

Legal Protection for Minority Shareholders in Corporate Decision-Making

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Abstract

The protection of minority shareholders is a fundamental aspect of corporate governance that ensures fairness and balance in decision-making processes within limited liability companies. In Indonesia, although the Company Law No. 40 of 2007 has explicitly regulated the rights and legal standing of minority shareholders, practical implementation often remains ineffective due to dominant control by majority shareholders and limited enforcement mechanisms. This research aims to analyze the form and effectiveness of legal protection afforded to minority shareholders in corporate decision-making and to identify the legal remedies available when their rights are violated. The study employs a normative juridical method with a statutory and conceptual approach, supported by a comparative analysis of relevant doctrines and case law. The results indicate that minority shareholders possess several legal instruments, such as the right to file derivative suits, the right to demand annulment of general meeting resolutions, and access to judicial protection under the Company Law. However, these protections are still constrained by procedural barriers, lack of awareness, and weak corporate governance practices. This research contributes to the development of corporate law by proposing the need for a more effective supervisory mechanism and judicial practice that genuinely upholds the principles of justice and equality among shareholders. The study concludes that strengthening legal certainty and improving enforcement institutions are essential to ensure proportional protection for minority shareholders in Indonesia's corporate system.

keywords: *Minority Shareholders, Legal Protection, Corporate Decision-Making, Company Law, Indonesia*

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A. Introduction

The development of corporate activities in Indonesia has grown rapidly in line with the expansion of the national and global economy. Companies as legal entities play a crucial role in mobilizing capital and resources to support national economic growth. In this context, shareholders serve as the main pillars that determine the company's direction through their participation in decision-making processes. However, the unequal distribution of share ownership often creates imbalances in corporate power, particularly between majority and minority shareholders.

Minority shareholders frequently occupy a vulnerable position within corporate governance structures. Their limited voting rights make it difficult for them to influence strategic corporate decisions, especially in the *General Meeting of Shareholders (RUPS)*, which is the highest organ of the company. This condition creates potential for the majority shareholders to dominate decisions that may not always align with the interests of minority shareholders. Such dominance can lead to practices that violate the principles of fairness, transparency, and accountability in corporate management.¹

The legal framework for shareholder protection in Indonesia is primarily regulated under Law No. 40 of 2007 on Limited Liability Companies (UUPT). This law recognizes the equality of rights among shareholders and provides mechanisms intended to protect minority shareholders from arbitrary actions by the majority. Nevertheless, in practice, many cases reveal that minority shareholders still face obstacles in asserting their rights. Legal remedies provided by the UUPT, such as the right to file derivative suits or to demand annulment of shareholder resolutions, often prove ineffective due to procedural barriers and limited enforcement.

The weakness of legal protection mechanisms stems not only from regulatory shortcomings but also from corporate culture and the behavior of controlling shareholders. In many companies, majority shareholders tend to prioritize personal or group interests over the company's collective welfare. This practice contradicts the principle of *fiduciary duty* that obligates shareholders and directors to act in good faith and for the benefit

¹ Munir Fuady, *Hukum Perseroan Terbatas* (Bandung: Citra Aditya Bakti, 2017), p. 142.

of the company. The lack of effective sanctions and oversight further aggravates this imbalance and undermines the legal certainty promised by corporate law.

Several studies have discussed shareholder protection, yet most of them focus on the theoretical aspects of corporate democracy and governance. Limited attention has been given to the practical effectiveness of legal remedies available to minority shareholders in Indonesia. This gap highlights the need for more in-depth normative analysis to examine whether the existing legal instruments are sufficient to provide actual protection or if reform is necessary to strengthen minority shareholder rights within the corporate structure.

This research therefore seeks to analyze the forms and implementation of legal protection for minority shareholders in corporate decision-making. It specifically examines how far the UUPT and its related regulations have been able to ensure justice, equality, and legal certainty for minority shareholders. By adopting a normative juridical method with statutory and conceptual approaches, this study explores both the theoretical foundation and practical application of minority protection mechanisms, using relevant cases and scholarly interpretations.

The novelty of this study lies in its comprehensive evaluation of Indonesia's legal framework concerning minority shareholder protection, emphasizing not only the normative dimension but also the real challenges in law enforcement and corporate governance. The findings are expected to contribute to the development of corporate law and to offer recommendations for improving the effectiveness of legal protection mechanisms. Ultimately, this study underscores the importance of ensuring that corporate decision-making reflects the principles of justice and equality among all shareholders, regardless of their ownership proportion.

