

Corporate Acquisitions and Labor Rights: Who Protects the Workers?

Padot Agustinus Naibaho ^{a,b}✉, Eman Suparman ^a, Muhammad Amirulloh ^a,

^a Faculty of Law, Universitas Padjadjaran, Bandung, Indonesia

^b Padot Agustinus Naibaho & Partners, Jakarta, Indonesia

✉ Corresponding email: Padot23001@mail.unpad.ac.id

Abstract

The rapid evolution of the labor market, accelerated by the ASEAN Economic Community and an influx of job seekers, intensifies competition not only for employment but also for career stability within companies. At the same time, businesses face mounting pressure to stay competitive, often turning to mergers and acquisitions as a strategy for growth and survival. Yet, while these corporate moves may strengthen business prospects, they often leave workers in a precarious position, facing potential job loss or uncertain changes to their employment status. This research explores the legal protection of workers post-acquisition, focusing on Law No. 13 of 2003 on Manpower and analyzing relevant court decisions. The findings reveal that although acquisitions do not automatically terminate employment contracts, they frequently disrupt workers' rights, exposing them to unexpected vulnerabilities. This study underscores the urgent need for stronger legal safeguards to protect workers from the fallout of corporate restructuring. By highlighting gaps in current labor protections, this research contributes to ongoing discussions on labor law

reform, offering insights for policymakers, legal practitioners, and business leaders striving to balance corporate interests with workers' rights in an increasingly volatile economic landscape. Ultimately, it raises a critical question: in the wake of corporate acquisitions, who truly stands up for the workers?

KEYWORDS *Labor Market, ASEAN Economic Community, Mergers and Acquisitions, Workers' Rights, Legal Protection*

Introduction

The labor market worldwide is undergoing rapid transformation, driven by factors such as economic integration, technological advances, and an increasingly competitive global landscape. One of the most significant developments influencing this transformation is the rise of the ASEAN Economic Community (AEC), which has intensified economic competition within Southeast Asia. As the region becomes more integrated, the labor market has seen an influx of job seekers, including an increasing number of fresh graduates from educational institutions.¹ These factors contribute to a highly competitive environment, where securing a job is challenging, and skills have become just as critical as academic qualifications. Consequently, competition is no longer confined to job hunting but also extends into the workplace itself, where workers compete for career stability, recognition, and advancement.²

However, this heightened competition is not limited to workers. Business owners also face substantial pressure to remain competitive in an ever-evolving market. In particular, mergers and acquisitions (M&A) have emerged as strategic tools for business growth and survival.³ By acquiring or merging with

¹ Przytuła, Sylwia. "Global labor market trends and their significance for the future employees' competences." *Journal of Intercultural Management* 10, no. 4 (2018): 5-38.

² Chiswick, Barry, and Timothy J. Hatton. "International migration and the integration of labor markets." In *Globalization in Historical Perspective*. (Chicago: University of Chicago Press, 2003), pp. 65-120.

³ Potynska, Yana. "Current Trends in Processes of Mergers and Acquisitions in the Global Business Environment". *Thesis*. Lesya Ukrainka Volyn National University, 2024. *See also* Tarigan, Josua, Alfonsis Claresta, and Saarce Elsy Hatane. "Analysis of merger & acquisition motives in Indonesian listed companies through financial performance perspective." *Kinerja* 22, no. 1 (2018): 95-112; Syukur, Muhammad, and Dej-anan Bungkilo. "The aftermaths of acquisition in Indonesia." *International Journal of Monetary Economics and Finance* 13, no. 1 (2020): 16-33.

other companies, businesses can quickly expand their market share, access new technologies, or optimize their resources. While M&As provide significant opportunities for business growth, they often create significant challenges for employees. The restructuring that follows such corporate actions frequently leaves workers vulnerable,⁴ with many facing the threat of job loss,⁵ changes to employment terms,⁶ or uncertainty regarding their future within the company.⁷ This reality underscores the urgent need for robust legal protections to shield workers from the adverse effects of corporate restructuring, particularly in the context of M&As.

Historically, labor laws in Indonesia, especially Law No. 13 of 2003 on Manpower, have provided some degree of protection for workers. This law guarantees fundamental rights related to employment contracts, severance pay, and job security. However, despite its significance, the law does not provide adequate clarity or safeguards when it comes to mergers and acquisitions. Law No. 6 of 2023, concerning employment, was introduced with the aim of addressing some of these gaps. The law aims to modernize labor protections and provide clearer guidelines for employers and employees in an increasingly complex corporate environment. Despite these updates, there remain significant gaps in the law's ability to protect workers during the transition phases of M&As, particularly regarding the transfer of employment contracts, the protection of benefits, and job security.

In the context of mergers and acquisitions, the transfer of employment contracts often becomes a point of contention. Under both Law No. 13 of 2003 and Law No. 6 of 2023, the general principle is that employment contracts should remain valid after an acquisition unless otherwise agreed upon.

⁴ Tynes, Sheryl R. "The walking wounded: Employees' perspectives on mergers and acquisitions." *Sociological Inquiry* 67, no. 3 (1997): 299-319; Dessaint, Olivier, Andrey Golubov, and Paolo Volpin. "Employment protection and takeovers." *Journal of Financial Economics* 125, no. 2 (2017): 369-388.

⁵ Cartwright, Sue, and Cary L. Cooper. "The psychological impact of merger and acquisition on the individual: A study of building society managers." In *Managerial, Occupational and Organizational Stress Research*. (London: Routledge, 2024), pp. 429-450; Schuler, Randall, and Susan Jackson. "HR issues and activities in mergers and acquisitions." *European Management Journal* 19, no. 3 (2001): 239-253.

