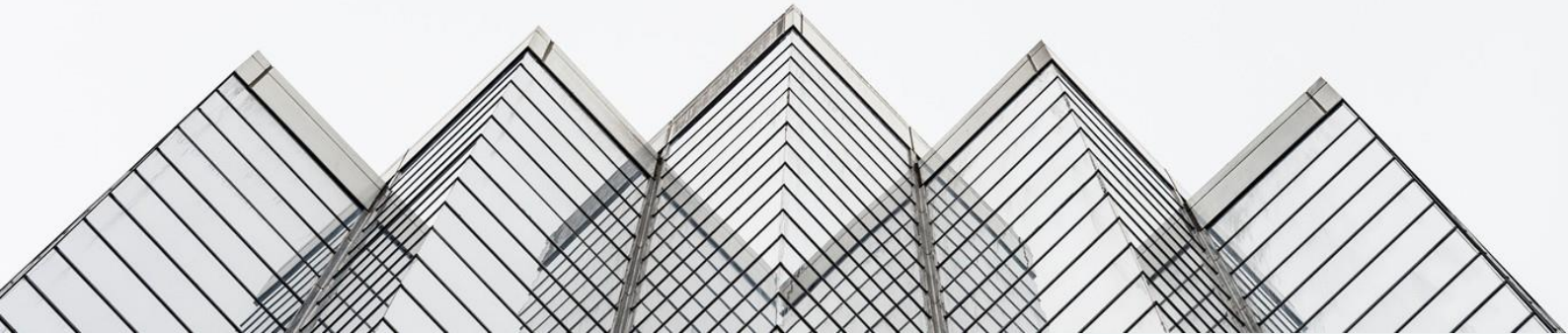


CLIENT ALERT

19 May 2025



Collective Dismissal and Efficiency-Based Termination During Economic Downturn: Legal Framework and Employer Obligation

In the first quarter of 2025, Indonesia's economy recorded a year-on-year growth of 4.87%, marking a slowdown from 5.02% in the same period of the previous year. This deceleration has had a direct impact on the labour market, as reflected in the increase of the open unemployment rate to 4.76%. According to data from the Central Statistics Agency (Badan Pusat Statistik), as of February 2025, the number of unemployed in Indonesia was approximately 7.28 million. The economic recession has had a tangible impact on increasing unemployment, primarily due to a combination of severely deteriorating economic factors. These figures indicate that the current pace of economic growth remains insufficient to absorb the expanding labour force effectively.

The wave of mass terminations is not limited to Indonesia, as major multinational corporations such as Meta, Twitter, and Amazon have also proceeded with collective dismissals amid ongoing economic uncertainties. Domestically, several Indonesian startups including Mekari and Lifepack and even established media entities such as Kompas TV have likewise been compelled to carry out mass layoffs, highlighting the broader impact of market volatility across sectors.

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A. Underlying Factors Behind the Widespread Layoffs Conducted by Startup Companies in Indonesia

Recently, a series of employment termination (“**PHK**”) was made by startup companies and it continued up to this Quarter II 2025. The disbursement of new funds by the investors was not comparable to the aggressiveness of startup companies’ expansion. The founders and CEOs of startup companies were initially over optimistic about the post-pandemic condition, but a non-sustainable business model as well as the low profitability made those startup companies were no longer attractive for foreign investors.

The startup companies were also very aggressive in recruitment, in manpower practice which is known as overstaffing. The overstaffing phenomenon was certainly counter-productive for startup companies amidst the slowing down of economic growth. It made a highly increased operational cost, which finally became a burden for startup companies, so that PHK became a solution in order the company could remained exist.

B. Legal Measures Companies Can Take to Avoid Mass Layoffs During a Global Recession

Referring to ILO (International Labour Organization) Recommendation No. 166 Concerning Termination of Employment (“**ILO Recommendation**”) and Circular Letter of the Minister of Manpower and Transmigration No. SE-907/MEN/PHI-PPHI/X/2004 of 2004 Concerning Prevention of Mass Termination of Employment (“**Circular Letter**”), there are several options that can be firstly taken before a company arrives at a decision to do mass PHK, among others by reducing the wage/facility of high level workers, reducing shift, limiting/eliminating overtime, reducing work day/hours, not extending the employment relation of the workers whose contract period has expired, and providing pension for those qualified.

