P-ISSN: 2338-8617
E-ISSN: 2443-2067

Jurnal Ilmiah PEURADEUN

Vol. 12, No. 3, September 2024

SCAD Independent
Accreditation by IAO since 2014

JIP
The Indonesian Journal of the Social Sciences
www.journal.scadindependent.org
DOI Prefix Number: 10.26811

INDEX COPERNICUS INTERNATIONAL

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JURNAL ILMIAH PEURADEUN
The Indonesian Journal of the Social Sciences
p-ISSN: 2338-8617/ e-ISSN: 2443-2067
www.journal.scadindependent.org

Vol. 12, No. 3, September 2024
Pages: 1237-1262

Legal Transformation of Trading Businesses into Individual Limited Companies for Indonesian Micro and Small Enterprises

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Article *in* Jurnal Ilmiah Peuradeun

Available at : https://journal.scadindependent.org/index.php/jipeuradeun/article/view/1477
DOI : https://doi.org/ 10.26811/peuradeun.v12i3.1477

How to Cite this Article

APA : Yani, T.A., Kurniawan, A., Mahfud, M., Hamdi, S., & Sautunnida, L. (2024). Legal Transformation of Trading Businesses into Individual Limited Companies for Indonesian Micro and Small Enterprises. *Jurnal Ilmiah Peuradeun*, *12*(3), 1237-1262. https://doi.org/10.26811/peuradeun.v12i3.1477

Others Visit : https://journal.scadindependent.org/index.php/jipeuradeun

Jurnal Ilmiah Peuradeun (JIP), *the Indonesian Journal of the Social Sciences,* is a leading peer-reviewed and open-access journal, which publishes scholarly works, and specializes in the Social Sciences that emphasize contemporary Asian issues with interdisciplinary and multidisciplinary approaches. JIP is published by SCAD Independent and published 3 times a year (January, May, and September) with p-ISSN: 2338-8617 and e-ISSN: 2443-2067. JIP has become a CrossRef member. Therefore, all articles published will have a unique DOI number. JIP has been accredited Rank 1 (Sinta 1) by the Ministry of Education, Culture, Research, and Technology, the Republic of Indonesia, through the Decree of the Director-General of Higher Education, Research, and Technology No. 72/E/KPT/2024, dated April 1, 2024. This accreditation is valid until the May 2027 edition.

JIP indexed/included in Web of Science, Scopus, Sinta, MAS, Index Copernicus International, Erih Plus, Garuda, Moraref, Scilit, Sherpa/Romeo, Google Scholar, OAJI, PKP, Index, Crossref, BASE, ROAD, GIF, Advanced Science Index, JournalTOCs, ISI, SIS, ESJI, SSRN, ResearchGate, Mendeley and **others**.

Jurnal Ilmiah Peuradeun

The Indonesian Journal of the Social Sciences

doi: 10.26811/peuradeun.v12i3.1477

Publisher: SCAD Independent

Printed in Indonesia

Jurnal Ilmiah Peuradeun

Vol. 12, No. 3, September 2024

Pages: 1237-1262

LEGAL TRANSFORMATION OF TRADING BUSINESSES INTO INDIVIDUAL LIMITED COMPANIES FOR INDONESIAN MICRO AND SMALL ENTERPRISES

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Received: January 29, 2024	**Accepted:** August 8, 2024	**Published:** September 30, 2024
Article Url: https://journal.scadindependent.org/index.php/jipeuradeun/article/view/1477		

Abstract

This study discusses the transformation from a Trading Business (UD) to an Individual Limited Company (PT Perorangan) as an effort to empower micro and small enterprises in Indonesia. In the context of corporate law, this transformation provides a strong legal basis and good corporate governance, enabling a Trading Business to obtain legal entity status as well as broader access to funding sources and legal protection. Utilizing a normative legal research approach, this study analyzes related legislation and assesses its impact on the sustainability of micro and small enterprises. The findings indicate that this transformation not only enhances legal certainty but also offers opportunities for companies to grow more professionally and sustainably. Moreover, the obligation to report financial documents digitally increases transparency and trust among business partners. The findings of this study are expected to make a significant contribution to the literature on empowering small businesses and encourage the government to continue supporting the transformation of Trading Businesses into Individual Limited Companies as part of an inclusive economic development strategy.