⁶ Singh, Partap. "Mergers and Acquisitions: Some Issues & Trends." *International Journal of Innovations in Engineering and Technology* 1, no. 1 (2012): 1-9; Mylonakis, John. "The impact of banks' mergers & acquisitions on their staff employment & effectiveness." *International Research Journal of Finance and Economics* 3 (2006): 121-137.

⁷ Lee Marks, Mitchell. "Consulting in mergers and acquisitions: Interventions spawned by recent trends." *Journal of Organizational Change Management* 10, no. 3 (1997): 267-279.

However, in practice, many employees find themselves at risk of job loss or face renegotiated terms that are less favorable than their original agreements. This situation arises from ambiguities in the law regarding the treatment of workers during corporate transitions. Despite the legal framework suggesting the continuity of employment, workers frequently experience disruptions in their work environment, including shifts in job roles, reductions in salary, or changes to benefits. These uncertainties reflect a significant gap in the law, as it lacks specific guidelines on how to manage the transition effectively and protect workers' rights.

A prominent case that highlights these challenges in Indonesia is the dispute between workers and PT Indosat Ooredoo during the acquisition of its mobile telecommunication business by Qatar's Ooredoo Group. In 2015, after the merger, many employees were unsure about their job status, and there was considerable ambiguity regarding the preservation of their benefits and employment contracts. The company announced that it would "*restructure*" the workforce, which led to fears of layoffs and drastic changes to employment terms. Although the company did provide severance packages for those affected, the process revealed significant gaps in labor law protections for workers during M&As. Workers argued that their rights had not been sufficiently safeguarded under the existing legal framework, and they called for more clear legal provisions concerning employment continuity post-acquisition.⁸

Similarly, internationally, the case of the acquisition of the supermarket chain Sainsbury's by Asda in the UK brought attention to the challenges faced by workers in corporate acquisitions. In 2020, when the two retail giants announced their merger, workers voiced concerns about potential job cuts, changes to working conditions, and reduced benefits. Although the merger was ultimately blocked by UK regulators due to competition concerns, the case highlighted how corporate mergers can create uncertainty for employees.⁹ In particular, the issue of employment continuity was central to the debate. Workers feared that the merger would result in a loss of job security, and although the company promised to protect jobs, the absence of strong legal safeguards left many employees feeling vulnerable. This international case illustrates how M&As can undermine workers' rights if clear legal protections are not in place.

⁸ Aini, Nur Latifa. "Kajian Hukum Terhadap Merger Perusahaan (Studi Kasus PT Indosat Tbk dan PT Hutchison 3 Indonesia)." *Thesis*. (Mataram: Universitas Mataram, 2022).

⁹ Bentham, Jo. "Business and Economics in the News—Sainsbury's and Asda—the decade's mega-merger." *Teaching Business & Economics* 22, no. 3 (2018): 11-12.

Moreover, another significant gap in the legal framework is the lack of adequate protection for workers in smaller or less powerful companies undergoing M&A. While large corporations may have resources to protect their employees during such transitions, smaller businesses often lack the infrastructure to provide similar safeguards. This imbalance creates a power differential, leaving workers in smaller companies especially vulnerable to exploitation. As such, the protection of workers in the face of M&As becomes a matter of ensuring fairness and equality in the treatment of employees, regardless of the size or power of the companies involved. Law No. 6 of 2023 attempts to address this issue by offering more robust protections for workers, but its application remains inconsistent, particularly in smaller enterprises.

Another real-world example that underscores these challenges is the acquisition of PT Unilever Indonesia by PT Indofood Sukses Makmur. After the acquisition, employees found their jobs at risk due to significant restructuring and job reclassification. Despite the legal stipulation that employees' rights should be protected after such mergers, many workers faced unclear communication about their future roles and the terms of their employment. The case raised questions about how adequately Indonesian labor laws protect workers in the aftermath of corporate acquisitions, highlighting the ongoing vulnerability of workers in smaller or mid-sized companies.

Furthermore, the role of trade unions becomes increasingly important in the protection of workers' rights during mergers and acquisitions. Trade unions serve as a platform for collective bargaining, allowing workers to negotiate better terms and conditions during corporate transitions. However, the effectiveness of trade unions can be undermined when their interests diverge from those of the workers they represent. Some unions, particularly those focused on their own financial gain or organizational growth, may prioritize their own agendas over the immediate needs of employees, thereby creating friction between labor and management. This dynamic further complicates the protection of workers during corporate restructuring and necessitates a more balanced approach to labor relations.

One of the critical issues with trade unions in Indonesia is that while they are meant to serve as a safeguard for workers' rights, there are instances where unions have become more focused on internal politics and profitability than on protecting workers during M&As. This undermines the ability of unions to effectively advocate for their members, particularly when corporate restructuring threatens workers' job security. Law No. 6 of 2023, while promoting the freedom of association and collective bargaining, does not sufficiently address the potential for union activities to conflict with the best

interests of workers, particularly in the context of mergers and acquisitions. This highlights another gap in the legal framework, one that requires careful attention to balance the interests of both unions and workers.

The urgency of addressing these gaps is evident in the context of ongoing economic challenges, particularly in the wake of global economic uncertainty and rapid technological change. The threat of job loss, combined with the shifting dynamics of corporate restructuring, has made it clear that workers need stronger protections to navigate the complexities of M&As. The implementation of Law No. 6 of 2023 offers an opportunity to address some of these challenges, but its effectiveness hinges on overcoming the gaps identified in this research. For the law to truly protect workers, it must include more specific provisions regarding the treatment of workers during corporate acquisitions, as well as mechanisms for enforcing these protections.