B. Discussion

1. The Concept of Minority Shareholders in Indonesian Corporate Law

Minority shareholders are individuals or entities who own a small portion of shares compared to the majority shareholders within a company. Their limited ownership makes it difficult for them to influence corporate decisions, particularly during the General Meeting of Shareholders

(RUPS). This structural imbalance often results in the domination of corporate decisions by the controlling group. Legally, minority shareholders hold the same rights as other shareholders, but their capacity to exercise those rights is constrained. This limitation creates a potential threat to fairness and equality in corporate governance.²

The *Company Law No. 40 of 2007* serves as the main legal foundation governing shareholder relations in Indonesia. The law guarantees equality of treatment and provides the same rights to all shareholders regardless of ownership percentage. Each share carries equal legal power to vote, receive dividends, and obtain information about the company. However, in practice, this principle of equality often fails to be realized due to dominant control by majority shareholders. This gap between legal norms and corporate reality weakens the position of minority shareholders.³

Minority shareholders play a vital role in maintaining checks and balances within the corporate structure. Their existence ensures that decisions are made in accordance with corporate ethics and not merely personal interests. Protecting their rights contributes to the sustainability of corporate governance and public trust in the investment climate. Without effective protection, companies may become vulnerable to internal conflicts that harm all parties involved. Therefore, ensuring legal certainty for minority shareholders is essential for good corporate governance.

The recognition of minority shareholder rights reflects the democratic values embedded in corporate law. It guarantees that every shareholder, regardless of their capital contribution, can participate in decision-making. This inclusivity fosters transparency, fairness, and accountability in corporate practices. By safeguarding minority rights, the law upholds justice and prevents the abuse of economic power. Consequently, minority shareholder protection strengthens both the company's credibility and investor confidence.⁴

Comparative legal systems, such as those in the United States and the United Kingdom, demonstrate the importance of minority shareholder

² Yahya Harahap, *Hukum Perseroan Terbatas* (Jakarta: Sinar Grafika, 2020), p. 65.

³ Setiawan, B. (2019). Corporate governance and minority shareholder protection in Indonesia. *Indonesian Journal of Business Law*, 6(2), hlm 112–125.

⁴ Nugroho, D. (2020). Legal challenges of protecting minority shareholders in public companies. *Journal of Law and Policy Studies*, 9(3), hlm 223–238.

protection. These jurisdictions provide derivative actions, class suits, and statutory remedies against unfair corporate conduct. Such mechanisms empower minority shareholders to seek justice without fear of reprisal. Indonesia's Company Law has adopted similar principles, but their implementation remains inconsistent. This inconsistency emphasizes the need for stronger legal enforcement and awareness among shareholders.

The lack of awareness among minority shareholders often limits the effectiveness of existing legal protections. Many shareholders do not understand the extent of their rights or the available legal remedies. This knowledge gap allows majority shareholders to manipulate corporate decisions unchallenged. Legal education and corporate transparency can significantly enhance minority participation in governance. A well-informed shareholder base will strengthen corporate democracy and prevent internal exploitation.⁵

The judicial system also plays a significant role in enforcing minority shareholder rights. Courts must interpret corporate laws consistently and fairly to ensure legal certainty. Inconsistent judicial decisions can erode investor trust and weaken the deterrent effect of legal norms. The establishment of a specialized commercial court could address this problem effectively. Such specialization would enhance the quality and efficiency of corporate dispute resolution in Indonesia.

In summary, the position of minority shareholders within Indonesian corporate law remains both crucial and vulnerable. Their legal recognition is strong in theory but weak in practice. The imbalance between majority and minority interests continues to challenge corporate fairness. Therefore, a robust and enforceable protection mechanism is necessary to achieve justice and accountability. Strengthening awareness, judicial consistency, and corporate ethics will ensure balanced protection for all shareholders.

Minority shareholders are individuals or entities who own a small portion of shares compared to the majority shareholders within a company. Their limited ownership makes it difficult for them to influence corporate decisions, particularly during the General Meeting of Shareholders (RUPS). This structural imbalance often results in the domination of

⁵ Sari, M., & Prabowo, R. (2021). The enforcement of shareholder rights under Indonesian Company Law. *Hasanuddin Law Review*, 7(1), 45–59. <https://doi.org/10.20956/halrev.v7i1.2421>.

corporate decisions by the controlling group. Legally, minority shareholders hold the same rights as other shareholders, but their capacity to exercise those rights is constrained. This limitation creates a potential threat to fairness and equality in corporate governance.