Keywords: *Transformation; Trading Business; Individual Limited Company; Empowerment.*

A. Introduction

Transformation is a process of change that is a divine decree and an integral part of human life (Nasukah & Winarti, 2021). This change encompasses various aspects of life, ranging from education to commerce. In the field of education, there has been a transformation from the conventional system to a digital system, a shift that supports modernization and efficiency in education (Nkedishu & Okonta, 2023). Meanwhile, in commerce, the change from traditional systems to modern systems has been accelerated by technological advancements, allowing for greater efficiency and broader reach (Nazaruddin et al., 2023; Nadhiroh & Wardani, 2023).

Transformation also occurs in corporate law, particularly in the structure of corporate organization. The change from an organization of a company as an individual legal subject to an incorporated legal subject illustrates an evolution in legal theory that asserts that legal subjects are not only humans but also legal entities (Fahmi et al., 2024; Robé, 2011). This division of legal subjects has significant implications in corporate law, offering the public a choice between non-corporate entities and corporate entities. The law provides opportunities for company owners to transform from one form of company to another, facilitating flexibility and adaptation in a dynamic business environment (Cole & Sokolyk, 2011; Fahmi et al., 2024).

One significant transformation is the change from a Trading Business (UD) to an Individual Limited Company, which is recognized as a legal entity. This transformation is supported by government legal policies aimed at empowering micro and small enterprises. Although UD is already recognized in trade practices, the absence of regulations supporting the sustainability and development of community business activities creates a need for this transformation (Mayasari et al., 2017; Yahya et al., 2023). According to the progressive legal perspective of Professor Satjipto Rahardjo, the transformation of UD into an individual limited company is a progressive step in empowering micro and small businesses in Indonesia (Khalimy et al., 2023).

The transformation in the business world, as explained above, is a reasonable and even highly recommended step to ensure the sustainability and development of a business (Cole & Sokolyk, 2011). In this context, the transformation from a Trading Business (UD) to an Individual Limited Liability Company (PT) is not only driven by legal and economic aspects but also by the spiritual values underlying Islamic teachings. Allah command in QS. Ar-Ra'du [13]: 11 emphasizes the importance of proactive efforts in achieving change and progress, where humans are required to change their own circumstances before expecting change from God. Therefore, this transformation is not only a legal and business instrument but also a form of actualizing individual responsibility in developing a better business (Alidar et al., 2023; Luu & Ngo, 2019). This transformation also allows companies to more easily adapt to the demands of a dynamic global market while still upholding the religious values that guide them in conducting business (Ayumiati et al., 2024).

Based on Law Number 6 of 2023 concerning the Stipulation of Government Regulation in Lieu of Law Number 2 of 2022 on Job Creation as Law (Job Creation Law), the Individual Limited Liability Company (*PT Perorangan*) is a new legal entity form offered by the Government of the Republic of Indonesia as an effort to strengthen the position of micro and small enterprises. This step aligns with Caroline's view (Maksum et al., 2022; Reeg, 2013; Tottoli, 2023), which explains that successful business empowerment can be achieved through the transformation from informal to formal enterprises by ensuring that the business is registered and complies with all applicable legal requirements.

From a legal perspective, the legal subject of a Trading Business (UD) in agreements is its owner, which theoretically categorizes UD as a sole proprietorship owned and operated by a single individual (Mayasari et al., 2017). Meanwhile, the principle of the Individual Limited Liability Company also refers to a business owned by an individual; however, the key difference lies in the legal status granted by law (Dewey, 1926), where the *PT Perorangan* is formally recognized as a company with full legal legitimacy.