In the further context, corporate acquisitions in Indonesia have significant implications for labor rights, creating challenges for workers who often face precarious working conditions and diminished protections. These challenges have been exacerbated by state policies that prioritize labor market flexibility and deregulation, shifting the balance away from safeguarding workers' interests. While the state is formally tasked with protecting labor rights, its efforts have been undermined by laws and regulations that benefit employers, particularly in the context of corporate acquisitions. As a result, workers find themselves in a vulnerable position, struggling to secure stable employment or adequate benefits, especially in sectors affected by labor outsourcing.

Labor outsourcing, a practice made legal by Labor Law No. 13/2003, has become a widespread phenomenon in Indonesia. This practice has fragmented the labor market, creating a distinction between different categories of workers based on their employment status. Outsourced workers, who often lack the same protections as regular employees, are subjected to unstable employment conditions. As Tjandraningsih¹⁰ argues, this fragmentation has led to precarious work, where many workers lack job security and social benefits, and are often unable to secure long-term, stable employment. The rise of outsourcing has also intensified tensions between labor unions and the broader community, as it challenges the rights of workers to access the same employment protections.

Corporate acquisitions, particularly those involving foreign firms entering through mergers and acquisitions (M&As), typically have negative

¹⁰ Tjandraningsih, Indrasari. "State-sponsored precarious work in Indonesia." *American Behavioral Scientist* 57, no. 4 (2013): 403-419.

consequences for labor rights in Indonesia. According to Biglaiser and Lee¹¹, M&As often lead to reductions in labor rights compared to other investment models, such as joint ventures (JVs) or greenfield investments (GIs), which generally offer better protections for workers. M&As, especially those involving foreign capital, may prioritize cost-cutting measures such as workforce downsizing or restructuring, which can lead to layoffs or the deterioration of working conditions. Furthermore, research by John, Knyazeva, and Knyazeva¹² suggest that acquirers with strong labor rights experience lower announcement returns, signaling the tension between the interests of employees and shareholders in acquisition scenarios. This indicates that acquisitions often create conflicts between management, who prioritize financial outcomes, and workers, who seek to maintain their jobs and working conditions.

In response to these challenges, Indonesia has seen significant labor law reforms, most notably through the enactment of the Job Creation Law (Law No. 11 of 2020). This law has deregulated key labor policies, increasing labor market flexibility but also reducing protections for workers. The law makes it easier for companies to outsource labor and extend fixed-term contracts, which diminishes workers' job security and access to social protections. As a result, many workers are left in precarious situations, where their employment conditions are less predictable and more easily manipulated by employers. This deregulation has sparked debate about the long-term effects on workers' rights and has raised concerns about the diminishing role of labor unions and the erosion of collective bargaining power.

Despite the existence of labor laws, Indonesia faces significant challenges in effectively protecting workers' rights in the context of acquisitions. One of the key issues is the slow pace of judicial processes, which hampers workers' ability to enforce their rights. Discrepancies between the theoretical regulations outlined in labor laws and their practical implementation further complicate workers' access to justice.¹³ For instance, in cases of company bankruptcy or acquisition, there is often a lack of legal certainty regarding the status of workers' rights, leading to confusion and insecurity among employees. As outlined in the

¹¹ Biglaiser, Glen, and Hoon Lee. "The effects of different entry modes of foreign direct investment on labor rights in the developing world." *Journal of Human Rights* 18, no. 2 (2019): 165-183.

¹² John, Kose, Anzhela Knyazeva, and Diana Knyazeva. "Employee rights and acquisitions." *Journal of Financial Economics* 118, no. 1 (2015): 49-69.

¹³ Niravita, Aprila. "Social Injustice in the Industrial Revolution 4.0." *Indonesian Journal of Advocacy and Legal Services* 1, no. 2 (2020): 163-168.

work of Manning and Roesad¹⁴, there is a need for a more robust legal framework that can better protect workers in the face of corporate restructuring and acquisitions. The absence of clear rules in these situations calls for the development of new legal principles, such as the Francovich Principle, to ensure that the state is held accountable for any harm caused to workers due to inadequate protections during corporate changes.

To address these challenges, it is crucial for workers to strengthen their bargaining power through collective bargaining and the revitalization of trade unions. By reinforcing these organizations, workers can better navigate the post-Job Creation Law landscape and advocate for improved labor protections. The strengthening of labor unions plays an essential role in ensuring that workers are not left vulnerable during the acquisition process. Trade unions have the potential to negotiate better severance packages, job security, and social protections for workers who are affected by acquisitions or corporate restructuring. This is particularly important in a legal environment where individual workers may have limited power to challenge the decisions made by employers.

Moreover, there is a pressing need for the government to improve the legal framework surrounding labor rights, especially in light of the changes introduced by the Job Creation Law.¹⁵ Expedited litigation mechanisms and the reform of existing labor regulations are essential steps toward ensuring that workers' rights are adequately protected in the face of corporate acquisitions. The establishment of a guarantee institution could help ensure that workers receive compensation and benefits, even in cases where a company faces financial difficulties or is undergoing restructuring. Policymakers must also focus on creating new policies that promote decent work, fair treatment, and enhanced social protection for workers involved in corporate acquisitions. These policies should be designed to prevent abuses by employers and provide workers with the tools they need to defend their rights.

The protection of labor rights in Indonesia amid corporate acquisitions remains a complex issue that requires a coordinated approach from the government, labor unions, and policymakers. While labor outsourcing and

¹⁴ Manning, Chris, and Kurnya Roesad. "The Manpower Law of 2003 and its implementing regulations: Genesis, key articles and potential impact." *Bulletin of Indonesian Economical Studies* 43, no. 1 (2007): 59-86.