C. Lawful Termination Procedures and Permissible Grounds for Layoffs Under Indonesian Labor Law During a Global Recession

The company is required to provide written notice of PHK to the affected employees no less than 14 calendar days prior to the effective date of termination, which notification must include the amount of workers’ entitlement and the reason of PHK. The reason that can be used by the company in this global recession era is: efficiency-based termination, where in the regulation on manpower, the efficiency can be divided into 2 (two) types and the implementation of such efficiency measures is subject to the fulfilment of the preconditions outlined below:

Efficiency	Pre-condition
Due to a loss	based on internal or external audit results
To avoid a loss	marked by a potential decreases in productivity or profit

In this global recession era, some parties are of the opinion that the force majeure reason can also be used for PHK or termination of employment relationship, but it is still debatable.

1. What is the formula to calculate the company's obligation payable to the workers in case of PHK due to efficiency?

In the event of PHK due to efficiency, the formula to be paid-out by a company is as follows:

Efficiency	Severance Pay	Term of Service Pay	Compensation Pay
Due To Loss	0.5×	1×	✓
To Avoid Loss	1×	1×	✓

2. What if the worker accepts PHK?

If a worker accepts the reason of PHK along with the amount of entitlement to be received, then the company is required to report the matter to the Manpower Office.

3. What if the worker refuses PHK?

In the event the worker refuses the PHK reason and/or the amount s/he will receive, then the worker may, phase by phase, take the following legal actions:

Legal Action	Parties Involved	If not successful	If Successful	Remarks
Bipartite Negotiation	1. Company 2. Worker	Registering the tripartite negotiation with the Manpower Office	Signing Collective Agreement to be registered with Industrial Court ("PHI")	-
Tripartite Negotiation	1. Company 2. Worker 3. Manpower Office	Manpower Office issues Recommendation	Signing Collective Agreement to be registered with PHI	If either party rejects the recommendation, the matter may be submitted to the PHI for adjudication
Trial at PHI	Settlement period is 180 (one hundred eighty) working days			
Appeal to the Supreme Court	Exclusively for the disputes on: (i) right; or (ii) PHK			

As explained above, a storm of PHK will happen due to global recession. The regulation on manpower affairs mandates the business players to avoid PHK, in addressing the impacts of the global recession, companies are expected to refrain from conducting mass terminations unless all preventive measures have been exhausted as regulated in the ILO Recommendation and the Circular Letter. Such measures are expected to be sufficiently effective to avoid mass PHK or at least minimize the number of PHK. In the event that PHK becomes unavoidable, the company is expected to comply with the applicable procedures and fulfil all employee entitlements in accordance with prevailing regulations, in order to prevent any potential labour disputes.

ABOUT TRILEXICA

TRILEXICA is a firm that resulted from a merger of two established boutique law firms in 2023, Trifida at Law and Legalexica. With the merger, TRILEXICA successfully combines solid track records from the previous two firms and forms a global-oriented and full-service law firm providing wide-range expertise in M&A, capital markets, banking& finance, good corporate governance, commercial dispute (including disputes in the financial services and capital markets sector) and fraud investigation. We are mainly focusing our legal service on financial services, technology, media and telecommunication, transportation, and renewable energies sectors. Each of the 7 partners in TRILEXICA has a PQE of more than 12 years in the legal industry.

We were named '2021 and 2022 Top 100 Indonesian Law Firm's, '2021 and 2022 Rising Star Law Firm', '2021 and 2022 Mid-Size Full-Service Law Firm' and '2022 In-House Counsel Choice – Most Recommended Law Firm' by Hukum Online. These awards recognize our milestones as a recognized mid-size law firm. We were also rewarded the '2023 Project Finance Deal of the Year' and 'the 2023 Firm to Watch' by Asian Legal Business (ALB).

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