The transformation from UD to *PT Perorangan* is a government strategy to professionalize and legalize individual-owned businesses, enhancing their access to legal services and providing certainty in business operations

(Mutmainah, 2015; Rasyidi, 2022). This transformation is crucial as it affects the wealth of UD owners and ensures the continuity of previous agreements under the new *PT Perorangan* status (Herlina, 2023). Legally, it creates a new legal entity, marking a vital step in empowering micro and small enterprises by maintaining business continuity (Deakin, 2012). Key aspects for further study include the transformation process from UD to *PT Perorangan* and its role as a primary strategy for empowering these businesses.

This study aims to establish a legal framework for transforming Trading Businesses (UD) into Individual Limited Liability Companies (*PT Perorangan*), guiding the empowerment of micro and small enterprises. Such empowerment, exemplified by China and India, significantly contributes to economic growth by fostering entrepreneurial development and business innovation (Government of India & Ministry of Micro, 2023; Jiang & Kim, 2020). This research not only enriches academic understanding but also offers practical strategies for UD owners to evolve into legally recognized entities. This transformation is expected to facilitate access to legal services, capital, and expansion opportunities, thereby boosting the global competitiveness of Indonesia's micro and small businesses.

This study examines the transformation from Sole Proprietorships (UD) to Individual Limited Companies (*PT Perorangan*) under the Job Creation Law. Key literature suggests that a strong legal system supports the establishment of businesses with limited liability protections to safeguard investors (Djankov et al., 2003; Easterbrook & Fischel, 1985). Other studies highlight differences in risk and legal protection between UD and PT, emphasizing the importance of selecting the appropriate legal structure to minimize barriers to starting a business (Johan & Ariawan, 2022; P. Jones et al., 2014; S. R. Jones, 1997). Amit & Schoemaker add that formalized planning can enhance strategic options and support long-term growth (Amit & Schoemaker, 1993).

This research offers a new perspective on the benefits of legal status changes for small business owners, such as strengthening legal certainty and facilitating access to legal services. Additionally, this study provides practical recommendations and underscores how legal changes can support the sustainability of small businesses in Indonesia, filling a gap in the literature with a framework for understanding and effectively implementing this legal transformation.

B. Method

This study employs a normative legal research approach, commonly referred to as doctrinal research (Benuf & Azhar, 2020). It incorporates both primary and secondary legal materials to construct a comprehensive analysis of legislation concerning private limited liability companies, with a particular focus on their role in empowering micro and small businesses in Indonesia (Sagir, 2009).

Primary legal materials include relevant laws and regulations, which are analyzed to explore the conceptual framework of transforming trading units into individual limited companies. This transformation is crucial for enhancing the productivity and independent income generation of the Indonesian populace. Secondary legal materials, consisting of scholarly books and journal articles pertinent to the research topic, support the primary data to ensure a robust analysis.

The research methodology is designed to analyze and narrate legal materials both prescriptively, outlining what the laws stipulate (Muhaimin, 2020), and applicably, demonstrating how these laws are implemented in practical scenarios (Marzuki, 2017). This dual approach allows for a detailed exploration of how transformed trading units maintain asset and liability certainty and provide protection for creditors. This methodology not only elucidates the legislative framework but also underscores the practical implications of legal transformations in the business sector. This comprehensive approach ensures that the study provides a thorough understanding of the legal landscape and its practical impacts on micro and small businesses in Indonesia.

C. Result and Discussion

The following section will present the results of a normative study on the transformation of trading units into Individual Limited Companies in

Indonesia. By integrating primary and secondary legal data, this analysis aims to clarify how regulatory changes support the empowerment of micro and small enterprises, as well as their impact on enhancing productivity and economic independence. This explanation will be accompanied by an in-depth discussion on the implications of these findings for the assets and liabilities of transformed businesses and the protection provided to creditors, thus offering a broader understanding of the current legal dynamics and their application in the contemporary socio-economic context.

1. The Development of Corporate Law in Indonesia

The legal framework for business entities in Indonesia has evolved significantly with amendments such as the Job Creation Law modifying Law Number 40 of 2007 on Limited Liability Companies, which explicitly recognizes these entities as legal subjects. Likewise, cooperatives are affirmed as legal entities in Article 9 of Law Number 25 of 1992, and Regional Public Companies under Government Regulation Number 54 of 2017 concerning Regional-Owned Enterprises (BUMD).

