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Juridical Analysis of the Bankruptcy of PT Sritex Based on Law Number 37 of 2004 concerning Bankruptcy and Postponement of Debt Payment Obligations

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ABSTRACT

This study examines the bankruptcy of PT Sri Rejeki Isman Tbk (PT Sritex) within the framework of Law Number 37 of 2004 concerning Bankruptcy and Suspension of Debt Payment Obligations (UU Kepailitan). Employing a normative juridical approach, it analyzes the legal provisions, procedural implementation, and implications of the case. The findings reveal compliance with the statutory criteria for bankruptcy but also expose significant procedural inefficiencies, particularly in asset valuation and the Suspension of Debt Payment Obligations (PKPU) process. The study highlights the need for reforms to streamline court procedures, enhance transparency, and strengthen corporate governance practices. These measures are crucial for improving the effectiveness and equity of Indonesia's bankruptcy system while safeguarding the rights of creditors and debtors.

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1. INTRODUCTION

Bankruptcy is a legal mechanism designed to resolve the financial difficulties of individuals or entities unable to meet their debt obligations. In Indonesia, the legal framework governing bankruptcy is primarily outlined in Law Number 37 of 2004 concerning Bankruptcy and Suspension of Debt Payment Obligations (UU Kepailitan), which establishes procedures for declaring bankruptcy, resolving disputes between debtors and creditors, and restructuring debts to achieve equitable resolutions. However, the application of this law often raises complex legal and economic questions, particularly in high-profile corporate bankruptcy cases. The law faces criticism for its lack of a robust debt restructuring framework and the ease with which bankruptcy can be declared, contributing to these challenges. The absence of a structured mechanism for debt reorganization remains a significant shortcoming, especially when the Suspension of Debt Payment Obligations (SDPO), meant to allow debtors to negotiate with creditors, frequently fails due to the lack of a formal restructuring process [1]. Furthermore, the law permits bankruptcy declarations based merely on the existence of a past due debt and at least two creditors, without any assessment of the debtor's actual financial condition, thereby lacking an insolvency test [2]. Adopting an insolvency test, as implemented in jurisdictions such as the Netherlands and the United States, could reduce the risk of unnecessary bankruptcies and help ensure that only truly insolvent entities are declared bankrupt [2]. In addition, challenges in legal implementation—such as inconsistent law enforcement, debtor non-compliance, and the judiciary's historical deficiencies—further undermine the effectiveness of the bankruptcy regime [3].

One notable case is the bankruptcy of PT Sri Rejeki Isman Tbk (PT Sritex), a prominent textile and garment company in Indonesia. Once a major industry player, PT Sritex encountered severe financial challenges due to internal management problems and external economic pressures, including the global downturn triggered by the COVID-19 pandemic. The company's failure to meet its financial obligations led to bankruptcy proceedings, revealing critical weaknesses in Indonesia's bankruptcy law and its implementation. The case of PT Sritex highlights systemic vulnerabilities in financial management within the textile and garment sector and underlines the urgency of predictive models and sound management practices to avert similar crises. Internally, indicators such as low profitability and liquidity are strongly correlated with financial distress in the textile sector [4], [5]. Moreover, the presence of earnings management distorts financial signals, complicating the use of traditional prediction tools; however, models like the Altman Z-score show improved accuracy when adjusted for such manipulations [6]. Externally, macroeconomic factors such as exchange rate volatility and economic downturns—particularly the impact of the COVID-19 pandemic—exacerbated the company's liquidity problems and exposed the sector's susceptibility to shocks [5], [7]. In this context, while the Altman Z-score remains a popular tool for assessing financial distress, its predictive power in the textile and garment industry is notably enhanced when earnings management adjustments are considered [6], [8].

This paper aims to provide a normative juridical analysis of PT Sritex's bankruptcy case, focusing on the procedural aspects, legal compliance, and implications of the case under the provisions of Law Number 37 of 2004. It seeks to answer key questions: How effectively was the bankruptcy law applied in PT Sritex's case? Were the rights of creditors and debtors adequately protected? What lessons can be learned to improve the legal framework and its implementation in similar cases?

