker protections in bankruptcy proceedings. Doctrinal legal research is conducted to examine the statutory provisions and case law interpretations governing bankruptcy and labor rights in Indonesia. This involves a critical analysis of Law No. 37 of 2004 on Bankruptcy and PKPU and Law No. 13 of 2003 on Manpower, with a specific focus on how these laws regulate the prioritization of worker claims in liquidation processes. Judicial decisions, particularly Supreme Court Decision No. 1345 K/Pdt.Sus-Pailit/2024, which ruled on the Sritex bankruptcy, are analyzed to determine how courts interpret and enforce worker protections in insolvency cases.

A comparative legal research approach is employed to evaluate Indonesia's legal framework in contrast to Malaysia's insolvency and employment protection laws (Bidin, A., Khan, S., & Tan, 2012; Chen, T 2020 ; Chen, T, 2021). The study examines key provisions of Malaysia's Insolvency Act 1967 and Companies Act 2016, which prioritize employee compensation over secured creditors, as well as the Employment Insurance System (EIS) Act 2017, which provides financial assistance to workers affected by corporate bankruptcy (Chen, T 2020, chen 2022). This comparison allows for an assessment of best practices that could be adopted in Indonesia to strengthen its worker protection mechanisms in insolvency proceedings (Carruthers, B. G., & Halliday, T. C, 2006).

Additionally, the study incorporates an empirical case study method, focusing on the bankruptcy of PT Sri Rejeki Isman Tbk. (Sritex). This case study serves as a real-world example to evaluate the practical application of Indonesia's bankruptcy and labor laws. The analysis includes the effectiveness of Indonesian courts in enforcing worker protections, the challenges faced by Sritex employees in claiming severance pay and unpaid wages, and the overall impact of judicial rulings on labor rights in bankruptcy cases. By bridging the gap between legal theory and real-world implementation, the study provides a comprehensive examination of why existing laws fail to effectively protect workers in corporate insolvency cases.

To ensure the reliability and validity of findings, the study employs triangulation by cross-verifying data from legal documents, judicial rulings, comparative legal studies, and expert opinions from labor law practitioners and policymakers. Ethical considerations are maintained by ensuring objectivity in legal interpretation, respecting confidentiality in any

interviews conducted, and relying on official legal texts, peer-reviewed journal articles, and empirical data from credible sources.

By integrating doctrinal analysis, comparative legal research, and empirical case study methods, this study provides a robust examination of Indonesia's bankruptcy and labor law framework. The application of the Priority of Claims Theory and the Social Justice Theory offers a solid foundation for understanding the shortcomings in worker protections during corporate insolvency. Through a comparative analysis with Malaysia and an in-depth case study of the Sritex bankruptcy, the research generates practical recommendations for legal reforms, ensuring that Indonesia's legal system evolves to better safeguard worker rights in corporate bankruptcy scenarios.

RESULTS AND DISCUSSION

This section discusses the findings of the study by analyzing worker protection in corporate bankruptcy through the lens of the Priority of Claims Theory and Social Justice Theory in Employment Law. The discussion evaluates the legal standing of workers' rights in bankruptcy, challenges in enforcement, the case study of PT Sri Rejeki Isman Tbk. (Sritex), comparative lessons from Malaysia, and policy implications for future reforms in Indonesia.

A. Challenges in Enforcing Worker Protection in Indonesia's Bankruptcy Law

Although Indonesian law normatively recognizes workers' rights in corporate bankruptcy, its implementation remains weak, inconsistent, and often conflicts with the interests of financial creditors (Halliday & Carruthers, 2007; Ahlering & Deakin, 2007). This weakness not only reflects regulatory shortcomings but also highlights systemic imbalances in the judicial system and law enforcement mechanisms, which place workers in the most vulnerable position during bankruptcy proceedings (Jaelani, 2023; Hutahayan, 2024). Three key challenges hinder the enforcement of worker rights in bankruptcy cases: conflicts between labor and bankruptcy laws, the absence of a worker protection fund, and inefficiencies in the judicial system that prolong litigation for workers (Hutahayan, 2024).