Additionally, the legal environment acknowledges non-corporate entities like General Partnerships and Limited Partnerships which, according to Prasetya are not required to formalize through authentic deeds (Karjoko et al., 2021; Prasetya, 2002). Nonetheless, restrictions exist where only certain legal entities, such as Limited Liability Companies, Cooperatives, or Regional Companies, are permitted to operate in specific business sectors like banking (Law Number 7 of 1992) and public transportation (Law Number 22 of 2009), requiring firms to adapt to these legal forms to comply with regulatory standards.

In practice, Sole Proprietorships (UDs) are commonly recognized by their nomenclature without specific legal formalities, arising as startups seek to avoid the bureaucracy of legal entity formation, often managed within family settings. The legal recognition for UDs largely comes from the Law Number 3 of 1982 on Mandatory Company Registration, categorizing them as entrepreneurs.

Moreover, Indonesian legislation categorizes companies based on assets, established by Law No. 9 of 1995 on Small Businesses and maintained under the Job Creation Law. This categorization divides enterprises into micro, small, and medium enterprises, detailed further in Government Regulation Number 7 of 2021 concerning the Empowerment of Cooperatives and Micro, Small, and Medium Enterprises. Micro-enterprises are those with a capital up to IDR 1 billion, excluding land and building assets; small enterprises from IDR 1 to 5 billion, and medium enterprises from IDR 5 to 10 billion.

Empowering micro and small enterprises is strategic for economic stimulation and community welfare improvement, given their role in job creation and investment (Piza et al., 2016). Despite the challenges of sustainability linked to the proprietor's lifespan, UDs are pivotal in this sector. Survey results indicate that while 88% of private national companies are single-owned, only 5% persist to the fourth generation (Oetomo, 2015).

In terms of business structure, individual enterprises dominate, comprising 99.52% of all businesses. Comparatively, a minor fraction adopts the corporate form, with micro and small enterprises structured as limited companies accounting for merely 0.06%, and cooperatives even less. The Federation of Trading Partnership and foundations represent minor portions as well (Faizi, 2023; Wiwoho et al., 2023). Lastly, the Central Bureau of Statistics published the Micro and Small Industry Profile for the year 2022 on October 27, 2023. The profile provides a detailed breakdown of business types and sizes, essential for understanding the distribution and economic impact of these enterprises. The information from this publication is presented in the following table:

Table 1. Number of Companies in the Form of Legal Entity in the Province

Province	Limited Companies (PT)	Limited Partnership (CV)	Cooperative	Foundation	Non-Enterprises	Total
Aceh	-	211	54	-	108.233	108.498
Sumatera Utara	2	252	45	50	102.563	120.914
Sumatera Barat	7	393	128	31	87.325	87.884

Province	Limited Companies (PT)	Limited Partnership (CV)	Cooperative	Foundation	Non-Enterprises	Total
Riau	-	270	-	-	46.216	46.486
Jambi	-	163	-	-	32.832	32.995
Sumatera Selatan	56	75	12	-	73/913	74.056
Bengkulu	-	188	-	-	18.601	18.789
Lampung	36	139	23	-	84.335	84.533
Kep. Bangka Belitung	2	95	12	6	19.064	19.179
Kepulauan Riau	64	222	21	-	16.732	17.039
DKI Jakarta	277	1.001	120	19	53.746	55.163
Jawa Barat	916	3.059	31	27	663.762	667.795
Jawa Tengah	55	2.274	248	10	889.521	892.108
DI Yogyakarta	46	250	-	66	123.210	123.572
Jawa Timur	211	2.996	107	59	871.124	874.497
Banten	470	1.734	120	-	100.035	102.359
Bali	125	250	-	10	150.081	150.466
NTB	5	257	64	-	108.901	109.227
NTT	18	107	-	-	167.877	168.002
Kalimantan Barat	4	206	26	2	38.866	39.124
Kalimantan Tengah	8	208	23	-	23.713	23.952
Kalimantan Selatan	11	286	4	8	54.219	54.528
Kalimantan Timur	-	365	47	3	23.809	26.224
Kalimantan Utara	-	104	-	3	5.247	5.354
Sulawesi Utara	64	279	11	15	43.939	44.308
Sulawesi Tengah	-	78	-	-	88.501	88.579
Sulawesi Selatan	146	868	35	19	128.611	129.679
Sulawesi Tenggara	-	152	-	-	44.301	44.453
Gorontalo	-	123	60	42	30.878	31.103
Maluku	24	6	-	-	27.862	27.892
Sulawesi Barat	-	30	-	-	33.583	33.613
Maluku Utara	17	18	-	17	16.028	16.080
Papua Barat	11	55	-	6.207	6.207	6.273
Papua	5	90	30	-	14.379	14,504