2. LITERATURE REVIEW

2.1 Bankruptcy Law in Indonesia

The legal framework governing bankruptcy in Indonesia, as outlined in Law Number 37 of 2004, provides a structured approach to managing bankruptcy and the Suspension of Debt Payment Obligations (PKPU), aiming to ensure fair and efficient resolutions between debtors and creditors. However, its implementation encounters various challenges, including procedural inefficiencies and a lack of transparency that can compromise the interests of involved parties. Article 2 of the law allows bankruptcy petitions to be filed when debtors have unpaid obligations and are unable to fulfill them, but the ease of initiating bankruptcy proceedings—even when debtors are still operational—has raised concerns and strengthened calls for the adoption of an insolvency test to avoid premature declarations of bankruptcy [2]. The Commercial Court holds exclusive jurisdiction over bankruptcy adjudication, offering a formal avenue for legally binding decisions [9], yet its effectiveness is often constrained by limited resources and overlapping legal interpretations [9]. Additionally, while PKPU is intended to foster negotiation between debtors and creditors, it frequently falls short due to the absence of a comprehensive debt restructuring framework, resulting in failed settlements and prolonged financial uncertainty [1].

2.2 *Corporate Bankruptcy: Causes and Implications*

The Altman Z-score model is a widely recognized and extensively validated tool for predicting corporate bankruptcy, offering critical insights into financial mismanagement, excessive leverage, and adverse market conditions. Developed by Edward Altman in 1968, the model employs a combination of financial ratios to evaluate a company's financial stability and forecast the likelihood of bankruptcy, often up to three years in advance [10]. Its predictive power has been successfully demonstrated across various industries and countries, including in Pakistan's textile sector, where it effectively identified financially distressed companies [11], and in Indonesia, where it categorized firms into healthy, gray, and distressed zones, thereby guiding them toward necessary financial corrections [12]. The model's application in Indonesia's consumer goods sector further illustrated its practical utility in advising companies to enhance performance and sales to avert financial decline [12]. Beyond firm-level insights, the model also has broader economic implications; by facilitating early detection and structured responses to financial distress, it supports economic stability and reduces the cascading effects of corporate failures, such as diminished investor confidence and disrupted supply chains [13], [14]. The Altman Z-score's reliability and adaptability have not only reinforced its use in diverse financial environments but also inspired further academic research and the development of derivative models in various global contexts [14].

2.3 *Previous Studies on Bankruptcy Law in Indonesia*

The application and challenges of bankruptcy law in Indonesia are multifaceted, encompassing procedural inefficiencies, potential misuse of legal instruments, and inconsistencies in judicial enforcement that collectively hinder the pursuit of fair and effective bankruptcy resolutions. The Commercial Court, as the central authority for adjudicating bankruptcy disputes, is often constrained by procedural delays that impede timely and efficient decision-making, with legal judgments frequently lacking in solid juridical reasoning [15]. The PKPU (Postponement of Debt Payment Obligations) mechanism, while intended to foster amicable debt settlements, is frequently exploited by debtors to postpone financial responsibilities, with some cases involving unauthorized parties filing applications in contravention of legal provisions [16]. Furthermore, creditor rights are compromised by inconsistent judicial enforcement, which not only jeopardizes the fairness of outcomes but also undermines confidence in the legal process [17]. These systemic shortcomings point to the urgent need for comprehensive legal reform. Proposed improvements include embedding the principle of business continuity within the legal framework to ensure a more balanced approach that safeguards both debtor and creditor interests, and introducing an insolvency test to prevent the misuse of bankruptcy declarations and ensure that only genuinely insolvent parties are subjected to bankruptcy proceedings [2], [18].