¹⁵ Nugroho, Arinto, et al. "The impact of labor law reform on Indonesian workers: A comparative study after the Job Creation Law." *Lex Scientia Law Review* 8, no. 1 (2024): 65-106; Risfa Izzati, Nabiyla. "Deregulation in job creation law: The future of Indonesian labor law." *Padjadjaran Jurnal Ilmu Hukum (Journal of Law)* 9, no. 2 (2022): 191-209.

deregulation have weakened workers' positions, it is clear that stronger legal protections and improved collective bargaining mechanisms are necessary to safeguard workers' rights. As evidenced by the changes introduced by the Job Creation Law, the balance between corporate flexibility and worker protection is delicate, and there is an urgent need for reforms that better protect workers from the negative consequences of corporate acquisitions.¹⁶ Strengthening legal frameworks, empowering labor unions, and improving the overall social protection system will be crucial steps in ensuring that workers are not left behind as Indonesia continues to navigate the challenges of globalization and economic development.

This study, therefore, aims to examine the adequacy of Law No. 6 of 2023 in safeguarding workers' rights during mergers and acquisitions. By analyzing relevant legal provisions, case law, and the experiences of workers in Indonesia, this research will highlight the gaps in the legal framework and propose potential reforms. The findings will contribute to ongoing discussions on labor law reform, offering valuable insights for policymakers, legal practitioners, and business leaders. In doing so, this study seeks to ensure that workers' rights are not overshadowed by corporate interests and that legal protections are strengthened to create a more equitable and just labor market in the face of mergers and acquisitions.

This research focuses on analyzing Law Number 13 of 2003 concerning Manpower, specifically regarding the legal protections for workers during company acquisitions. It examines the extent to which the law safeguards workers' rights in these situations, with particular attention to Case Decision Number: 693 K/Pdt.Sus-PHI/2014 and Decision No. 765 K/Pdt.Sus/2011. These cases provide insight into how the law is applied in real-world acquisition scenarios, offering a practical understanding of workers' rights under Indonesian labor law.

The study uses a normative legal research approach, analyzing secondary data from legal texts, case law, and scholarly literature. The research is descriptive in nature, providing a detailed account of how Law Number 13 of 2003 protects workers during corporate acquisitions. It will explore how the law is interpreted and applied in the cases mentioned above, while identifying any gaps in protections for workers and areas where the law might require reform to better address the challenges posed by company acquisitions.

¹⁶ See Tejomurti, Kuku, and Sukarmi Sukarmi. "The Critical Study of the Omnibus Bill on Job Creation Based on John Rawls View on Justice." *Unnes Law Journal* 6, no. 2 (2020): 187-204.

Impact of Company Acquisitions on Employee Status and Rights

The impact of company acquisitions on employee status and rights is a complex issue that affects various facets of employment, including job security, remuneration, and working conditions. One of the key concerns arising from acquisitions is the uncertainty they introduce, which can lead to higher turnover rates, particularly among employees of the acquired company. This heightened uncertainty can be especially pronounced in hostile acquisitions, where the environment becomes more disruptive, further harming employee morale and stability. Moreover, the integration process between the acquiring and acquired companies can be significantly impacted by these antagonistic pre-acquisition circumstances, which may cause cultural clashes and reduce employee retention. Research indicates that employees in startups, for example, experience significantly higher turnover rates compared to regular hires, as they may struggle with a poor fit in the new organizational culture. However, under certain conditions, such as when the organizational structure remains intact or when employees' roles and values align well with the new firm, these turnover rates can be mitigated.¹⁷

The effects on employee wages following an acquisition are also varied. Some studies suggest that acquisitions, particularly those within the same industry, can lead to higher wages and improved profitability. This often occurs when synergies between the firms increase the efficiency of labor usage.¹⁸ On the other hand, private equity acquisitions have been linked to job cuts and wage reductions, as value is frequently redirected from employees to short-term investors, which can undermine long-term organizational sustainability.¹⁹ The power dynamics between the stakeholders—whether new owners or existing employees—play a crucial role in shaping the post-acquisition outcomes. More powerful owners can push for downsizing and resource transfers, which may

¹⁷ Kim, J. Daniel. "Startup acquisitions as a hiring strategy: Turnover differences between acquired and regular hires." *Strategy Science* 9, no. 2 (2024): 118-134.

¹⁸ Conyon, Martin J., et al. "Do wages rise or fall following merger?." *Oxford Bulletin of Economics and Statistics* 66, no. 5 (2004): 847-862.

¹⁹ Goergen, Marc, and Geoffrey Wood. "The employment consequences of private equity acquisitions: The case of institutional buy outs." *European Economic Review* 71 (2014): 67-79.

harm the interests of employees. In contrast, experienced acquirers are better equipped to manage employee resistance, ensuring smoother transitions.²⁰

Employee-friendly practices implemented by acquirers can also significantly influence the success of acquisitions. Firms that adopt such practices tend to see better acquisition performance, with smoother integration and higher completion probabilities. This underlines the importance of maintaining positive employee relations to ensure the long-term success of mergers and acquisitions.²¹ Furthermore, labor protections and the rights of employees can have a significant impact on acquisition outcomes. Strong labor rights often reduce the financial gains of shareholders, indicating a conflict of interest between shareholders and employees.²² Interestingly, acquisitions do not appear to have a disproportionate effect on minority or female workers, suggesting that these groups are not specifically disadvantaged by ownership changes.²³

In sum, the effects of acquisitions on employees are multifaceted and depend on several factors, such as the nature of the acquisition, the power dynamics between stakeholders, and the presence of employee-friendly practices. Understanding these dynamics is essential for managing the human element of mergers and acquisitions effectively. The findings from various studies, such as those examining the impact of post-2008 legislation in South

²⁰ Capron, Laurence, and Mauro Guillén. "National Governance Systems, Stakeholder Power, And Post-Acquisition Dynamics." *Academy of Management Proceedings*. Vol. 2007. No. 1. Briarcliff Manor, NY 10510: Academy of Management, 2007.

