

## Legal status of zombie companies in Indonesia

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### ABSTRACT

Zombie companies—persistently unprofitable firms sustained by cheap credit or government support—pose a significant challenge to Indonesia’s post-COVID-19 economic recovery. This study analyzes their legal status within Indonesian law, particularly in relation to the going concern principle, bankruptcy provisions, and state intervention policies. Using a normative-empirical approach, the research examines key regulations, including Law No. 40/2007 on Limited Liability Companies, Law No. 37/2004 on Bankruptcy as amended by Law No. 4/2023, and OJK regulations on credit restructuring. Findings reveal regulatory gaps that enable the persistence of zombie firms, leading to moral hazard, inefficient capital allocation, and rising non-performing loans (NPLs). Comparative insights from China highlight the importance of stricter enforcement and structured firm exit mechanisms. This study recommends establishing objective zombie thresholds, strengthening OJK oversight, and reforming legal frameworks to enhance market discipline and support sustainable economic growth in emerging economies.

**Keyword: zombie companies; bankruptcy law; corporate restructuring; Indonesia; OJK regulation**

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## 1. INTRODUCTION

The term *zombie company* refers to an unproductive firm that survives due to prolonged support from cheap credit or government policies. This phenomenon has become increasingly relevant in Indonesia following the COVID-19 pandemic, as indicated by data from the Financial Services Authority (OJK) and Bank Indonesia showing elevated levels of non-performing loans (NPLs).

The concept of zombie companies first emerged in the late 1980s (Erlely, 2022) and gained renewed attention during the 2008 global financial crisis, particularly in relation to the United States government bailout program, the Troubled Asset Relief Program (TARP), which allowed financially distressed firms to remain operational.

Zombie companies are often metaphorically described as “walking corpses”—entities that are technically alive but lack real economic vitality (Kasali, 2017). In a business context, this reflects firms that have lost their capacity for innovation and productivity, operating merely to survive without generating sustainable value. The “blood” of a company, represented by cash flow from operations, becomes insufficient, while its “spirit,” reflected in innovation and strategic direction, diminishes over time (Kasali, 2017).

Previous research indicates that zombie companies constitute a significant issue in both capital markets and the broader economy, influenced by financial as well as socio-political factors (Nafsiah, 2025). Their identification can be conducted through financial ratios and specific analytical methods, typically characterized by weak financial performance, low productivity, inefficiency, and survival-oriented business behavior.

This study addresses the ambiguous legal status of zombie companies, particularly whether their existence contradicts the going concern principle, bankruptcy law, or justifies state intervention. The objective is to analyze the legal status of such firms based on the Limited Liability Company Law, Bankruptcy Law, and OJK regulations related to credit restructuring. Furthermore, this research identifies regulatory loopholes that allow companies to remain unproductive, such as prolonged negative Return on Assets (ROA), and proposes

legal reforms to improve capital market efficiency. A comparative analysis with China is also conducted to provide evidence-based policy recommendations.

In addition, prior studies have highlighted how financial instruments, such as cryptocurrencies, are used in speculative practices to exploit price differences for profit (Santoso et al., 2022), reflecting broader dynamics in financial markets that may also influence corporate survival strategies.

Theoretically, this study contributes to the development of corporate economic law by incorporating the perspective of zombie firms, which has previously been dominated by purely economic analysis. It also develops an analytical framework to examine the tension between the going concern principle and moral hazard in emerging markets. Practically, this research provides guidance for regulatory authorities, such as OJK and the Indonesia Stock Exchange (IDX), in establishing measurable zombie thresholds—for example, firms with  $ROA < 0$  for three consecutive years may be subject to mandatory bankruptcy proceedings.

Moreover, this study offers policy recommendations for lawmakers, including the Ministry of Finance and the House of Representatives, in revising the Job Creation Law and restructuring OJK regulations. These measures aim to protect investors from zombie stocks, encourage efficient capital allocation toward healthy firms, and reduce the burden of banking NPLs through stricter legal enforcement mechanisms.

## 2. RESEARCH METHOD

The research method employed in this study is a normative legal approach with a legislative framework. This approach is combined with empirical legal research through a case study method (Nurhilmayah et al., 2025), which involves an in-depth analysis of specific legal cases or events in practice. In this study, the case study focuses on 5–10 companies listed on the Indonesia Stock Exchange (IDX).

Normative legal research, also referred to as doctrinal legal research, literature research, or document study, is conducted by examining written legal materials such as laws, regulations, and other relevant documents (Santoso et al., 2023). This approach emphasizes the analysis of legal norms and principles governing the issue under study.

Meanwhile, empirical legal research examines law as it operates in society, including unwritten legal practices and real-world implementation. This type of research is supported by secondary data and documentation studies (Santoso et al., 2023).

The integration of normative and empirical approaches represents an ideal research design, as it enables a more comprehensive understanding of both the legal framework and its practical application. Consequently, this combined approach produces findings that are more robust, both theoretically and practically.

## 3. RESULTS AND DISCUSSION

### A. *The Existence of Zombie Companies Abroad*

Using social exchange theory, the study used data from companies listed on China's Shanghai and Shenzhen Stock Exchange A from 2009 to 2016 to examine why zombie companies are "sturdy but not dead." The study found that these companies were able to "survive relentlessly" due to government support in the form of increased subsidies and bank loans (Jiang et al., 2017).