3. METHODS

This study employs a normative juridical approach, emphasizing the analysis of legal norms, principles, and statutory provisions relevant to bankruptcy law in Indonesia. The normative juridical method is particularly appropriate for examining both the procedural and substantive dimensions of Law Number 37 of 2004 concerning Bankruptcy and Suspension of Debt Payment Obligations (UU Kepailitan), as applied in the case of PT Sritex. Through an in-depth examination of the statutory framework, judicial decisions, and scholarly commentaries, this study seeks to determine the extent to which the bankruptcy proceedings of PT Sritex were aligned with existing legal mandates. Data for the analysis was collected from primary legal sources—including UU Kepailitan, relevant court rulings by the Commercial Court, and other applicable legal instruments—and secondary legal sources, such as legal textbooks, journal articles, commentaries, news reports, and case studies related to PT Sritex's bankruptcy and broader issues of corporate governance in insolvency cases.

The data collection process included document review, literature review, and case analysis. These methods involved examining court documents and regulatory frameworks to extract relevant legal provisions, reviewing academic literature to establish the theoretical context, and analyzing the PT Sritex case to evaluate its practical implementation. The data was then subjected to qualitative analysis using three key techniques: legal interpretation to assess how the provisions of UU Kepailitan were applied in the case; comparative analysis to benchmark PT Sritex's bankruptcy proceedings against other similar cases for identifying recurring issues and legal gaps; and critical evaluation to assess the overall effectiveness of the bankruptcy process, with particular attention to the protection of creditor and debtor rights, procedural efficiency, and implications for corporate governance and economic resilience.

4. RESULTS AND DISCUSSION

4.1 PT Sritex's Bankruptcy Proceedings

PT Sri Rejeki Isman Tbk (PT Sritex) filed for bankruptcy in 2021 due to its inability to meet debt obligations amounting to trillions of rupiah. The proceedings were initiated in the Commercial Court, as mandated by Law Number 37 of 2004 concerning Bankruptcy and Suspension of Debt Payment Obligations (UU Kepailitan). The court declared PT Sritex bankrupt after determining that the company fulfilled the legal criteria: it had two or more creditors and was unable to pay at least one matured and collectible debt.

Despite following the legal process, the case revealed significant challenges, including delays in proceedings, disputes among creditors, and difficulties in asset valuation. These issues highlight procedural inefficiencies and gaps in the practical implementation of UU Kepailitan.

4.2 Compliance with Bankruptcy Law Provisions

The bankruptcy of PT Sritex met the formal requirements set forth in Article 2 of UU Kepailitan, which stipulates that a debtor may be declared bankrupt if they have at least two creditors and fail to pay at least one due and collectible debt. Despite this compliance, the case revealed critical deficiencies in the enforcement and procedural aspects of the law. One major issue was procedural delay, primarily caused by disputes among creditors regarding the distribution of PT Sritex's assets. These delays hindered the effectiveness of the bankruptcy process and contradicted the law's intended goal of providing a prompt and orderly resolution.

Another significant challenge involved the valuation and distribution of assets. Creditors raised concerns about the fairness and transparency of asset appraisals, illustrating a gap between the legal mandate for equitable treatment and its actual implementation. Additionally, PT Sritex utilized the Suspension of Debt Payment Obligations (PKPU) to seek restructuring arrangements with creditors. Although the PKPU mechanism is legally intended to facilitate debt renegotiation and avoid immediate liquidation, in practice, it was perceived as a strategy to delay fulfilling financial obligations, thereby raising doubts about its misuse and the adequacy of safeguards within the current legal framework.

4.3 Rights of Creditors and Debtors

The case of PT Sritex highlights the complex and often contentious balance between safeguarding the rights of creditors and debtors in bankruptcy proceedings. Creditors, driven by the goal of maximizing asset recovery, frequently engaged in disputes and protracted negotiations, which in turn delayed the resolution process. While the law formally guarantees creditors the right to participate in the distribution of a bankrupt entity's assets, procedural inefficiencies and unresolved disagreements have the effect of undermining this right and diminishing the overall efficacy of Indonesia’s bankruptcy framework.

Conversely, PT Sritex, as the debtor, exercised its legal right to seek a Suspension of Debt Payment Obligations (PKPU) as a means to negotiate restructuring terms with creditors and maintain business continuity. While the PKPU mechanism is intended to support amicable settlements and provide breathing room for struggling companies, in practice it can also be misused to postpone financial responsibilities. This duality, where legal mechanisms meant for balance and fairness are vulnerable to strategic manipulation, emphasizes the need for clearer regulatory safeguards and more efficient procedures to ensure equitable outcomes for all parties involved.