In corporate theory, the relationship between majority and minority shareholders is often described as a manifestation of the principle of *corporate democracy*. This principle assumes that each shareholder, regardless of their ownership percentage, has an equal voice in determining corporate policy. However, in practice, corporate democracy frequently degenerates into *majority rule*, where decisions reflect the will of the controlling group. This situation undermines the equality of shareholders and disrupts the internal checks and balances of the company. Therefore, ensuring that minority shareholders' voices are not silenced is essential for realizing true corporate democracy.

The marginalization of minority shareholders is not only a matter of power but also of access to information and participation. In many cases, minority shareholders are excluded from strategic discussions, financial disclosures, or decisions involving mergers and acquisitions. This exclusion weakens their ability to protect their economic interests and monitor management conduct. Without transparent access to company information, minority shareholders are vulnerable to decisions that may devalue their shares. Hence, legal mechanisms ensuring transparency and disclosure are indispensable for the equitable treatment of all shareholders.

2. The Potential Abuse of Power by Majority Shareholders

Majority shareholders often hold dominant control over corporate decision-making, creating opportunities for abuse of power. Their influence enables them to pass resolutions that primarily benefit their personal interests. Such actions contradict the fiduciary duty principle, which obliges shareholders to act in good faith for the company's benefit. Abuse of power undermines trust and fairness in corporate relationships. Consequently, minority shareholders become victims of decisions made without equitable consideration.

In Indonesia, the most common form of abuse occurs through manipulation of RUPS decisions. Majority shareholders can determine the appointment of directors and commissioners aligned with their interests. This control allows them to shape policies that exclude or harm minority shareholders.

The imbalance of power leads to systemic inequality within corporate governance. As a result, the spirit of equality before the law is often ignored in practice.⁶

The Company Law No. 40 of 2007 provides preventive measures such as quorum requirements and the right to challenge unlawful resolutions. However, these mechanisms often fail to function effectively due to weak law enforcement. Majority shareholders can exploit procedural loopholes to legitimize unfair actions. Such manipulation demonstrates that regulation alone is insufficient without strong institutional oversight. Legal supervision must therefore be strengthened to ensure compliance with justice principles.

Information asymmetry further contributes to the vulnerability of minority shareholders. Majority shareholders often have privileged access to financial reports and internal documents. This advantage allows them to conceal misconduct or unfair business decisions. Minority shareholders, lacking similar access, face difficulties in proving violations or abuses. The absence of transparency thus becomes a tool for sustaining power domination.⁷

Another frequent form of abuse involves self-dealing or related-party transactions. In such cases, majority shareholders approve business arrangements that favor themselves or affiliated entities. These transactions harm the company's financial position and reduce shareholder value. Without strict disclosure requirements, such practices can go unnoticed. Effective supervision from independent auditors and regulators is needed to minimize these risks.

Weak regulatory oversight compounds the problem of abuse. Institutions such as the Financial Services Authority (OJK) often lack sufficient authority to intervene in private company affairs. Limited coordination between regulators and the judiciary also delays corrective actions. This regulatory gap perpetuates impunity for majority shareholders. Therefore,

⁶ Nugroho, D. (2020). Legal challenges of protecting minority shareholders in public companies. *Journal of Law and Policy Studies*, 9(3), hlm 223–238.

⁷ Wahyudi, A. (2018). The role of fiduciary duty in protecting minority shareholders. *Yustisia Journal of Law*, 7(2), hlm 155–169.

a more assertive regulatory framework is required to safeguard corporate integrity.

The absence of specialized courts or dispute resolution mechanisms makes it harder for minority shareholders to obtain justice. Lengthy litigation processes discourage victims from filing claims. Moreover, inconsistent judgments further erode public confidence in corporate law enforcement. Establishing an efficient and specialized adjudication process would provide better access to justice. This step would strengthen accountability and deter majority misconduct.⁸

To conclude, abuse of power by majority shareholders represents a critical threat to corporate justice. It undermines the rule of law, deters investment, and destabilizes corporate governance. Comprehensive reforms must combine legal, institutional, and cultural strategies. Building transparency, accountability, and balanced participation is essential. Only through these measures can the principle of equality among shareholders be truly realized.