Governments are more likely to subsidize zombie companies that bear a greater policy burden, particularly those that offer more jobs. Furthermore, company ownership rights do not affect the rate of "blood transfusions" received, and government assistance fails to increase operational efficiency or company value. This phenomenon is further explained by the incentives of local government officials to maintain employment stability. The findings highlight the need and urgency to eradicate zombie corporations (Zhu et al., 2019).

Zombie companies emerged in China for economic and social reasons, particularly as a result of earlier expansionary economic policies. Having been kept alive through subsidies for social and political reasons, zombie companies have more recently become the target of ambitious elimination policies in China. Local governments have been given targets for zombie company elimination, and there have been significant achievements in zombie market exits (Zhao et al., 2021).

Caballero et al. made two findings. On the one hand, the Japanese government forced banks with weak equity capital by law to extend loans to companies facing a high risk of default. On the other hand, the state created an environment through numerous regulations and subsidies in which social reputation, pressure, and a sense of duty led employers to maintain near full employment, even during crises. It was and remains common practice in Japan to provide jobs, even by tolerating excess employment (Schlotmann & Eberhardt, 2026).

Marcel Fontaine, as cited by Reni Budi Setianingrum, revealed that many efforts have been made to achieve unification or harmonization of laws in various parts of the world, initiated by institutions such as the

European Union, the United Nations Commission on International Trade Law (UNCITRAL), and the Organization for the Harmonization of Corporate Law in Africa (OHADA) (Setianingrum & Hawin, 2020).

In the Indonesian context, the Business Competition Supervisory Commission (ICC) strengthens its role through coordination with OJK to detect zombie companies, prevent unfair competition, and encourage rapid delisting or bankruptcy in line with legal reform. Although no specific ICC decision has been found so far, this issue remains relevant for policy advocacy.

### **B. Legal Status of Zombie Companies in Indonesia**

Economic and trade developments, along with the influence of globalization on the business world, and the fact that most entrepreneurs rely on capital from loans—whether from banks, investments, or bond issuances—have caused various problems in settling debts and receivables in society (Undang-Undang Nomor 37 Tahun 2004 tentang Kepailitan dan Penundaan Kewajiban Pembayaran Utang, 2004).

The main regulation used to analyze the existence of zombie companies in Indonesia is Law Number 37 of 2004 concerning Bankruptcy and Suspension of Debt Payment Obligations. With the enactment of Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector, part of the provisions of the previous Bankruptcy Law have been revoked.

Provisions regarding: (a) bankruptcy applications for banks, securities companies, stock exchanges, clearing and guarantee institutions, depository and settlement institutions, and pension funds as stipulated in Article 2; and (b) the suspension of debt payment obligations for banks, securities companies, stock exchanges, clearing and guarantee institutions, depository and settlement institutions, insurance companies, reinsurance companies, and pension funds as stipulated in Article 223 of Law Number 37 of 2004, have been revoked and declared invalid.

Analysis of Law Number 40 of 2007 concerning Limited Liability Companies, which has been partially amended by Law Number 6 of 2023 concerning Job Creation, is also relevant. Additionally, Financial Services Authority Regulation Number 11/POJK.03/2020 concerning National Economic Stimulus as a countercyclical policy for the impact of COVID-19 has been amended by OJK Regulation No. 48/POJK.03/2020 and OJK Regulation No. 17/POJK.03/2021. These regulations primarily address credit restructuring policies.

Table 1. Results of research

No.	Criteria	Healthy Company	Zombie Company
1	Return on Assets (ROA)	Positive (>0%, ideal >5%)	Negative (<0% for 3+ years)
2	Net Profit	Consistently positive, growing	Consecutive losses or zero profit
3	Debt to Equity Ratio (DER)	Low (<1x)	High (>2x), interest-only debt
4	Revenue	Growing steadily	Stagnant or declining
5	Investment/Capex	High for expansion/innovation	Low, maintenance only
6	Productivity	High, efficient	Low, inefficient resource allocation
7	Credit Access	Competitive, normal interest	Cheap/evergreening from banks/governments
8	Stock Performance	Long-term upside	Stagnant/downward
9	Legal Status	Independent going concern	Prone to bankruptcy/restructuring

Based on the table above, zombie companies can be classified based on criteria such as a Return on Assets (ROA) of less than 0 for three consecutive years, while still obtaining access to cheap credit from government banks. Case studies include companies such as Indonesian airlines or coal companies (IDX data 2020–2025), whose legal status during bailout or restructuring remains ambiguous.

## **4. CONCLUSION**

Zombie companies in Indonesia, which are characterized by prolonged negative ROAs but continue to survive through access to cheap credit, contribute to moral hazard and market inefficiency. Legal analysis reveals loopholes in the Bankruptcy Law, the Limited Liability Company Law, and OJK regulations that necessitate reforms, such as the implementation of mandatory bankruptcy thresholds and strengthened regulatory supervision.

Comparisons with China underscore the urgency of eliminating zombie firms to achieve optimal capital allocation. Recommendations include amendments to the Job Creation Law to better protect IDX investors and reduce banking non-performing loans (NPLs), thereby supporting sustainable economic growth.

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