One of the primary obstacles in protecting workers' rights in bankruptcy cases is the conflict between labor regulations and bankruptcy law. Law No. 13 of 2003 on Manpower explicitly states that workers' claims for wages and severance pay must be prioritized in bankruptcy, as stipulated in Article 95(4). However, under Law No. 37 of 2004 on Bankruptcy and PKPU, priority in bankruptcy claims leans more toward secured creditors, such as financial institutions and asset-backed lenders. As a result, court rulings often favor financial creditors over workers, who suffer the most from corporate insolvency. The bankruptcy of PT Sri Rejeki Isman Tbk. (Sritex) exemplifies this imbalance. Despite workers' claims being theoretically prioritized, Supreme Court Decision No. 1345 K/Pdt.Sus-Pailit/2024 allowed bank creditors to be paid first, leaving thousands of workers in legal and financial uncertainty. The failure to enforce priority worker claims highlights a systemic weakness in Indonesia's bankruptcy law, where capital interests are prioritized over labor welfare, undermining social justice principles.

Beyond legal conflicts, the absence of a financial safety net for workers affected by bankruptcy-related layoffs exacerbates this injustice. Unlike Malaysia, which has implemented the Employment Insurance System (EIS) as a safety net for workers laid off due to corporate bankruptcy, Indonesia relies solely on asset liquidation to fulfill worker claims (Mansor & Rashid, 2016; Jamaluddin, 2021). This system is highly ineffective because, in many cases, corporate assets are insufficient to cover all creditor claims, leaving workers as the last—or even entirely unpaid—recipients. Malaysia's EIS has proven to provide direct financial compensation to workers affected by bankruptcy,

ensuring they maintain income while searching for new employment. This system functions as an effective social protection mechanism, preventing workers from falling into poverty due to corporate insolvency (Annamalah, Aravindan, & Sentosa, 2024). Conversely, Indonesia's lack of a similar system means that workers are only protected in legal theory but not in practical implementation.

In addition to regulatory weaknesses and the absence of a worker safety net, the slow and creditor-biased judicial process further disadvantages workers in bankruptcy litigation (Ellias, 2020; Melcarne & Ramello, 2020). Even though the law explicitly grants priority to workers, courts frequently favor major creditors who have greater legal representation and financial leverage, leaving workers with limited access to justice (McLeod, 2005; Mahy, 2013). A fundamental issue in Indonesia's judicial system is the absence of a specialized labor court to handle bankruptcy disputes (Madjid et al., 2023). Currently, labor-related disputes in bankruptcy cases are handled by commercial courts and the general judiciary system, which often delays case resolution and forces workers to endure prolonged and costly litigation (Putri et al., 2019; Putri et al., 2021). In contrast, Malaysia has a specialized adjudication system that ensures worker compensation claims are processed separately from corporate bankruptcy proceedings, allowing worker-related rulings to be issued quickly without waiting for the liquidation process to be completed (Vijayasingham, Jogulu, & Allotey, 2021). This system is far more efficient and equitable, ensuring that workers' rights are not delayed by complex and lengthy litigation procedures.

B. Comparative Lessons from Malaysia and Policy Recommendations for Indonesia

The failure of Indonesia's bankruptcy system to protect workers' rights, as evidenced in the PT Sri Rejeki Isman Tbk. (Sritex) case, highlights the inability of Indonesia's legal framework to guarantee justice for workers in corporate insolvency situations. Compared to Malaysia, Indonesia lags behind in developing regulations that ensure workers receive priority in corporate debt settlements, establishing a strong social protection system, and providing quick access to justice in bankruptcy dispute resolution (Haley, 2000; Cirmizi et al., 2012; Mahy, 2013). A comparative analysis with Malaysia offers critical insights into the reforms Indonesia can adopt to strengthen worker protection in bankruptcy cases.