²¹ Ertugrul, Mine. "Employee-friendly acquirers and acquisition performance." *Journal of Financial Research* 36, no. 3 (2013): 347-370.

²² John, Kose, Anzhela Knyazeva, and Diana Knyazeva. "Employee rights and acquisitions." *Journal of Financial Economics* 118, no. 1 (2015): 49-69.

²³ Marsh, John, Donald S. Siegel, and Kenneth L. Simons. "Assessing the effects of ownership change on women and minority employees: Evidence from matched employer–employee data." *International Journal of the Economics of Business* 14, no. 2 (2007): 161-178; Putra, Septeryan Dwi Purnomo. "Protection against Indonesian Women Workers." *Lex Scientia Law Review* 3, no. 1 (2019): 79-86. See also Solekhah, Ragil Putri Amalia, and Novita Intan Aina Salsabila. "Protecting Our Migrant Workers from Violence: How the Legal Protection System Works?." *Law Research Review Quarterly* 9, no. 1 (2023): 89-106; Adnyani, Ni Ketut Sari, and I. Wayan Landrawan. "Discrimination on the Right to Get Salary for Women Workers in Indonesia from the Ratification of International Conventions Perspective." *Pandecta Research Law Journal* 18, no. 1 (2023): 123-132; Sulistianingsih, Dewi, Muhammad Shidqon Prabowo, and Martitah Martitah. "How Legal Protection of Women in Home Workers Improving Family Welfare?." *Indonesian Journal of Advocacy and Legal Services* 3, no. 1 (2021): 1-12.

Africa²⁴ or the influence of private equity acquisitions,²⁵ underscore the importance of considering both the immediate and long-term consequences for employees when assessing the overall success of an acquisition.

Furthermore, in the closer context—Indonesian context—the changes in ownership of a company through acquisitions can have a profound and often detrimental impact on employees. One of the most significant consequences is the uncertainty it creates about workers' rights, job security, and employment terms. Workers may be left without updated contracts or clear guidelines regarding their roles, responsibilities, and compensation. This uncertainty is particularly apparent in cases where the acquired company fails to adjust its internal policies or offer clear communication about the changes in employment conditions. The case of *Pambudiarto vs. PT Sarihusada Generasi Mahardhika* is a prominent example of how such uncertainty can lead to prolonged disputes and dissatisfaction for workers, highlighting the lack of legal safeguards for employees during corporate acquisitions.

Pambudiarto, a permanent Nutritional Representative (NR) at PT Sarihusada, found himself in this exact situation when the company was acquired by Danone Group in 2007. Before the acquisition, PT Sarihusada was a public company (Tbk), but after the acquisition, it transitioned to a private company. Despite the significant change in ownership structure, the company did not update its employees' contracts or provide any clear communication about how their employment terms would change. As a result, Pambudiarto and his colleagues were left in a state of uncertainty about their roles and rights in the company. This lack of clarity is a violation of workers' rights, as Article 163 of Law No. 13 of 2003 on Manpower requires that when a company undergoes an ownership change, employees must be informed about whether their contracts will be renewed or terminated and whether any new terms of employment apply.²⁶

²⁴ Biggs, A. K., C. B. Scheepers, and M. M. Botha. "The influence of post-2008 legislation on an acquisition that turned hostile: A South African case study." *South African Journal of Business Management* 48, no. 3 (2017): 47-61.

²⁵ Goergen, Marc, and Geoffrey Wood. "The employment consequences of private equity acquisitions: The case of institutional buy outs." *European Economic Review* 71 (2014): 67-79.

²⁶ Furthermore, this article emphasized that Entrepreneurs may terminate the working relationship with employees in the event of a change in company status, merger, consolidation, or change in ownership, and if the employees are not willing to continue the working relationship. In this case, the employees are entitled to severance pay equivalent to one time the amount stated in Article 156 paragraph (2), gratuity equal to one time the amount stated in Article 153 paragraph (3), and compensation according to

After the acquisition, PT Sarihusada's internal policies also shifted, which further complicated the workers' situations. One of the most noticeable changes was the alteration of employees' job duties, with little or no consultation or agreement between the company and its workers. For example, Pambudiarto, who was initially employed as a Nutritional Representative, was assigned additional duties as a salesman for PT Tigaraksa Satria, a partner distributor of PT Sarihusada. He was tasked with promoting and selling baby formula to midwives, a responsibility that directly conflicted with the government's policy on exclusive breastfeeding. According to Regulation No. 33 of 2012 on Exclusive Breastfeeding, promoting infant formula to healthcare providers goes against the policy that encourages breastfeeding as the primary method of infant nourishment.²⁷ This conflict between company policy and government regulations places workers like Pambudiarto in a precarious position, torn between fulfilling their new responsibilities and adhering to ethical and legal standards.

the provisions in Article 156 paragraph (3) (*Art. 163 (1)*), Entrepreneurs may terminate the working relationship with employees in the event of a change in company status, merger, consolidation, or change in ownership, and if the employees are not willing to accept employment in the new company. In this case, the employees are entitled to severance pay equivalent to one time the amount stated in Article 156 paragraph (2), gratuity equal to one time the amount stated in Article 153 paragraph (3), and compensation according to the provisions in Article 156 paragraph (3) (*Art. 163 (2)*). See Republic of Indonesia, *Law Number 13 of 2003 concerning Manpower [Undang-undang Nomor 13 Tahun 2003 tentang Ketenagakerjaan]*. Available online at <https://jdih.kemnaker.go.id/katalog-27-Undang-undang.html>. See also Rahimy, Aziz. "The Legal Impact of Merger, Acquisition, and Other Corporate Restructuring Activities on Employment Relationship Based on Labor Law in Indonesia After the Enactment of the Job Creation Law." *Polit Journal Scientific Journal of Politics* 3, no. 3 (2023): 150-159; Tobing, Christina NM. "Hak Pekerja Pasca Perusahaan Diakuisisi." *Jurnal Ilmiah Kohesi* 7, no. 3 (2023): 222-228; Tobing, Christina NM, Sryani Br Ginting, and Hasnul Arifin Melayu. "Analysis of Labor Rights After the Job Creation Law in Perspective of Human Rights." *Jurnal Hukum dan Peradilan* 12, no. 1 (2023): 97-128.