4.4 Broader Implications for Indonesia’s Bankruptcy Law

The bankruptcy of PT Sritex exposes several pressing issues in the application of Indonesia’s bankruptcy law, particularly concerning procedural efficiency, transparency, and the role of judicial institutions. The prolonged proceedings and creditor disputes in the case reflect systemic inefficiencies within the Commercial Court, which not only delay the resolution process but also weaken the credibility of the legal system in the eyes of investors—potentially deterring foreign investment. Furthermore, the controversy surrounding the valuation and distribution of assets underscores the urgent need for enhanced transparency and accountability in bankruptcy administration. Strengthening oversight mechanisms and ensuring impartial asset appraisal are essential to restoring trust and achieving equitable outcomes.

In addition, the use of the Suspension of Debt Payment Obligations (PKPU) mechanism in the Sritex case highlights both its potential benefits and risks. While PKPU offers a structured avenue for debt restructuring and negotiation, the absence of stringent eligibility criteria leaves room for abuse, enabling debtors to delay obligations under the guise of settlement. Introducing clearer standards and safeguards in the PKPU process would help protect creditor rights and maintain the integrity of the legal framework. More broadly, the case underscores the critical role of sound corporate governance in averting financial distress. Strengthening regulations on financial reporting, internal controls, and management accountability could serve as preventive measures to reduce the recurrence of similar corporate failures in the future.

4.5 Recommendations for Reform

Based on the findings, several recommendations are proposed to improve Indonesia’s bankruptcy law. First, streamlining and expediting court procedures would help minimize delays and enhance the overall efficiency of bankruptcy proceedings. Second, enhancing transparency by establishing clear and standardized guidelines for asset valuation and distribution could reduce disputes among creditors and foster greater trust in the process. Third, strengthening the PKPU mechanism through the implementation of stricter eligibility criteria and improved monitoring would prevent potential misuse while retaining its value as a tool for debt restructuring. Lastly, promoting stronger corporate governance practices and ensuring compliance with financial reporting standards could serve as a preventive measure to reduce financial distress and promote greater stability within Indonesia’s corporate sector.

4.6 Lessons from PT Sritex’s Bankruptcy

The case of PT Sritex provides valuable insights into the strengths and weaknesses of Indonesia's bankruptcy framework. While the law offers a comprehensive structure for resolving financial disputes, its practical implementation often falls short due to procedural inefficiencies, lack of transparency, and limited accountability. Addressing these challenges requires a combination of legal reforms, institutional strengthening, and enhanced corporate governance practices.

5. CONCLUSION

The bankruptcy case of PT Sritex underscores both the strengths and weaknesses of Indonesia's bankruptcy framework as outlined in Law Number 37 of 2004 concerning Bankruptcy and Suspension of Debt Payment Obligations. While the statutory prerequisites for declaring bankruptcy were fulfilled, the case exposed several shortcomings, including inefficiencies in court procedures, contentious asset valuation processes, and the potential misuse of the PKPU mechanism. These issues reveal systemic vulnerabilities that can compromise the fairness and effectiveness of bankruptcy proceedings, highlighting the urgent need for legal and institutional reforms to ensure more consistent and transparent outcomes.

To address these challenges, key recommendations include streamlining court procedures to reduce delays, establishing stricter and more transparent guidelines for asset valuation and distribution, and reinforcing oversight of the PKPU process to prevent strategic exploitation by debtors. Additionally, fostering stronger corporate governance and enforcing compliance with financial reporting obligations can play a preventive role in reducing corporate financial distress. By implementing these reforms, Indonesia can develop a more reliable and equitable bankruptcy system that enhances legal certainty, protects the interests of all stakeholders, and contributes to broader economic stability. These findings offer critical insights for policymakers, legal practitioners, and corporate actors involved in bankruptcy and debt resolution processes.

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