Province	Limited Companies (PT)	Limited Partnership (CV)	Cooperative	Foundation	Non-Enterprises	Total
Indonesia	2.580 (0,06%)	16.084 (0,39%)	1.221 (0.03%)	387 (0,01%)	4.318.236 (94,52%)	4.339.228 (100%)

Source: Biro Pusat Statistik, 2023

The Job Creation Law represents a significant step forward in the evolution of Indonesia's corporate law by introducing the concept of individual or personal companies (Trinanda et al., 2022). This legal innovation targets the micro and small enterprise sector, which is crucial for the nation's economic fabric. The emergence of the individual limited company under the new Indonesia Company Law is a progressive development designed to bolster the capabilities of these enterprises, enabling them to thrive in a competitive market (Kristiyanto, 2020; Laila & Abdullah, 2022).

The new legislation is characterized by its responsive nature, reflecting a progressive approach that seeks to adapt to the needs of a dynamic economic landscape (Mustafid et al., 2024; Rahardjo, 2006). This approach is particularly pertinent given the vast number of micro and small enterprises across Indonesia, engaging in diverse business activities from food vending and home industries such as tailoring, to the manufacture of shoes and bags, as well as service-oriented ventures like workshops, computer services, and hairdressing salons.

The creation of individual limited companies is a response to the pressing need for legal frameworks that support the unique challenges faced by these small-scale entrepreneurs. Such enterprises form the backbone of local economies, providing livelihoods for millions and contributing significantly to regional development. The Job Creation Law serves as a responsive legal product that not only aligns with but also enhances the justice system by meeting the community's expectations and addressing their specific needs (Mahfud MD, 2009; Trinanda et al., 2022; Widjaja et al., 2023).

Functionally, the law is designed to reflect and cater to the aspirations of the communities it aims to support. By incorporating provisions that resonate with the conditions and challenges encountered by micro and small businesses, the law not only legislates but also empowers, fostering an environment where these enterprises can secure their operations and grow sustainably. This legislative direction is an acknowledgment of the vital role that micro and small businesses play in the broader economic and social landscape of Indonesia, making it a pivotal element in the nation's ongoing development strategy.

2. The Pattern of UD Transformation to Individual Limited Company

The introduction of the individual limited company in the Indonesian Company Law, significantly reformed by the Job Creation Law, represents a progressive legal advancement aimed at empowering micro and small businesses (Kristiyanto, 2020). As stipulated in Article 2 paragraphs (2) and (3) of the Minister Regulation, there are now two classifications of limited liability companies: the capital partnership company and the individual limited company. The capital partnership company is a legal entity formed based on an agreement, conducting business activities with authorized capital entirely divided into shares, while the individual limited company is designed specifically for micro and small businesses, meeting the criteria set out in the relevant regulations.

This development in corporate forms follows the provisions of Articles 153A and 153E of the Company Law, as amended by the Job Creation Law, which mandates that any limited liability company established must meet the criteria for SMEs (Small and Medium Enterprises). The establishment of an individual limited liability company is conditional upon several factors: firstly, fulfilling the SME criteria; secondly, it must be based on a declaration of establishment; thirdly, it should have a clear purpose and objective; fourthly, it must engage in business activities; fifthly, possess authorized capital; and sixthly, it includes other relevant information for the establishment of the company (Wijayatma et al., 2021).