²⁷ See Republic of Indonesia. *Regulation No. 33 of 2012 on Exclusive Breastfeeding [Peraturan Pemerintah Republik Indonesia Nomor 33 Tahun 2012 Tentang Pemberian Air Susu Ibu Eksklusif]*. Available online at https://apiyca.org/wp-content/uploads/2014/01/Indonesia_Government-Regulation-no-33-year-2012.pdf. See also Siregar, Marni, and Hetty WA Panggabean. "Legal Protection for Health Workers Towards the Implementation of Government Regulation No. 33 of 2012 concerning Exclusive Breastfeeding on Infants with Post Sectio Caesarea Mothers." *Babali Nursing Research* 2, no. 3 (2021): 139-153; Wachidah, Lilis Qomariyah Nur. "The Legal Liability of The Government and Employers in the Exclusive Breastfeeding Program." *YURISDIKSI: Jurnal Wacana Hukum dan Sains* 15, no. 2 (2020): 99-107.

Furthermore, workers like Pambudiarto were also faced with unexpected financial burdens. As the company reorganized, employees were often left with debts owed to distribution companies, adding to the workload and financial stress. These issues were compounded by a lack of adequate response from the company to the workers' complaints. Pambudiarto raised these concerns with the management, but his complaints were ignored. Instead of offering solutions or acknowledging the workers' concerns, the company presented employees with two extreme options: accept the new, burdensome working conditions or resign. This lack of fair dialogue or reasonable accommodation led to further frustration among employees, with many feeling coerced into making difficult decisions without a proper forum for dispute resolution.

In light of these conditions, Pambudiarto sent a letter to the company in October 2012, outlining his grievances and formally requesting the company to consider a layoff, provided that he received compensation in accordance with the relevant labor regulations. This letter was not a resignation; rather, it was a request for the company to offer a fair severance package in light of the untenable working conditions. However, the company misinterpreted the letter as a resignation and, in March 2013, issued a layoff decree, asserting that Pambudiarto had voluntarily resigned. This misinterpretation of Pambudiarto's letter became the central issue in the subsequent legal battle.

Pambudiarto filed a lawsuit with the Central Jakarta Industrial Relations Court (*Pengadilan Hubungan Industrial*, PHI), arguing that the company had wrongly construed his letter as a resignation and that he had not voluntarily terminated his employment. He emphasized that, under Articles 162 and 163 of Law No. 13 of 2003, a valid resignation requires a clear, written request from the worker, submitted at least 30 days before the effective resignation date. In this case, Pambudiarto had not made such a request, and he had continued working for several months after submitting his letter. This indicated that the employment relationship was still intact. Pambudiarto also argued that the company had failed to pay wages during the suspension period, a violation of labor regulations that require wages to be paid even when a worker is not actively working.

The Central Jakarta Industrial Relations Court, however, ruled that Pambudiarto had voluntarily resigned, stating that his letter was a resignation letter. The court also found that the company had provided compensation in accordance with the law and rejected Pambudiarto's request for reinstatement. The court's decision was based on the assumption that the resignation was initiated by the worker, rather than by the company's unilateral actions. Dissatisfied with the ruling, Pambudiarto appealed the decision to the Supreme

Court. In his cassation application, Pambudiarto argued that the Industrial Relations Court had misinterpreted his letter and that the application of Articles 162 and 163 of the Labor Law was erroneous.

In response, the Supreme Court upheld the decision of the Industrial Relations Court, agreeing that Pambudiarto's resignation was voluntary. The Court reasoned that the worker had expressed his unwillingness to continue working in the new post-acquisition environment, thus eliminating the need for further compensation as in the case of a layoff. This decision underscores a critical issue in the legal framework surrounding industrial disputes: the challenge of distinguishing between voluntary resignation and coerced resignation due to deteriorating working conditions. The case highlights the need for clearer regulations regarding the termination process in the context of corporate acquisitions.

The core issue in this case was the interpretation of the letter that Pambudiarto sent to the company. From the worker's perspective, the letter was not a resignation but a formal request for the company to consider a fair layoff with compensation. However, the company interpreted it as a resignation letter, thereby denying Pambudiarto the right to receive a higher severance package. The legal framework for resignation, as outlined in Article 162 of the Labor Law, stipulates that a resignation must meet certain conditions, including a clear, written statement from the worker and a 30-day notice period. In this case, Pambudiarto's letter did not explicitly meet these criteria, yet the company's misinterpretation led to a wrongful denial of his rights.

From a broader legal perspective, the case highlights a significant gap in the protection of workers' rights during company acquisitions. The lack of clarity regarding employment contracts and the failure of the company to provide clear communication about changes to terms of employment is a recurring issue in acquisition scenarios. Workers are often left vulnerable in such situations, with limited recourse to protect their rights. The Manpower Law itself does not adequately address the complexities of post-acquisition employment relationships, particularly when companies fail to provide updated contracts or clearly communicate policy changes.