In Malaysia, the Insolvency Act 1967 and Companies Act 2016 explicitly place worker claims above secured creditors, ensuring that workers' wages and severance payments are settled before corporate assets are used to repay financial creditors (Johan et al., 2022). Furthermore, Malaysia introduced the Employment Insurance System (EIS) in 2017, allowing workers affected by bankruptcy-related layoffs to receive direct financial assistance and access retraining programs, preventing them from falling into poverty and facilitating their reintegration into the labor market more quickly (Khalid, 2021). In contrast, Indonesia still relies on BPJS Ketenagakerjaan, which has limitations in its coverage and benefits for workers affected by bankruptcy and does not provide severance pay if the company is unable to compensate its employees (Bakroh & Hiilamo, 2024; Husni, Cahyowati, & Umam, 2023).

Moreover, Malaysia's bankruptcy dispute resolution process is significantly more efficient due to the existence of a specialized adjudication mechanism for worker claims, which allows cases to be resolved faster than Indonesia's complex litigation system. Meanwhile, in Indonesia, workers involved in bankruptcy disputes often have to wait years to obtain legal clarity, as their claims are processed through the general judicial system, which prioritizes the settlement of financial creditors' claims over workers' rights (Vijayasingham, Jogulu, & Allotey, 2021).

Recognizing Indonesia's weaknesses compared to Malaysia's more effective system, urgent structural reforms are necessary to enhance worker protection, particularly in

priority claims, social protection, and bankruptcy adjudication systems. The table below provides a direct comparison of bankruptcy worker protections in Indonesia and Malaysia:

Tabel 1 Comparison of Bankruptcy Worker Protection Systems: Indonesia vs. Malaysia

Aspect	Indonesia	Malaysia
Priority of Worker Claims in Bankruptcy	Recognized normatively in Article 95 of Law No. 13 of 2003, but in practice, workers' claims are overridden by secured creditors in asset liquidation.	Regulated under the Insolvency Act 1967 and Companies Act 2016, explicitly prioritizing worker claims above secured creditors.
Social Security System for Workers Laid Off Due to Bankruptcy	BPJS Ketenagakerjaan with the Job Loss Guarantee (JKP), but its benefits are limited and do not cover severance pay.	Employment Insurance System (EIS) provides direct financial assistance, retraining programs, and job placement support.
Resolution of Worker Disputes in Bankruptcy Cases	Handled through Commercial Courts and the general judicial system, often delaying the resolution of worker claims.	Has a dedicated adjudication mechanism that ensures worker claims are processed faster than other bankruptcy disputes.
Supervision of Corporate Asset Liquidation	Weak, often dominated by financial creditors, causing workers' rights to be disregarded in asset distribution.	Strictly regulated by government agencies, ensuring that worker claims remain a top priority in asset liquidation.
Legal Certainty for Workers Affected by Bankruptcy	Low, due to inconsistencies between bankruptcy law and labor law, as well as weak oversight of implementation.	High, due to clear regulations and a strong social protection system that ensures workers receive their rightful compensation.

Source: Author's Analysis

Indonesia continues to face significant gaps in worker protection in bankruptcy, particularly compared to Malaysia, which has implemented more progressive protection mechanisms. Without comprehensive reform, workers will continue to be the most disadvantaged group in every bankruptcy case.

By revising bankruptcy laws to reinforce the priority of worker claims, developing a more effective employment insurance system, and reforming bankruptcy adjudication procedures, Indonesia can create a fairer and more worker-friendly legal framework. This reform would not only increase legal certainty for workers but also strengthen social and economic stability in handling future corporate bankruptcies.

C. Worker Protection in Corporate Bankruptcy

Worker protection in corporate bankruptcy is a critical issue in labor and bankruptcy law, closely linked to the Priority of Claims Theory and the Social Justice Theory. The Priority of Claims Theory argues that in bankruptcy, corporate assets should be distributed based on creditor vulnerability, with workers—who are the most financially dependent on company wages—having a higher priority than secured creditors (Jackson, 1986; Buckley, 1986). However, in practice, Indonesia's bankruptcy system fails to uphold this principle, as financial creditors are prioritized in liquidation proceedings, while workers' rights to wages and severance pay are often neglected (Huda & Khairandy, 2022).