The registration process for transforming a Sole Proprietorship (UD) into an individual limited company involves several specific steps. First, the entrepreneur must submit a declaration of establishment that includes key details such as business objectives, authorized capital, and the structure of ownership. According to Article 7 of Government Regulation No. 8 of 2021, the entrepreneur must clearly specify the assets from the UD that will be used as capital in the individual limited company. These assets must be evaluated and documented to ensure they meet the legal requirements for capital contribution.

Once the declaration is complete, it must be submitted to the Ministry of Law and Human Rights through the Online Single Submission (OSS) system, a government platform designed to streamline business registration processes. The submission must include the entrepreneur's identity, company name, business address, and business activity details, as well as the capital structure. The OSS system facilitates the quick processing of these applications, reducing bureaucratic hurdles that have traditionally slowed down the establishment of businesses.

After submission, the Ministry of Law and Human Rights reviews the application. If all requirements are met, the company will be issued a certificate of establishment, officially granting it legal entity status. The issuance of this certificate is a critical step, as it distinguishes the new entity from its previous form as a UD. The new company must also register with tax authorities to obtain a Taxpayer Identification Number (NPWP) and with the regional authorities if required by local regulations.

The transformation of UDs into individual limited companies has far-reaching legal and economic implications, particularly at the local and national levels. Legally, this transformation provides entrepreneurs with greater protection under the law, as the assets of the company are now separate from personal assets (Batubara et al., 2024). This separation mitigates the risks associated with personal liability, which is particularly important for micro and small businesses that face market volatility and financial uncertainty (Pramono, 2012). The legal formalization of these businesses also provides greater access to financing and investment, as individual limited companies are perceived as more credible by financial institutions compared to sole proprietorships.

Economically, the shift towards formalized legal entities has the potential to significantly boost local economies. Micro and small businesses make up the majority of enterprises in Indonesia and are crucial to job creation and economic stability (Nurhikma et al., 2021). The transformation to an individual limited company allows these businesses to scale more effectively, participate in government tenders, and attract foreign investment. By reducing barriers to formal business registration, the Job Creation Law has the potential to bring many previously informal businesses into the formal economy, increasing tax revenue and strengthening the overall economic framework (Rofiah et al., 2024; Muna & Munirul Ikhwan, 2023).

At the national level, the transformation is part of Indonesia's broader strategy to enhance its business environment and improve its ranking in global ease-of-doing-business indices. Formalization also fosters healthier competition in the market, encouraging innovation and efficiency among micro and small enterprises.

Indonesia's legal framework for transforming sole proprietorships into individual limited companies shares similarities with several international systems. For example, in the Netherlands, sole proprietorships *(eenmanszaak)* can transition to a limited liability company (BV). In this process, the assets of the sole proprietorship are transferred to the new BV, allowing the business to operate under a corporate structure that offers greater legal protection and access to financial markets (Laksana & Sendrawan, 2023). This system mirrors the process in Indonesia, where assets from the UD are transferred to the individual limited company.

Similarly, in Germany, sole proprietorships can transform into a *Gesellschaft mit beschränkter Haftung* (GmbH), a limited liability company structure that enables small businesses to incorporate while maintaining control over operations. The GmbH model is particularly suited to micro and small enterprises, offering flexibility in management and simplified compliance processes, which is similar to Indonesia's individual limited company structure (Maria, 2023).

In the United Kingdom, sole traders can incorporate as limited companies, which provides limited liability, tax advantages, and greater access to capital. The UK's Companies Act 2006 simplifies this process, offering a clear regulatory framework that reduces administrative burdens. Indonesia's reform mirrors this approach by simplifying the establishment process through the OSS system, allowing entrepreneurs to register businesses more efficiently.

The adaptation of sole proprietorships to individual limited companies under Indonesian law is a critical legal reform aimed at empowering micro and small businesses (Wardatun, 2024). By providing a clear legal framework, this transformation enables entrepreneurs to formalize their businesses, gain access to legal protections, and enhance their economic opportunities. The practical registration process through the OSS system ensures that the transformation is streamlined, allowing businesses to focus on growth and sustainability. Comparative analysis shows that Indonesia's legal reform aligns with international best practices, integrating elements of corporate law from countries such as the Netherlands, Germany, and the United Kingdom.