Therefore, Pambudiarto case underscores the need for stronger legal protections for workers during company acquisitions. The lack of clarity regarding employment terms, misinterpretations of resignation letters, and the failure of companies to address workers' concerns or offer fair compensation all contribute to the prolonged disputes and dissatisfaction that often follow corporate acquisitions. This case serves as a powerful reminder of the need for more robust regulations to protect employees during such transitions, ensuring

that workers' rights are upheld and that they are not left vulnerable due to ambiguous employment terms and unclear corporate policies.

Legal Interpretation and Compensation Rights in the Context of Acquisitions

Mergers and acquisitions (M&A) are significant corporate events that can lead to substantial changes in the workforce structure, particularly through layoffs, restructuring, and the redefinition of roles. From a legal perspective, the process of acquisition often brings with it a host of legal and financial considerations, especially for employees who may be affected by these organizational shifts. In Indonesia, as in many jurisdictions, the legal framework governing the rights of employees in the context of acquisitions is complex and requires a nuanced understanding of both labor laws and corporate governance.

In Indonesia, employees have certain limitations in rejecting layoffs resulting from corporate restructuring or changes in ownership. Under Indonesian labor law, if an acquisition is conducted in accordance with the prevailing laws and regulations, layoffs are typically considered legally valid. However, this assumes that the company follows the required legal process, which includes notifying and consulting with the workers' organization or union in advance, providing proper severance packages, and ensuring that all legal obligations are met. Layoffs aimed at increasing organizational efficiency or downsizing can be legally justified if conducted with proper adherence to these rules.²⁸

The key legal framework governing labor rights in the context of mergers and acquisitions in Indonesia is found in the Manpower Law (Law No. 13 of 2003), and more recently, the Job Creation Law (Law No. 11 of 2020). According to Article 163 of the Manpower Law, a change in the ownership of a company does not automatically terminate the employment agreement, unless both parties—employer and employee—agree otherwise. This means that even if an acquisition takes place, employees may continue their employment with the new owner unless they explicitly choose to resign. However, should the employee decide not to continue the employment relationship due to the acquisition, this decision is treated as a resignation, not as a termination

²⁸ See Putra, I. Putu Rasmadi Arsha, I. Ketut Tjukup, and Dewa Gede Pradya Yustiawan. "Legal protection of labor in employment for termination of employment due to the acquisition of the company." *Substantive Justice International Journal of Law* 3, no. 1 (2020): 36-55.

initiated by the employer, which affects the employee's compensation entitlement.²⁹

In cases where the acquisition results in layoffs or if employees are unwilling to continue working under the new ownership, they are entitled to severance pay and other benefits as stipulated by the Manpower Law. If the termination occurs due to the change in ownership or restructuring, severance pay can be higher, as it is typically calculated based on the length of service, salary, and other factors. Under Article 156 of the Manpower Law, employees laid off due to acquisition-related reasons are entitled to severance pay equivalent to two times the amount provided under standard circumstances.³⁰ However, if an employee chooses to resign, as was the case in the legal dispute between Pambudiarto and PT. SGM, severance pay is reduced to one time the prescribed amount under Article 156.

The case of Pambudiarto v. PT. SGM highlights the tension between employee rights and corporate restructuring in the context of acquisitions. In this case, Pambudiarto was an employee who did not have any authority to influence company management decisions, including those related to company ownership or acquisitions. The company, PT. SGM, exercised its right to restructure, including altering employee job roles and responsibilities. The court in this case interpreted Pambudiarto's resignation as voluntary, thereby limiting his entitlement to severance pay to only one time the amount specified in Article 156, as opposed to the higher amount that would have applied if it had been considered a layoff. This case underscores the critical legal distinction between resignation and termination in the context of acquisitions and highlights how employee compensation is directly impacted by this classification.³¹

²⁹ Farida, Ike. "Recent Development of Legal Framework of Labor Law in Indonesia." *The 4th JILPT Tokyo Comparative Labor Policy Seminar*. Vol. 5. 2020; Amengual, M., and L. Chiot. "Reinforcing the state: transnational and state labor regulation in Indonesia." *Industrial and Labor Relations Review* 69, no. 5 (2016): 1056-1080.

³⁰ See Johan, Afif, Ramlani Lina, and Marni Emmy Mustofa. "Perlindungan Hukum Terhadap Hak Pekerja dalam Perusahaan Melakukan Corporate Action Merger dan Akuisisi." *Prosiding Ideas Publishing* (2023). See also Izzulhaq, Muhammad Hafizh. "Hak Upah Pekerja Atas Perusahaan Pailit: Disharmonisasi Peraturan Undang-Undang Pasca Undang-Undang Cipta Kerja." *Jurnal Kertha Semaya* 12, no. 1 (2023): 3121-3133.

³¹ See Batjo, Nurdin. "Pengunduran Diri Karyawan pada PT. Sarihusada Generasi Mahardika (Studi Kebijakan Hukum Ketenagakerjaan)." *Al-Amwal: Journal of Islamic Economic Law* 7, no. 1 (2022): 1-27; Prameswari, Karina, and Emi Puasa Handayani. "Pengaturan Pemutusan Hubungan Kerja Antara Karyawan dengan Perusahaan." *Mizan: Jurnal Ilmu Hukum* 7, no. 1 (2020): 99-112.