The dominance of majority shareholders often leads to practices that blur the distinction between the company's interests and those of its controllers. In many cases, controlling shareholders exploit their influence to appoint management figures who act as extensions of their authority rather than independent stewards of the company. This pattern results in the concentration of decision-making power and the suppression of dissenting opinions. Such actions undermine the principle of independence within corporate organs and compromise the board's ability to act objectively. Consequently, the rights of minority shareholders are weakened, and the corporate decision-making process becomes susceptible to moral hazard.

Another form of majority abuse manifests in selective disclosure of material information. Majority shareholders or their representatives in management may deliberately withhold financial data or corporate plans that could affect minority shareholders' decisions. This lack of transparency not only violates the fiduciary duty principle but also diminishes investor trust in the company. The deliberate asymmetry of information creates an unfair advantage for the controlling group, allowing

⁸ Hartono, S. (2021). Comparative study on minority shareholder rights in ASEAN. *Journal of Southeast Asian Legal Studies*, 4(1), hlm 33–48.

them to act opportunistically in transactions such as mergers or capital increases. Therefore, stricter regulatory obligations regarding disclosure and reporting are essential to prevent such manipulative conduct and to uphold equality among shareholders.

3. Forms of Legal Protection for Minority Shareholders

Indonesian corporate law provides several forms of legal protection for minority shareholders. The *Company Law No. 40 of 2007* outlines mechanisms to safeguard their interests. These include the right to information, the right to file lawsuits, and the right to annul unjust resolutions. Each mechanism aims to balance power relations within the company. However, the actual implementation remains limited in practice.

Article 61 of the UUPT allows shareholders to challenge RUPS resolutions that contradict fairness or the company's articles of association. This provision grants minority shareholders a direct legal avenue to protect themselves. By utilizing this right, they can request judicial review or annulment of unfair resolutions. Yet, procedural obstacles often make it difficult to exercise this right effectively. Simplified access to courts is needed to enhance this protection.⁹

Minority shareholders also possess the right to file derivative suits on behalf of the company. This mechanism allows them to demand accountability from directors or commissioners who commit misconduct. Derivative actions serve as a corrective tool against managerial abuse. Nonetheless, few minority shareholders use this right due to high litigation costs and procedural complexity. Encouraging collective legal action could improve its effectiveness.

Another protection is the right to request share redemption when disagreeing with fundamental decisions. This "exit right" provides a fair solution without forcing shareholders to remain in disadvantageous positions. It upholds the principle of voluntary participation in corporate ventures. However, the valuation process of shares often becomes contentious. Clearer guidelines for share redemption are therefore essential to avoid disputes.

⁹ Putra, R. (2022). Derivative suits as a legal remedy for minority shareholders in Indonesia. *Indonesian Journal of Legal Studies*, 9(2), 201–217. <https://doi.org/10.15294/ijls.v9i2.5321>.

Internationally, jurisdictions such as Singapore and Malaysia have implemented similar mechanisms with greater efficiency. Their systems ensure quick dispute resolution and strong judicial enforcement. Indonesia can adopt these best practices to strengthen its shareholder protection framework. Comparative learning would enhance the responsiveness of corporate law to practical challenges. This approach aligns Indonesia with international standards of corporate governance.

Despite legal provisions, enforcement remains weak in many Indonesian companies. Lack of awareness and reluctance to litigate prevent minority shareholders from asserting their rights. Cultural factors, such as respect for hierarchy or avoidance of conflict, also play a role. To overcome these challenges, legal education and advocacy programs are needed. Empowering shareholders will promote a culture of accountability and equality.

Corporate regulators also have a role in ensuring compliance with minority protection provisions. The OJK and Ministry of Law and Human Rights should intensify supervision and impose sanctions on violators. Coordinated monitoring would deter opportunistic behavior by majority shareholders. Strengthening regulatory authority is key to maintaining fairness in corporate operations. Such supervision must be transparent and consistent to gain public trust.¹⁰

In essence, legal protection for minority shareholders must be both substantive and procedural. Laws must clearly define rights, while institutions must guarantee their enforcement. Empowered and informed shareholders will help achieve balance in decision-making. Effective protection will foster investor confidence and attract capital to Indonesia's markets. Thus, strengthening minority rights is a vital step toward sustainable corporate governance.