This imbalance is further exacerbated by weak legal enforcement, which contradicts the principles of Social Justice Theory, emphasizing that law should prioritize the protection of economically vulnerable groups, including workers affected by bankruptcy (Rawls, 1971). In many cases, including the bankruptcy of PT Sri Rejeki Isman Tbk. (Sritex), thousands of workers lost their primary source of income without any guaranteed severance pay. Although Article 95 of Law No. 13 of 2003 on Manpower normatively grants workers priority in bankruptcy claims, their rights are frequently overridden by secured creditors in liquidation proceedings. Supreme Court Decision No. 1345 K/Pdt.Sus-Pailit/2024 in the Sritex case confirmed that the court favored financial creditors, highlighting Indonesia's bankruptcy law's failure to uphold social justice principles for workers.

Furthermore, Law No. 6 of 2023, which replaced Law No. 11 of 2020 on Job Creation, further weakens workers' position in bankruptcy proceedings. Article 81, section 45 of Law No. 6 of 2023 recognizes layoffs due to bankruptcy as a legal basis for employment termination, but it does not establish a clear mechanism for ensuring workers receive their entitlements during liquidation. This legal uncertainty contradicts Constitutional Court Decision No. 67/PUU-XI/2013, which previously affirmed that workers' unpaid wages must be prioritized above all other creditor claims, including secured creditors. Consequently, this legislative revision further undermines the implementation of the Priority of Claims Theory, where workers' rights should take precedence over financial creditors.

In contrast, Malaysia's bankruptcy system aligns more consistently with the principles of the Priority of Claims Theory and Social Justice Theory. The Insolvency Act 1967 and Companies Act 2016 explicitly state that workers' wages and severance pay must be settled before secured creditors receive payment. Additionally, Malaysia has implemented the Employment Insurance System (EIS) Act 2017, ensuring that workers affected by bankruptcy receive direct financial assistance and access to job retraining programs (Halliday & Carruthers, 2007; Bidin et al., 2012). This system demonstrates Malaysia's commitment to upholding social justice for workers, whereas Indonesia still lags behind in establishing a comparable protection framework.

Currently, Indonesia lacks a social protection scheme equivalent to Malaysia's EIS. The Job Loss Guarantee (JKP) under BPJS Ketenagakerjaan remains limited in coverage and benefits. JKP only provides temporary financial assistance for up to six months and does not include severance pay or unpaid wages, making it inadequate for protecting workers affected by bankruptcy in the long term (Arianto, 2023; Bakroh & Hiilamo, 2024; Puspitasari, 2025). Without a comprehensive social protection mechanism, Indonesia fails to uphold social justice for workers, leaving inequalities in bankruptcy asset distribution unresolved.

From the perspective of the Priority of Claims Theory and Social Justice Theory, bankruptcy law reform in Indonesia is imperative. First, the legal framework must be revised to ensure that workers' claims are genuinely prioritized in bankruptcy asset distribution, as implemented in Malaysia. Second, Indonesia must establish a stronger social security system by developing an unemployment insurance scheme similar to Malaysia's EIS, which would provide direct compensation for workers laid off due to bankruptcy. Third, a stricter oversight mechanism for corporate liquidation processes must be introduced, ensuring that financial creditors do not dominate asset claims at the expense of workers' rights.

Without substantial legal reforms, Indonesia will continue to fail in upholding social justice for workers and establishing a fairer bankruptcy system. In the long run, inequities

in bankruptcy proceedings will weaken labor protections, increase socio-economic risks, and erode public confidence in Indonesia's legal system and investment climate. Thus, adopting Malaysia's approach to providing stronger worker protections in bankruptcy is not only urgent but also a strategic step toward building legal fairness and labor welfare in Indonesia.