This transformation will have a significant impact on Indonesia's economic landscape, fostering growth among micro and small enterprises, improving the business environment, and contributing to the formal economy (Muamar et al., 2024). As Indonesia continues to modernize its legal and economic systems, the individual limited company will play a pivotal role in supporting entrepreneurship and economic development at both local and national levels.

3. The transformation of Trading Business (UD) to Individual Limited Company as an alternative to empowering micro and small enterprises

The transformation model presents clear advantages for empowering micro and small enterprises, especially through government support. According to Article 1 point 8 of Law Number 20/2008 on Micro, Small, and Medium Enterprises, empowerment is a collective effort by the Government, Regional Governments, businesses, and the community to foster a conducive environment for micro and small businesses to grow into independent and resilient enterprises. This model aligns with these objectives by institutionalizing businesses that have traditionally been informal and lack legal status.

As demonstrated in Table 1, there is a significant number of businesses owned by individuals that have not been formally established as enterprises. Although Trading Enterprises (UDs) are recognized in practice as business entities, they are not registered legally due to the absence of explicit regulation, making them non-legal entities. This creates challenges for these businesses, particularly when seeking access to financial institutions for runding (Ulum & Ulum, 2023). Because UDs are not legally recognized, financial institutions are hesitant to extend credit, as these businesses do not meet prudential standards for customer knowledge and risk Management (Azzurba et al., 2023; Wijaya, 2022).

One of the key objectives of empowering micro and small enterprises is to enhance their resilience and independence. However, resilient businesses can only be achieved with resilient legal institutions. Empowering UDs has historically been difficult because these entities are not recognized within the corporate legal framework. Furthermore, most UDs do not produce formal company documents, and even if they do, the government does not have access to these records because they are kept as company secrets (Hayati & Mujib, 2022; Salmon, 2019; Ulum & Ulum, 2023). This lack of transparency undermines the credibility and growth potential of UDs.

While Law No. 8/1997 on Company Documents mandates the creation of business records for UDs, there are no sanctions for non-compliance, and there is no obligation to report these documents to the government. In contrast, individual limited companies are legally required to submit financial reports digitally to the Ministry of Law and Human Rights within six months of the end of the fiscal year (Simanjuntak, 2010). This requirement promotes transparency and helps prevent the misuse of the legal entity, offering greater protection to creditors and other stakeholders. Such transparency is absent in UD structures, where management operates as a closed system.

The requirement for digital reporting aligns with advancements in information technology, reflecting the government's push for businesses to adopt digital solutions in their operations (Marpaung et al., 2023; Supriyadi et al., 2023). This transformation is timely, as data-driven decision-making and digital connectivity are critical for businesses to compete in the modern economy (Maisyura et al., 2022). The transformation from UD to an individual limited company thus represents not only a legal shift but also a transition from traditional business management to a digital framework. The obligation to use digital platforms for reporting, enforced by sanctions for non-compliance, supports good corporate governance—a crucial strategy for ensuring the sustainability of micro and small enterprises (Kondova & Barba, 2019).

Good corporate governance requires transparency and the disclosure of information in accordance with statutory obligations (Mygind, 2007). This builds trust and enhances the reputation of businesses, making it easier for them to develop partnerships and attract investment (Ardi et al., 2022; Z. A. A. Harahap et al., 2024). The transformation into an individual limited company allows entrepreneurs to explore opportunities that were previously unavailable to UDs, such as forming partnerships with other businesses, including Regionally-Owned Enterprises (BUMD). Under Government Regulation No. 54/2017, BUMDs are prohibited from forming partnerships with UDs but are allowed to partner with individual limited companies, as these are recognized as legal entities (Adriano, 2014; Hidayatullah & Fadillah, 2022).