The legal challenges faced by workers during an acquisition process in Indonesia are compounded by the introduction of the Job Creation Law. One of the most significant changes brought about by this law is the reduction in severance pay for employees who are laid off due to company restructuring or acquisitions. Before the enactment of the Job Creation Law, severance pay could be as high as two times the amount specified under Article 156 of the Manpower Law. However, under the new regulations, severance pay is capped at a single provision of the law, effectively reducing the financial protection available to workers. This change, while providing companies with more flexibility in layoffs, has resulted in fewer protections for employees, leaving them in a vulnerable position when facing job loss due to acquisitions.³²

Additionally, the Job Creation Law has simplified the process for companies to carry out layoffs. Previously, companies could only lay off employees after obtaining approval from the court if the employee did not agree to the termination. Under the new legal framework, companies have greater autonomy to implement layoffs, including during mergers and acquisitions. This shift in policy weakens the position of workers, as it reduces their ability to contest layoffs in court or negotiate more favorable severance terms. The introduction of bipartite negotiations and mediation as a mechanism for dispute resolution may help resolve conflicts more quickly, but workers without legal support or bargaining power remain at a disadvantage.³³

The Pambudiarto case also reflects a broader concern regarding the imbalance of power between workers and corporate management during acquisitions. As employees in Indonesia generally do not hold decision-making

³² See Aryani, Nyoman Mas, Ayu Putu Laksmi Danyathi, and Bagus Hermanto. "Quo Vadis Protection of The Basic Rights of Indonesian Workers: Highlighting the Omnibus Legislation and Job Creation Law." *Pandecta Research Law Journal* 17, no. 1 (2022): 104-120.

³³ The new legal framework in Indonesia, allowing companies greater autonomy in layoffs during mergers and acquisitions, weakens workers' rights. Despite Constitutional Court decisions aiming to protect workers, reduced ability to contest layoffs or negotiate severance terms leaves them vulnerable, especially without legal support or bargaining power in mediation. See also Palguna, I. Dewa Gede, et al. "Indonesia's Constitutional Court Decisions on Outsourcing Scheme: Balancing Protection and Efficiency?." *Journal of Indonesian Legal Studies* 8, no. 2 (2023): 405-452; Tomayahu, Nova Septiani, and Dedi Sumanto. "Legal Implications for Home-Based Workers Following the Judicial Review Decision of the Constitutional Court of the Republic of Indonesia." *The Indonesian Journal of International Clinical Legal Education* 6, no. 1 (2024): 49-80; Arifin, Saru. "Illiberal tendencies in Indonesian legislation: the case of the omnibus law on job creation." *The Theory and Practice of Legislation* 9, no. 3 (2021): 386-403.

power regarding company strategy, including acquisitions, they are often left in a subordinate position when their company undergoes significant ownership changes. Workers in these situations have limited options but to accept the terms dictated by the new owners, especially when they have no control over the decisions being made at the corporate level. In this context, it is essential that employers adhere to fair practices, provide adequate compensation, and engage in transparent communication with employees throughout the acquisition process.

The role of workers' organizations or trade unions becomes critical during acquisitions. The law requires that workers' organizations be consulted before any major changes are made, including layoffs or changes to working conditions. Employers must ensure that they engage with workers' organizations in a timely and meaningful way, offering employees an opportunity to voice their concerns and negotiate terms that are fair and reasonable. These organizations are vital in advocating for workers' rights and can help prevent exploitation or unjust treatment during the acquisition process.

From a corporate governance perspective, companies undergoing acquisitions must also consider the long-term implications of their actions on employee morale, job security, and overall organizational welfare. While the acquisition may present financial benefits for the company, it is essential to prioritize the well-being of employees, especially when layoffs are necessary. Offering fair compensation packages, transparent communication, and career support programs can help mitigate the negative impact of layoffs and maintain a positive relationship with the workforce. Employers who fail to consider these aspects risk damaging their reputation and reducing employee loyalty, which could hinder their long-term success.

The legal landscape surrounding mergers, acquisitions, and employee rights in Indonesia has evolved significantly with the introduction of the Job Creation Law. While the law has made it easier for companies to carry out layoffs, it has also diminished the protections available to workers, especially in cases of company acquisition. This creates a need for stronger legal safeguards for workers, as well as greater attention to the social welfare principles that should apply post-acquisition. Ensuring fair compensation, transparent communication, and the security of employment after an acquisition are crucial elements that must be carefully considered by both employers and employees in this increasingly complex legal environment.

Therefore, while mergers and acquisitions can be beneficial for corporate growth, they also present significant challenges for employees who may be

negatively impacted by the process. In Indonesia, the legal system provides some protections, but workers remain vulnerable, especially in light of recent changes in labor regulations. As the law evolves, it is critical that both employers and employees understand their rights and responsibilities within this framework, ensuring that workers are treated fairly and with respect throughout the acquisition process.

Conclusion

In conclusion, while mergers and acquisitions offer business growth opportunities, they often leave workers vulnerable, particularly regarding employment status and the protection of their rights. This case highlights the challenges workers face, especially the uncertainty surrounding their employment status post-acquisition. Clear regulations are essential to ensure that changes in corporate ownership do not create confusion about workers' rights and obligations. Legal mechanisms should guarantee workers' rights through official statements, new contracts, and protection for long-serving employees. Clarity in these areas will help prevent disputes between workers and companies, reducing conflicts in industrial relations.

Additionally, the protection of workers' rights, particularly concerning severance pay and wage processes, must be a priority. Workers who lose their jobs due to ownership changes are entitled to fair compensation, but discrepancies in the interpretation of layoffs and resignations often lead to disputes over compensation. Strengthening legal frameworks is necessary to ensure that decisions about layoffs and severance pay are fair and not based solely on the company's perspective. The changes introduced by the Job Creation Law (Law No. 11 of 2020), such as reducing severance pay and easing the process for layoffs, may further weaken worker protections. Thus, effective government oversight, along with a stronger role for trade unions, is crucial to safeguard workers' interests during corporate transitions and prevent the erosion of their rights.

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*Our needs are identical with labor's needs.
Decent wages, fair working conditions,
livable housing, old-age security, health and
welfare measures, conditions in which
families can grow, have education for their
children and respect in the community.*

Martin Luther King Jr.

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