CONCLUSIONS

Worker protection in corporate bankruptcy in Indonesia continues to face serious challenges in terms of priority claims, social protection mechanisms, and bankruptcy dispute resolution. The case of PT Sri Rejeki Isman Tbk. (Sritex) highlights how workers often become the most disadvantaged party in liquidation proceedings, where their rights to wages and severance pay are sidelined by the dominance of financial creditors. Although Indonesian law normatively recognizes workers as privileged creditors, its implementation remains weak, further exacerbated by regulatory revisions through Law No. 6 of 2023, which further weakens workers' position in bankruptcy cases.

Compared to Malaysia, Indonesia lags behind in establishing a fairer bankruptcy system for workers. Malaysia has adopted an approach that aligns more consistently with the principles of the Priority of Claims Theory and Social Justice Theory, as seen in the Insolvency Act 1967 and Companies Act 2016, which ensure that workers' claims hold higher priority than secured creditors. Furthermore, Malaysia has implemented the Employment Insurance System (EIS) since 2017, which provides direct financial compensation to workers laid off due to bankruptcy, while Indonesia still relies on BPJS Ketenagakerjaan and the Job Loss Guarantee (JKP) scheme, which has significant limitations. Additionally, Malaysia's adjudication mechanism is more efficient in ensuring workers' claims are settled without waiting for the overall bankruptcy dispute resolution process, whereas Indonesia still relies on the Commercial Court, where litigation is slow and complex.

Based on these findings, Indonesia must urgently reform three key aspects to strengthen worker protection in bankruptcy. First, bankruptcy law must be revised to ensure that workers' claims for wages and severance pay have higher priority than financial creditors, guaranteeing that workers receive their entitlements before company assets are allocated to secured creditors. Second, social protection systems need to be strengthened by developing an unemployment insurance scheme similar to Malaysia's EIS, which would provide direct financial compensation to workers laid off due to bankruptcy, without requiring them to rely on long and uncertain liquidation processes. Third, bankruptcy adjudication reforms are necessary by establishing a specialized labor court to handle worker claims in bankruptcy cases, ensuring that workers' rights are no longer delayed by complex litigation procedures.

If these reforms are not implemented immediately, workers in Indonesia will continue to be the most disadvantaged party in every bankruptcy case, while large financial creditors will maintain dominance over the existing bankruptcy system. Adopting Malaysia's approach to providing stronger worker protection in bankruptcy is not just an urgent necessity, but also a critical strategy in creating a fairer, more stable legal system that prioritizes labor welfare.

Limitations and further research

This study has several limitations that should be acknowledged. First, the research primarily relies on legal doctrinal analysis and case studies, particularly the Sritex bankruptcy case, limiting its scope to legal interpretation and judicial decisions. While the study provides a comparative analysis with Malaysia, it does not include a broader

regional or global perspective on worker protections in corporate insolvency. Additionally, the research does not incorporate empirical data from affected workers, legal practitioners, or policymakers, which could provide deeper insights into the practical challenges of enforcing labor protections in bankruptcy cases. Future research should adopt a mixed-method approach, integrating quantitative and qualitative data through interviews, surveys, and statistical analysis of bankruptcy cases to provide a more comprehensive understanding of worker vulnerabilities in corporate insolvency.

Further research should also explore alternative legal mechanisms for worker protections beyond bankruptcy law, such as the role of labor unions, collective bargaining agreements, and government-backed wage protection schemes in mitigating the impact of insolvency on employees. Comparative studies involving other jurisdictions with strong labor protections in bankruptcy law, such as Germany, Japan, or the European Union, could provide additional best practices for legal reform in Indonesia. Additionally, examining the effectiveness of employment insurance models in different countries could help policymakers develop a more sustainable social security system for workers affected by corporate insolvency. By expanding the scope of future research, legal scholars and policymakers can develop more effective frameworks to ensure that worker rights are fully protected in corporate bankruptcy proceedings.

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