In addition to expanding business opportunities, the transformation enables individual limited companies to engage in commercial activities such as downstream oil and gas operations, which are restricted to private business entities under Law No. 22/2001 on Oil and Gas. UDs are excluded from these opportunities due to their lack of legal entity status. Another advantage is that the owner of a transformed UD retains their position in the new entity, ensuring continuity in employment for themselves and their family. According to Article 7 of Government Regulation No. 8/2021, the founder of an individual limited company remains the founder, shareholder, and director, providing both security and continuity.

For some entrepreneurs, the transformation to an individual limited company is appealing because it allows them to maintain sole ownership and control of the business, avoiding the potential risks associated with partnerships (Badrudin et al., 2021; Fikriawan et al., 2021). This is particularly relevant for individuals who are wary of fraud or mismanagement in multi-party business arrangements. The legal transformation does not alter the ownership of the assets; the assets that were part of the UD are simply transferred to the individual limited company (Deakin, 2012; Febrian & Yuza, 2023; Sa'diyah et al., 2022; Muhammad Irsad et al., 2024). This ensures that the entrepreneur's wealth is protected under the new legal structure.

The transfer of assets also extends to existing contractual obligations. When a UD transforms into an individual limited company, the rights and obligations of the previous agreements are carried over to the new entity (P. H. Harahap et al., 2023; Siamtina et al., 2023). However, this transfer does not occur automatically. The founder must take legal action to assume responsibility for all prior obligations under Article 13 paragraph (1) of the Limited Liability Company Law. This legal action is crucial for maintaining relationships with creditors and partners and ensuring that the new entity inherits all legal and financial responsibilities from the UD (Deakin, 2012; Hadi et al., 2023; Mahmoud, 2024).

For example, in Aceh, the transformation of PDPA to PT PA under Aceh Qanun No. 16/2017 was driven by the need to improve the performance and competitiveness of the company. Similar to the UD transformation, all rights and obligations of PDPA were transferred to PT PA, despite the change in legal status. This demonstrates that even with a change in legal form, the continuity of business operations and ownership can be maintained, ensuring a smooth transition for both the company and its stakeholders.

In conclusion, the transformation of UDs to individual limited companies provides significant legal and economic advantages. The new legal structure enhances transparency, promotes good corporate governance, and opens new opportunities for partnerships and commercial activities. By maintaining the continuity of existing contracts and relationships, the individual limited company allows businesses to grow and develop in ways that were previously unattainable under the UD structure.

D. Conclusion

The Individual Limited Company *(Perseroan Terbatas Perorangan)*, as a legal entity regulated by the Indonesian Company Law (Law No. 40/2007, amended by the Job Creation Law), provides a strategic transformation platform for individual entrepreneurs who previously operated under a Sole Proprietorship (UD). This transformation offers a solid legal foundation and mandates the application of good corporate governance, ensuring legal certainty and strengthening the sustainability of individual businesses.

The analysis reveals that the transition from UD to Individual Limited Company is a suitable step in supporting the empowerment of micro and small enterprises. From a legal perspective, this transformation provides clear legal status, better access to funding, and enhances the competitiveness of the business by adhering to good governance principles. Furthermore, the requirement to submit financial reports digitally improves transparency and trust among stakeholders, which was difficult to achieve with the UD structure.

An evaluation of the research findings shows that the primary weakness of the UD structure lies in its inability to access financial institutions and operate efficiently in the modern economic context. Through this transformation, micro and small enterprises can more easily participate in broader business networks, including with government-owned entities and other commercial sectors.

The key contribution of this study to knowledge is its emphasis on the importance of legal reforms that facilitate the formalization of businesses for micro and small enterprises. This study reinforces the idea that the legal transformation from UD to Individual Limited Company is not only a solution for individual empowerment but also a crucial step in strengthening the small business-based economic foundation in Indonesia. With the right policy implementation, this reform can contribute to more inclusive and sustainable economic growth. Therefore, it is recommended that the government continue to encourage the transformation of UDs into Individual Limited Companies to support business sustainability and ensure that individual entrepreneurs receive adequate legal protection in running their businesses.

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p-ISSN: 2338-8617
e-ISSN: 2443-2067