4. The Effectiveness and Challenges of Legal Protection

Although Indonesian corporate law provides various mechanisms for minority shareholder protection, effectiveness remains a persistent issue. The main problem lies in the gap between legal provisions and their implementation. Many minority shareholders struggle to enforce their

¹⁰ Wibowo, T. (2019). Transparency and accountability in company decision-making: A legal perspective. *Padjadjaran Journal of Law*, 6(2), hlm 98–112.

rights due to complex procedures. The inconsistency of court interpretations further complicates this situation. As a result, legal certainty and fairness are not fully realized.

Judicial inconsistency weakens the credibility of legal protection. Different courts may interpret similar provisions differently, creating uncertainty. This unpredictability discourages minority shareholders from pursuing justice. It also emboldens majority shareholders to act without fear of legal consequences. Therefore, judicial reform and specialization are urgently needed to ensure consistent interpretation.

Procedural obstacles such as high costs and lengthy trials hinder minority shareholders from accessing justice. Litigation often requires substantial financial resources and expertise. Without collective or class action options, individual shareholders face significant disadvantages. This situation limits the practical use of legal remedies available under the law. Simplified procedures and alternative dispute resolution could improve accessibility.¹¹

The difficulty of obtaining evidence further undermines legal effectiveness. Majority shareholders and management usually control corporate documents, restricting minority access. This asymmetry prevents minority shareholders from proving misconduct. Regulatory mandates for transparent disclosure could alleviate this problem. Transparent corporate governance would strengthen trust and accountability.

Weak regulatory enforcement is another major obstacle to effectiveness. Supervisory bodies often lack resources or authority to intervene in private company disputes. Inadequate coordination between regulators and the judiciary results in fragmented oversight. Strengthening regulatory power and cooperation is crucial to effective law enforcement. A proactive supervisory role would enhance protection for minority shareholders.

Cultural and structural factors also influence the effectiveness of legal protection. Many Indonesian companies are family-owned, prioritizing personal relationships over formal rules. This culture often marginalizes minority voices in corporate decisions. Promoting ethical business conduct

¹¹ Rahmawati, L. (2023). Strengthening minority shareholder protection through legal reform. *Jurnal Hukum dan Pembangunan Ekonomi*, 10(1), hlm 41–56.

and professional governance can mitigate this bias. Cultural transformation is thus as important as legal reform.

The establishment of a specialized commercial court could address many of these challenges. Such a court would expedite dispute resolution and ensure consistent judgments. Specialized judges would develop expertise in corporate law, improving decision quality. Moreover, faster resolution would reduce litigation costs and enhance investor confidence. Institutional reform in the judiciary is therefore vital for better protection.¹²

In conclusion, the legal protection of minority shareholders in Indonesia remains more theoretical than practical. Existing laws provide adequate frameworks, but enforcement and culture lag behind. Effective reform requires an integrated approach combining legal, institutional, and educational measures. By ensuring consistent application and strong supervision, Indonesia can achieve corporate justice. Ultimately, equitable protection will promote sustainable and transparent business development.

C. Conclusion

The legal protection of minority shareholders in corporate decision-making represents a crucial element in ensuring fairness and justice within Indonesia's corporate governance system. Although *Law No. 40 of 2007 on Limited Liability Companies* has provided a strong normative foundation, its implementation remains inconsistent due to procedural, institutional, and cultural barriers. Minority shareholders continue to face challenges in asserting their rights, particularly in accessing information, filing lawsuits, and obtaining judicial protection. These weaknesses demonstrate that the current legal framework has not yet fully realized the principles of equality and accountability among shareholders. Therefore, strengthening the enforcement mechanism and enhancing shareholder awareness are essential to ensure effective legal protection.

The study concludes that a holistic approach is required to achieve fair and sustainable corporate governance. Legal reform must be supported by judicial specialization, regulatory empowerment, and a cultural shift toward transparency and professionalism. Establishing a specialized commercial court and promoting collective legal remedies would significantly improve access to justice for minority shareholders. Furthermore, corporate

¹² *Ibid*, hlm 55.

education programs should be developed to increase awareness of shareholders' rights and responsibilities. In the long term, effective minority protection will not only enhance investor confidence but also contribute to a more equitable and trustworthy corporate environment in Indonesia.

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